

Exhibit No.:

Issues:

Review of Gas  
Merger Savings,  
Sponsoring of Gas  
Merger Conditions,  
Discussion of Other  
Gas Related Merger  
Issues

Witness:

Michael J. Wallis

Sponsoring Party:

MoPSC Staff

Case No.:

EM-96-149

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**UNION ELECTRIC COMPANY**

**CASE NO. EM-96-149**

**REBUTTAL TESTIMONY**

**OF**

**MICHAEL J. WALLIS**

*Jefferson City, Missouri*

*May 1996*

Exhibit No. 16

Date 9-5-96 Case No. EM-96-149

Reporter X5

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

**NP**

1 **REBUTTAL TESTIMONY**

2 **OF**

3 **MICHAEL J. WALLIS**

4 **CASE NO. EM-96-149**

5 **UNION ELECTRIC COMPANY**

6 Q. Please state your name and business address.

7 A. Michael J. Wallis, P.O. Box 360, Jefferson City, Missouri 65102.

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

9 A. I am a *Regulatory Auditor with the Missouri Public Service Commission*  
10 *(Commission).*

11 Q. Please describe your educational and professional background.

12 A. I graduated from Central Missouri State University at Warrensburg, Missouri  
13 and received a Bachelor of Science degree in Business Administration, with a major in  
14 Accounting, in July, 1986. I am currently a licensed Certified Public Accountant in the state  
15 of Missouri.

16 Q. What has been the nature of your duties while in the employ of the  
17 Commission?

18 A. Under the direction of both the Manager of the Accounting Department  
19 *(August 1987 to November 1992)* and the direction of the Manager of the Procurement  
20 Analysis Department *(October 1993 to the current time)*, I have assisted with audits and  
21 examinations of the books and records of utility companies operating within the state of  
22 Missouri.

Rebuttal Testimony of  
Michael J. Wallis

1 Q. Have you previously filed testimony before this Commission?

2 A. Yes, I have previously filed testimony before this Commission in St. Joseph  
3 Light & Power Company, Case No. GR-88-115; Capital City Water Company, Case No.  
4 WR-88-215; GTE North Incorporated, Case No. TR-89-182; The Empire District Electric  
5 Company, Case No. WR-90-56; The Empire District Electric Company, Case No. ER-90-  
6 138; Ozark Natural Gas Company, Case No. GA-90-321; United Cities Gas Company, Case  
7 No. GR-91-249; St. Joseph Light & Power Company, Case No. EC-92-214; Tartan Energy  
8 Company, L.C., Case No. GA-94-127; Western Resources Inc., Case No. GR-93-140; and  
9 Associated Natural Gas Company, Case No. GR-94-189.

10 Q. What is the purpose of your rebuttal testimony?

11 A. The purpose of my rebuttal testimony is to address the validity of the Union  
12 Electric Company (UE)/CIPSCO Incorporated (CIPSCO) merger savings with regard to the  
13 gas operations of the two entities. I will also address a number of gas related merger details  
14 that could have an impact on the estimated gas savings, but which will not be finalized until  
15 after the UE/CIPSCO merger is complete.

16 Q. Will any fundamental structural changes occur as a result of the merger  
17 respecting UE's gas properties?

18 A. Yes. UE/CIPSCO witness Maureen Borkowski indicates in her direct  
19 testimony on Page 18, Lines 5 to 6 and 20 to 24 that the Companies are proposing that UE  
20 will transfer ownership and operation of its Illinois gas properties and certain transportation,  
21 storage, and/or supply contracts to Central Illinois Public Service Company (CIPS). CIPS  
22 does not own or operate any Missouri gas properties and it is not intended that it will in the

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Michael J. Wallis

1 future. All Missouri gas properties will be owned and operated by UE. Ms. Borkowski  
2 indicates in her direct testimony on Page 18, Lines 6 to 9, that although the exact structure  
3 had not at the time of the filing of her direct testimony been determined, it was anticipated  
4 that all gas purchases, transportation, and storage would be arranged on a centralized basis.  
5 Ms. Borkowski indicates on Page 20, Lines 5 to 11 of her direct testimony that the two  
6 companies are evaluating the creation of one Gas Supply and Planning and one Gas System  
7 Control organization as part of evaluating the joint dispatch of their gas systems.

8 I would note that counsel for the Staff has advised me that under the Public Utilities  
9 Holding Company Act of 1935 (PUCHA), the Securities and Exchange Commission (SEC)  
10 may require, as a condition to its approval of the proposed merger, that UE and CIPSCO  
11 divest their gas utility properties. UE and CIPSCO will request in their PUCHA application  
12 that Ameren Corporation and UE and CIPS be allowed to retain their gas utility properties  
13 (UE and CIPSCO Joint Proxy Statement/Ameren Corporation Prospectus, Page 50).  
14 UE/CIPSCO witness Gary L. Rainwater indicates on Page 29, Lines 2 to 5, of his direct  
15 testimony that based on other transactions that have been approved by the SEC, UE does not  
16 believe that the SEC will require that UE and CIPS divest their gas utility properties.

17 Q. What was the total amount of gas merger savings, expected to be realized  
18 from the merger, as of the filing date of the direct testimony of the various UE/CIPSCO  
19 witnesses?

20 A. Ms. Borkowski indicates on Page 20, Lines 14 to 16, of her direct testimony  
21 that "[t]he companies [UE and CIPSCO] estimate that, in the first ten years after the Merger,

Rebuttal Testimony of  
Michael J. Wallis

1 \$38.4 million of savings can be realized by combining the gas supply functions of the  
2 companies”.

3 Q. Please explain how the \$38.4 million in gas savings will be realized.

4 A. Ms. Borkowski indicates on Page 20, Lines 16 to 25 and Page 21, Lines 1 to  
5 10, of her direct testimony that the \$38.4 million in gas savings will be realized as a result of  
6 (1) reducing the amount of peak day capacity needed, due to (a) diversity in load and weather  
7 and (b) reductions in necessary reserve margins due to a larger and more diverse supply  
8 portfolio, (\$16.3 million); (2) reducing the need for balancing services, due primarily to  
9 diversity, (\$13.2 million); (3) using the increased competitive leverage of the combined  
10 companies to get better rates on the capacity the companies reserve, when the existing  
11 contracts terminate over the 10 year period, (\$7.3 million); (4) reducing the number of gas  
12 supply personnel by two persons (\$1.2 million); (5) integrating the gas purchases for the two  
13 systems (\$250,000); and (6) reducing the use of outside professional services, chiefly  
14 respecting outside legal expenses for FERC pipeline proceedings, (\$73,000).

15 Q. Have the purported UE/CIPSCO gas merger savings estimates changed since  
16 Ms. Borkowski filed her direct testimony?

17 A. Yes. UE/CIPSCO has updated the rate case related gas merger savings  
18 estimates with regard to (1) \*\* \_\_\_\_\_ \*\* from \$1.2 million to a total of  
19 \*\* \_\_\_\_\_ \*\* (see Schedule 1 attached to my rebuttal testimony); (2)\*\* \_\_\_\_\_  
20 \_\_\_\_\_ \*\*, attributable to the  
21 \*\* \_\_\_\_\_ \*\* (see Schedule 2 attached to my  
22 rebuttal testimony); and (3) \*\* \_\_\_\_\_ \*\* the gas merger savings estimates by \*\* \_\_\_\_\_

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1 \_\_\_\_\_\*\* (see Schedule 3 attached to my rebuttal testimony) to arrive at \*\*\_\_\_\_  
2 \_\_\_\_\_\*\* in rate case related gas merger savings.

3 UE/CIPSCO has also revised its estimates with regard to PGA/ACA related gas  
4 merger savings. Schedule 2 to my rebuttal testimony shows \*\*\_\_\_\_\_\*\* of PGA savings  
5 with regard to \*\*\_\_\_\_\_\*\* which is \*\*\_\_\_\_\_\*\*  
6 than Ms. Borkowski's previously noted items (1) breakout of gas savings with regard to  
7 reductions in peak day capacity, (2) reductions of balancing services, (3) use of increased  
8 competitive leverage, and (5) integration of gas purchasing functions for the two systems (a  
9 total of approximately \$37 million).

10 Thus, the UE/CIPSCO total estimated level of gas merger savings has \*\*\_\_\_\_\_\*\*  
11 from \$38.4 million to \*\*\_\_\_\_\_\*\*.

12 Q. Please explain Schedule 1, Schedule 2, and Schedule 3.

13 A. Schedule 1, Schedule 2, and Schedule 3 are the gas savings summary pages  
14 from the UE/CIPSCO report entitled "10 Year Merger Savings Summary" which was  
15 provided to the Staff, on April 20, 1996, in response to Staff Data Request No. 72. Staff  
16 would point out that there was not enough time between April 20, 1996 and May 7, 1996 (the  
17 filing date for Staff's rebuttal testimony) for the Staff to perform an adequate review of the  
18 new estimates.

19 Q. How will the purported \*\*\_\_\_\_\_\*\* in gas merger savings be flowed to  
20 the ratepayers of Missouri and Illinois?

21 A. In this testimony, I have attempted to distinguish between PGA(Purchased Gas  
22 Adjustment)/ACA (Actual Cost Adjustment) related gas merger savings and rate case related

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Michael J. Wallis

1 gas merger savings. This distinction is based on how the merger savings will be flowed to the  
2 Missouri and Illinois ratepayers.

3 The majority of the gas merger savings (approximately 85%), unlike the electric  
4 merger savings, will flow to the ratepayers through the PGA/ACA mechanism. The  
5 experimental alternative regulation plan in place as a result of Case No. ER-95-411 only  
6 applies to UE's electric utility operations, not to its gas utility operations. The gas savings  
7 derived from reductions to gas costs \*\* \_\_\_\_\_ \*\* will flow to the ratepayers in the  
8 form of lower purchased gas costs to be recovered through the annual ACA filings of UE.  
9 The remainder of the gas merger savings \*\* \_\_\_\_\_ \*\* will not flow to the shareholders  
10 until the combined UE/CIPSCO entity files a gas rate case or the Staff files a complaint case,  
11 at which time UE's gas operations revenue requirement will be determined and any gas  
12 merger savings will be part of that revenue requirement determination.

13 Q. Do you believe that the combined UE/CIPSCO entity could achieve  
14 \*\* \_\_\_\_\_ \*\* in gas savings in the first ten years after the merger?

15 A. Yes. It is possible that the combined UE/CIPSCO entity could achieve  
16 \*\* \_\_\_\_\_ \*\* in gas merger savings. However, the \*\* \_\_\_\_\_ \*\* in gas savings is  
17 based on estimates and may differ to a significant degree from the actual savings that will  
18 ultimately flow to the ratepayers of Missouri and Illinois. Staff would also point out that the  
19 UE/CIPSCO gas savings estimates \*\* \_\_\_\_\_ \*\* during the  
20 course of the last five months as a result of the work of those UE and CIPSCO personnel  
21 involved in the transition effort.

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1 Q. Do you believe that the Commission should set rates for the UE/CIPSCO gas  
2 operations based on the projected \*\* \_\_\_\_\_ \*\* in rate case related gas merger savings?

3 A. No. I believe that, if the merger is approved, the Commission should set gas  
4 rates based on the post merger levels of operation and maintenance expenses actually  
5 incurred. Estimates of gas merger savings should not be used in the ratemaking process. This  
6 position is consistent with the Staff position on the use of actual electric savings to set rates,  
7 as explained in the rebuttal testimony of Staff witness Mark L. Oligschlager of the  
8 Commission's Accounting Department.

9 Q. Are you aware of any matters which could have an adverse impact on Missouri  
10 ratepayers?

11 A. Yes. I am concerned with (1) the sharing methodology which will be used by  
12 the combined UE/CIPSCO entity to distribute the gas merger savings to the ratepayers of  
13 Missouri and Illinois, (2) the manner in which Ameren Services Company (the affiliated  
14 service company which will perform the gas procurement function for the combined  
15 UE/CIPSCO entity) will allocate gas costs between Missouri and Illinois, and (3) whether or  
16 not the combined UE/CIPSCO entity will participate in the futures market.

17 Q. Will the matters you mentioned above be finalized before the merger is  
18 completed?

19 A. In my opinion the answer is no. In UE's view, as indicated below, these items  
20 do not need to be finalized by the combined UE/CIPSCO entity until after the merger is  
21 completed.



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1 Q. Please discuss the sharing methodology to be used by UE to distribute the gas  
2 merger savings to the Missouri and Illinois ratepayers.

3 A. UE/CIPSCO, in response to Staff Data Request No. 4, states the following:

4 It is the Company's intention to share gas related merger savings with its gas  
5 customers in a manner consistent with the sharing proposed for electric  
6 customers, as described by Mr. Baxter's testimony. However, any such plan  
7 will necessitate addressing the current gas rate design, including the PGA  
8 provisions. In order not to complicate the merger proceedings with the  
9 comparatively smaller amount at issue here, the Company will address this  
10 issue in a separate filing at a later date. This will allow virtually all merger  
11 savings to be passed through to gas customers through the PGA tariff until  
12 any modification would be approved.  
13

14 As I have already noted, unlike the electric merger savings, there is no sharing mechanism  
15 currently in place for UE's non-PGA/ACA items which can be utilized with regard to gas  
16 merger savings. Staff has not been able to ascertain how the gas PGA/ACA or non-  
17 PGA/ACA merger savings will ultimately be shared with Missouri ratepayers. (Also, I would  
18 note that if "[i]t is the Company's intention to share gas related merger savings with its gas  
19 customers in a manner consistent with the sharing proposal for electric customers," the Staff  
20 will oppose that proposal. The reasons for such opposition are set out in the rebuttal  
21 testimony of Staff witness Oligschlager.)

22 Q. Please discuss the allocation of gas costs between Missouri and Illinois  
23 ratepayers.

24 A. UE/CIPSCO, in response to Staff Data Request No. 5020, states that "CIPS  
25 and UE have not yet worked out the details of how gas costs will be allocated after the  
26 merger". The issue with regard to the allocation of gas costs is critical in that Staff must make  
27 certain that as gas supplies are dispatched by UE/CIPSCO and used by the customers of UE

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1 and CIPS (the normal order of dispatch is to first use flowing supplies from the gas contracts  
2 with the various marketers, then use withdrawals of gas supplies from storage, and lastly, use  
3 supplies from Company owned propane peak shaving facilities), the ratepayers of Missouri  
4 and Illinois will be allocated their fair share of the gas costs from the flowing supplies,  
5 supplies withdrawn from storage, and supplies from propane peak shaving facilities. However,  
6 Staff has not been able to ascertain how the combined UE/CIPSCO gas costs will be  
7 allocated.

8 Q. Please discuss the matter with regard to the combined UE/CIPSCO entity's  
9 participation in the futures market.

10 A. Staff would point out that UE is in the second year of a futures market pilot  
11 program (Case No. GT-95-315). On April 13, 1995, UE filed proposed tariff sheets designed  
12 to implement a pilot project entitled "Use of Financial Markets to Manage Gas Costs". The  
13 purpose of the pilot project is to gain experience on a trial basis in the use of financial market  
14 instruments such as futures, options, collars, and derivatives to manage the risk of gas supply  
15 costs. The project was to be in effect for an initial term of June 1995 through March 1996 and  
16 could be extended for an additional year after joint review of the project by Staff, Public  
17 Counsel, and UE. Staff recommended that the Commission approve the project and the  
18 Commission did so. During the first year of the pilot program, UE realized a net gain which  
19 was shared between the shareholders and the ratepayers. The portion of the gain that flowed  
20 to the ratepayers was used to offset gas costs and resulted in lowering customers' gas bills.

21 On March 27, 1996, UE, Public Counsel, and the Staff submitted a Joint Statement  
22 recommending that the pilot project be extended for an additional one year term through

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1 March 1997. On March 28, 1996, the Commission extended the term of the pilot project  
2 through March 1997.

3 UE/CIPSCO, in response to Staff Data Request No. 5024, states that "CIPS has not  
4 participated in the natural gas futures market as of this time". In addition UE/CIPSCO, in  
5 response to Staff Data Request No. 5028, states that "[t]he merger implementation process  
6 has not yet addressed the use of the futures market by the combined UE/CIPSCO entity".

7 If the combined UE/CIPSCO entity does not continue to use the futures market as a  
8 hedge against market based gas costs after the merger is complete, Missouri ratepayers may  
9 not realize the possible savings to be derived from the use of futures market hedging tools.

10 Q. How will the Staff address the three issues mentioned above, if the  
11 Commission approves the merger?

12 A. As previously noted, the majority of the gas merger savings will flow to the  
13 Missouri ratepayers through the annual ACA filings. These ACA filings will be audited by the  
14 Procurement Analysis Department. If during the ACA audit process the auditors find that the  
15 combined UE/CIPSCO entity used an improper sharing mechanism, an unfair or inequitable  
16 allocation methodology, or failed to use the futures market as a gas purchasing tool and this  
17 failure has resulted in excessive gas costs, the Procurement Analysis Staff will raise those  
18 issues in the context of an ACA case.

19 Q. What will be the first UE ACA case in which the Commission will have an  
20 opportunity to address these three items?

21 A. The first ACA case which will present the Commission with an opportunity  
22 to address the three items discussed above, assuming the merger is completed by January 1,

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1 1997 or soon thereafter, will be the 1996-1997 ACA case which will cover the period of April  
2 1, 1996 to March 31, 1997.

3 Q. Has the combined UE/CIPSCO entity arrived at a final determination with  
4 regard to \*\* \_\_\_\_\_ \*\*?

5 A. In my opinion the answer is yes (see Schedule 4 attached to my rebuttal  
6 testimony) and \*\* \_\_\_\_\_ \*\*.

7 However, as indicated on Schedule 4 (Schedule 4 is Page 4 of the Gas Supply section of the  
8 UE/CIPSCO gas supply transition team's final "should be" report), the \*\* \_\_\_\_\_

9 \_\_\_\_\_ \*\*. I would note that the function of the  
10 transition teams and the purpose of the "should be" reports is discussed in Staff witness  
11 Oligschlager's rebuttal testimony.

12 Q. Do you have any conditions which you would recommend be made part of any  
13 Commission decision to approve the UE/CIPSCO merger?

14 A. Yes. I recommend that the Commission should condition its approval of the  
15 merger on Ameren Corporation's (Ameren) and UE's acceptance of the language contained  
16 in the Commission approved Stipulation and Agreement from UE's 1992-1993 ACA filing,  
17 Case No. GR-93-106, a copy of which is attached to my rebuttal testimony as Schedule 5.  
18 Ameren and UE's acceptance of the language in Paragraph 4 is particularly important  
19 because, in order to evaluate the prudence of the gas purchasing decisions of whatever entity  
20 is making those decisions, whether it be UE, Ameren Services Company, CIPS, etc., there  
21 must be adequate documentation, and Staff must be provided access to that documentation.

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1           Furthermore, on the advice of Staff counsel, I recommend the following condition as  
2 being appropriate to, among other things, clearly indicate the correct scope of ACA audits:

3           All gas supply, storage, and/or transportation service contracts, agreements,  
4 or arrangements of any kind respecting Union Electric Company (UE) and any  
5 Ameren Corporation subsidiary or affiliate required to be filed with and/or  
6 approved by the Federal Energy Regulatory Commission (FERC) shall contain  
7 and be conditioned upon the following without modification or alteration: UE  
8 and Ameren Corporation will not seek to overturn, reverse, set aside, change,  
9 or enjoin, whether through appeal or the initiation or maintenance of any  
10 action in any forum, a decision or order of the Missouri Public Service  
11 Commission which pertains to recovery, disallowance, deferral, or  
12 ratemaking treatment of any expense, charge, cost, or allocation incurred or  
13 accrued by UE in or as a result of a gas supply, storage, and/or transportation  
14 service contract, agreement, arrangement, or transaction, on the basis that  
15 such expense, charge, cost, or allocation has itself been filed with or approved  
16 by the FERC, or was incurred pursuant to a contract, arrangement,  
17 agreement, or allocation method which was filed with or approved by the  
18 FERC. Failure to include the above language in any such contract,  
19 agreement, or arrangement shall render the same voidable at the sole  
20 discretion of the MoPSC. Should the above language be altered or  
21 invalidated by any Court or governmental agency, such contract, agreement,  
22 or arrangement shall be voidable at the sole discretion of the MoPSC.

23  
24           Q.     Are there any other conditions that you are proposing?

25           A.     Yes. I believe that the Commission should not approve the merger unless UE  
26 is willing to accept the following two conditions which are nothing more than the most basic  
27 requirements relating to access to information and access to people with information:

28           Acknowledgment and agreement that the Commission may access and  
29 require without subpoena the production of all accounts, books, contracts,  
30 records, documents, memoranda, papers, and officers and employees of  
31 Ameren Corporation and any affiliate or subsidiary of Ameren Corporation.

32  
33           (The above language should be deemed to include invoices, reports, studies, analyses,  
34 calculations, gas supply models, and dispatch models.)

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1 Acknowledgment and agreement that the Commission may require answers,  
2 and/or the appearance of officers or employees of Ameren Corporation and  
3 any affiliate or subsidiary of Ameren Corporation without subpoena to  
4 provide answers to questions upon which the Commission may need  
5 information respecting Ameren Corporation and any affiliate or subsidiary of  
6 Ameren Corporation.  
7

8 It would be detrimental to the Missouri ratepayers if the Commission did not have the access  
9 identified in these two conditions because the Commission's audit function would be impaired  
10 and, thereby, the Commission's ability to set just and reasonable rates would be diminished.

11 Q. Are there any other conditions that you are proposing?

12 A. Yes. There is one last condition that I am addressing. I recommend, on the  
13 advice of Staff counsel, that the Commission should condition its approval of the merger on  
14 Ameren's and UE's acceptance of the following language:

15 All contracts, agreements or arrangements of any kind, required to be filed  
16 with and/or approved by the Securities and Exchange Commission (SEC)  
17 pursuant to the Public Utility Holding Company Act of 1935 as subsequently  
18 amended, between the Union Electric Company (UE), and any affiliate,  
19 associate, holding, mutual service, or subsidiary company, within the same  
20 holding company system, as these terms are defined in 15 U.S.C. section 79b  
21 as subsequently amended, shall contain and be conditioned upon the following  
22 without modification or alteration: UE and Ameren will not seek to overturn,  
23 reverse, set aside, change or enjoin, whether through appeal or the initiation  
24 of any action in any forum, a decision or order of the Missouri Public Service  
25 Commission (MoPSC) which pertains to recovery, disallowance, deferral, or  
26 ratemaking treatment of any expense, charge, cost, or allocation incurred or  
27 accrued by UE in or as a result of a contract, agreement, arrangement, or  
28 transaction with any affiliate, associate, holding, mutual service or subsidiary  
29 company on the basis that such expense, charge, cost, or allocation has itself  
30 been filed with or approved by the SEC, or was incurred pursuant to a  
31 contract, arrangement, agreement, or allocation method which was filed with  
32 or approved by the SEC. Failure to include the above language in any such  
33 contract, agreement, or arrangement shall render the same voidable at the sole  
34 discretion of the MoPSC. Should the above language be altered or invalidated  
35 by any Court or governmental agency, such contract, agreement, or  
36 arrangement shall be voidable at the sole discretion of the MoPSC.

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1  
2 Staff counsel has advised me that the intent of effecting this condition is to maintain  
3 the Commission's ability to audit UE's affiliate transactions and thereby make adjustments  
4 to UE's expenses, revenues, and rate base if appropriate. It is my view that it would be  
5 detrimental to Missouri ratepayers if the Commission could not make such adjustments  
6 because the Commission's ability to set just and reasonable rates would be diminished.

7 Q. Please summarize your rebuttal testimony.

8 A. Staff believes that the Commission should set rates based on an actual level  
9 of operation and maintenance expense to be determined after the merger is complete and not  
10 on estimates as proposed by the combined UE/CIPSCO entity.

11 Staff is concerned about (1) the sharing methodology that will be used by the  
12 combined UE/CIPSCO entity to distribute the savings to the ratepayers of Missouri and  
13 Illinois, (2) the manner in which gas costs will be allocated between Illinois and Missouri, and  
14 (3) whether or not the combined UE/CIPSCO entity will participate in the futures market.  
15 Staff will address each of these concerns in the context of future ACA and rate cases.

16 Staff has also recommended five conditions to the merger assuming the Commission  
17 were to approve the UE/CIPSCO merger. These conditions relate to UE/CIPSCO's  
18 acceptance of language which insures that Staff will have access to both documents and  
19 personnel of current and future UE/CIPSCO entities, Ameren and UE will continue to abide  
20 by the Stipulation and Agreement from Case No. GR-93-106, Ameren and UE will not  
21 challenge the power of the Commission to make adjustments to the affiliate transactions of

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1 UE, and Ameren and UE will not contend that the Commission is not preempted in particular  
2 regarding ACA audits.

3 Q. Does this conclude your rebuttal testimony?

4 A. Yes, it does.



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

In the matter of the application of Union Electric Company )  
for an order authorizing: (1) certain merger transactions )  
involving Union Electric Company; (2) the transfer of )  
certain assets, real estate, leased property, easements and )  
contractual agreements to Central Illinois Public Service )  
Company; and (3) in connection therewith, certain other )  
related transactions. )

Case No. EM-96-149

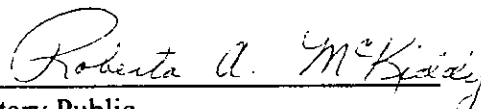
AFFIDAVIT OF MICHAEL J. WALLIS

STATE OF MISSOURI     )  
                                  )     ss.  
COUNTY OF COLE     )

Michael J. Wallis, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 15 pages to be presented in the above case; that the answers in the foregoing 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.

  
\_\_\_\_\_  
MICHAEL J. WALLIS

Subscribed and sworn to before me this 6<sup>th</sup> day of May, 1996.

  
\_\_\_\_\_  
Notary Public

My Commission Expires: \_\_\_\_\_  
ROBERTA A. MCKIDD  
Notary Public, State of Missouri  
County of Cole  
My Commission Expires 09/11/99

**SCHEDULE 1**  
**HAS BEEN DEEMED**  
**HIGHLY CONFIDENTIAL**  
**IN ITS**  
**ENTIRETY**

**SCHEDULE 2**  
**HAS BEEN DEEMED**  
**HIGHLY CONFIDENTIAL**  
**IN ITS**  
**ENTIRETY**

**SCHEDULE 3**

**HAS BEEN DEEMED**

**HIGHLY CONFIDENTIAL**

**IN ITS**

**ENTIRETY**

**SCHEDULE 4**

**HAS BEEN DEEMED**

**HIGHLY CONFIDENTIAL**

**IN ITS**

**ENTIRETY**

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

In the matter of Union Electric )  
Company's filing of Purchased )  
Gas Adjustment Factors to be ) Case No. GR-93-106  
audited in its 1992-1993 actual )  
cost adjustment filing. )

FILED  
OCT 27 1994  
MISSOURI  
PUBLIC SERVICE COMMISSION

STIPULATION AND AGREEMENT

On September 13, 1993, Union Electric Company ("UE") submitted to this Commission tariff sheets reflecting changes in the Purchased Gas Adjustment (PGA) factors for all three of its Missouri natural gas service areas as the result of recalculated Actual Cost Adjustment (ACA) factors, the calculation of new PGA factors and the termination of a refund in one area. This filing was made pursuant to provisions of UE's PGA Clause which required a reconciliation of gas costs with purchased gas cost revenue recoveries for the nine month period of August 1, 1992 through April 30, 1993 (the "1992-1993 ACA Period"). The proposed tariffs contained a requested effective date of September 28, 1993.

By Order dated September 24, 1993, the Commission authorized the proposed tariffs to become effective on and after September 28, 1993, interim subject to refund to allow the Commission Staff ("Staff") additional time to complete an audit of the ACA portion of UE's filing and submit its recommendation by March 1, 1994.

On March 1, 1994 (as amended on March 30, 1994), the Staff, filed its recommendation ("Recommendation") with the Commission in which it stated that it had performed an audit of the ACA

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rates filed by UE and found three exceptions for which it proposed adjustments to be carried forward and incorporated in UE's next ACA filing. In the Staff's first exception, identified as Exception A in its Recommendation, UE's sales service contract demand levels and firm transportation capacity levels with Panhandle Eastern Pipe Line Company ("PEPL") during the 1992-1993 ACA Period were questioned and a decrease of gas costs to UE's PEPL-related firm customers of \$2,800,000 was proposed. This proposed adjustment was subsequently revised to \$2,520,000 by Staff witness David M. Sommerer's Rebuttal Testimony. The Staff's second exception, Exception B in its Recommendation, referred to an inadvertent carry-forward by UE from the prior ACA balance and proposed a decrease of gas costs to UE's PEPL-related firm customers of \$532,054. The third or Exception C in the Staff's Recommendation proposed a reallocation of the take-or-pay ("TOP") cost component for UE's firm and interruptible customers supplied from the PEPL and the Texas Eastern Transmission Corporation ("TETC") systems.

On March 31, 1994, UE filed with the Commission its response to the Staff's Recommendation in which it disputed the Staff's Exception A and agreed to Exceptions B and C. UE reflected its agreement with the Staff's Exceptions B and C by incorporating the adjustments proposed thereunder into its 1993-1994 ACA filing dated April 18, 1994, docketed as Case No. GR-94-123, which was approved interim subject to refund by Order of the Commission dated April 27, 1994.

By Order dated April 5, 1994, the Commission granted the motion filed by Missouri Gas Energy and United Cities Gas Company to intervene for the limited purpose of protecting their interests regarding their gas purchasing practices.

By Order dated June 14, 1994, the Commission established a procedural schedule for interventions, the prefiling of testimony and schedules, a prehearing conference and an evidentiary hearing. No additional applications to intervene were filed in this proceeding. On July 22, 1994, Direct Testimony and Schedules of Scott A. Glaeser were filed on behalf of UE and on September 20, 1994, Rebuttal Testimony and Schedules of David M. Sommerer were filed on behalf of the Staff. Extensive discovery, including depositions of Missouri Public Service employee Michael G. Megaris and UE employees Scott A. Glaeser and Robert K. Neff, was performed by the Staff and UE in connection with the filing of testimony.

Pursuant to the procedural schedule established by the Commission, a prehearing conference was convened on September 26, 1994. UE, the Staff and the Office of the Public Counsel appeared and participated at the prehearing conference. Missouri Gas Energy and United Cities Gas Company, as limited intervenors, did not attend the conference. Based on the testimony filed in this proceeding, the discovery conducted in connection with such testimony and the discussions at the prehearing conference, UE and the Staff agreed to negotiate a resolution of the disputed issues rather than to pursue litigation. The undersigned parties



("Parties") have reached the following stipulations and agreements:

1. The Staff agrees to revise from \$2,520,000 to \$100,000 its recommended decrease of gas costs to firm customers relating to UE's sales service contract demand levels and firm transportation capacity levels with PEPL described under Exception A of the Staff's Recommendation. UE agrees, subject to the conditions specified herein, to reflect the foregoing \$100,000 adjustment to its firm sales customers in its 1994-1995 ACA filing docketed as Case No. GR-94-353. The Parties acknowledge that the PEPL sales service demand rates paid by UE during the ACA period, to which the Staff has expressed its concern and which are related to the Staff's recommended gas costs decrease, are currently being contested by UE (as a member of the Panhandle Customer Group) before the Federal Energy Regulatory Commission (FERC) in Docket No. RP92-166 (certain aspects of which are to be decided on the basis of the record in Docket No. RP91-229). In the event any reduction to said PEPL sales service demand (D1) rates results from said FERC proceedings (by decision or settlement) and refund(s) relating to such rate reduction are issued to UE, the Parties agree that UE shall be authorized to offset (partially or totally ) the foregoing \$100,000 adjustment by retaining four percent (4%) of such refund(s), with such retention not to exceed \$100,000. The Parties further agree that UE shall be authorized to implement this refund retention through a filing pursuant to the modified

refund provision of UE's PGA Clause upon presentation of supporting documentation. The refund provision of UE's PGA Clause shall be modified as shown on Attachment A in order to implement the refund retention discussed herein. The calculation of the refund retention shall be subject to review in UE's applicable ACA filing.

2. The Parties agree that the ACA balances applicable to UE's firm and interruptible customer classes for the 1992-1993 ACA period, reflecting the gas cost adjustments described above, are as follows. (Positive amounts indicate an over-collection of gas costs by UE and negative (( )) amounts indicate a UE under-collection of gas costs.)

<u>UE Service Area</u>	<u>Customer Classes</u>	
	<u>Firm</u>	<u>Interruptible</u>
PEPL	\$13,172,665	(\$243,929)
TETC	\$ 2,130,660	(\$234,542)
Natural Gas Pipeline Co. of America	\$ 146,470	

The Parties agree that the adjustments to customer billings required to reconcile the aforesaid over-collections and under-collections have been implemented in part through UE's 1992-1993 ACA and related PGA filings in Case No. GR-93-106, in part through its 1993-1994 ACA and related PGA filings in Case No. GR-94-123, and that the remaining adjustment, described in paragraph 1 above, will be implemented by UE in its 1994-1995 ACA and related PGA filings in Case No. GR-94-353.

3. UE agrees that it will meet with the Staff, at its request, prior to the commencement of the Staff's audit of each

future UE ACA filing, to discuss the activities of UE during the applicable ACA period.

4. UE agrees to hereafter prepare a written study or analysis of (i) each material natural gas-related contract decision; and (ii) each major FERC decision materially affecting UE in proceedings of pipelines providing service to UE and final FERC regulations which materially affect UE. Subject to applicable legal privileges, UE agrees to provide such document to the Staff upon its request during the applicable ACA audit.

5. UE agrees to hereafter continually monitor its participation before the FERC as a member of the Panhandle Customer Group and not join in Group activities in instances when, in UE's judgment, its interests are not adequately protected.

6. The Parties agree that this Stipulation and Agreement resolves all issues raised in this proceeding, including, but not limited to, issues related to UE's sales service contract demand levels and firm transportation capacity levels with PEPL during the ACA period. This Stipulation and Agreement does not preclude the Staff from hereafter making evaluations of and proposing adjustments to post-FERC Order 636 restructured services and related costs during the applicable ACA audit.

7. The Parties agree that the obligations undertaken by UE in paragraphs 3, 4, and 5 of this Stipulation and Agreement are solely the responsibility of UE and are not binding upon Missouri

Gas Energy, United Cities Gas Company, or any other gas corporation.

8. None of the signatories to this Stipulation and Agreement shall have been deemed to have approved or acquiesced in any ratemaking or procedural principle or any method of cost determination or cost allocation, or any service or payment standard and none of the signatories shall be prejudiced or bound in any manner by the terms of this Stipulation and Agreement in this or any other proceeding, except as otherwise expressly specified herein.

9. This 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 and adopt paragraphs 1 through 6 of this Stipulation and Agreement in total by December 9, 1994, then this Stipulation and Agreement shall be void and no signatory shall be bound by any of the agreements or provisions hereof.

10. In the event the Commission accepts the specific terms of this Stipulation and Agreement, the Parties waive, with respect to the issues resolved herein: their respective rights pursuant to Section 536.080.1 RSMo. 1986 to present testimony, to cross-examine witnesses, and to present oral argument and written briefs; their respective rights to the reading of the transcript by the Commission pursuant to Section 536.080.2 RSMo. 1986; and their respective rights to judicial review pursuant to Section 386.510 RSMo. 1986.

11. If requested by the Commission, the Staff shall have the right to submit to the Commission a memorandum explaining its rationale for entering into this Stipulation and Agreement. Each Party of record shall be served with a copy of any memorandum and shall be entitled to submit to the Commission, within five (5) days of receipt of Staff's memorandum, a responsive memorandum which shall also be served on all Parties. All memoranda submitted by the Parties shall be considered privileged in the same manner as are settlement discussions under the Commission's rules, shall be maintained on a confidential basis by all Parties, and shall not become a part of the record of this proceeding or bind or prejudice the Party submitting such memorandum in any future proceeding or in this proceeding whether or not the Commission approves this Stipulation and Agreement. 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 the Stipulation and Agreement, whether or not the Commission approves and adopts this Stipulation and Agreement.

The Staff shall also have the right to provide, at any agenda meeting at which this Stipulation and 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 Staff. 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, for the foregoing reasons, the undersigned Parties respectfully request that the Commission issue its Order:

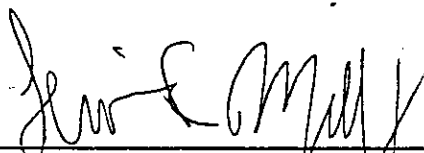
- a) approving the specific terms and conditions of this Stipulation and Agreement;
- b) authorizing UE to reflect the gas cost adjustment described in paragraph 1 of this Stipulation and Agreement in its 1994-1995 ACA filing docketed as Case No. GR-94-353;
- c) authorizing UE to file a revised tariff sheet in the form identified as Attachment A to this Stipulation and Agreement, as a thirty (30) day filing, designed to permit UE to implement the refund retention described in paragraph 1 hereof;
- d) granting UE authorization to implement the refund retention in accordance with paragraph 1 of this Stipulation and Agreement; and
- e) approving the ACA balances applicable to UE's customers for the 1992-1993 ACA period and the procedure for implementing the reconciliation of the resulting over-collections and under-collections, as described in paragraph 2 of this Stipulation and Agreement.

STAFF OF THE MISSOURI  
PUBLIC SERVICE COMMISSION

  
\_\_\_\_\_  
William K. Haas

Staff of the Missouri  
Public Service Commission  
P.O. Box 360  
Jefferson City, MO 65102  
314-751-7510


OFFICE OF THE PUBLIC COUNSEL

  
\_\_\_\_\_  
Lewis R. Mills, Jr.

Office of the Public Counsel  
P.O. Box 7800  
Jefferson City, MO 65102  
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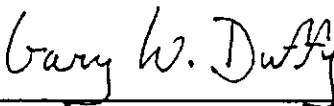
Respectfully submitted,

UNION ELECTRIC COMPANY

  
\_\_\_\_\_  
Ronald K. Evans

Union Electric Company  
P.O. Box 149  
St. Louis, MO 63166  
314-554-2156

MISSOURI GAS ENERGY,  
a division of Southern Union  
Company, and UNITED CITIES GAS  
COMPANY

 BY RKE  
\_\_\_\_\_  
Gary W. Duffy

Brydon, Swearingen & England  
312 East Capitol Avenue  
P.O. Box 456  
Jefferson City, MO 65102-0456  
314-635-7166

CERTIFICATE OF SERVICE

I hereby certify that copies of the Stipulation and Agreement have been mailed or hand-delivered to all counsel of record as shown on the following service list this 27<sup>th</sup> day of October, 1994.

Wm K Haas

Mr. Lewis R. Mills, Jr.  
Office of the Public Counsel  
P.O. Box 7800  
Jefferson City, MO 65102

Gary W. Duffy  
Brydon, Swearngen & England  
312 East Capitol Avenue  
Jefferson City, MO 65101

Ronald K. Evans  
Associate General Counsel  
Union Electric Company  
P.O. Box 149  
St. Louis, MO 63166



# UNION ELECTRIC COMPANY GAS SERVICE

Applying to MISSOURI SERVICE AREA

## RIDER A

### PURCHASED GAS ADJUSTMENT CLAUSE

for twelve (12) consecutive months ending March of each year as provided for herein. The Company will file the ACA factors developed for the shortened period August 1992 - July 1993 on or before September 13, 1993 to be effective September 28, 1993. The filings for all other periods will be in April of each year in the same manner as all other PGA factors, as provided for herein.

Those transportation customers, as of January 1, 1993, wishing to transfer back to a sales rate classification will not be eligible for the ACA factors in effect for such class for twelve (12) months immediately following the transfer.

#### IV. REFUND ADJUSTMENTS (RA)

\*Unless otherwise ordered by the Missouri Public Service Commission, any refunds which the Company receives in connection with natural gas services purchased by it together with any interest included in such refunds will be refunded to the Company's applicable customers. Such distribution will commence within ninety (90) days of receipt by Company of said refunds which by themselves, or in combination with prior undistributed refunds, exceed an amount which causes a RA factor in the affected area to round to at least 0.01¢/Ccf.

Said refunds received shall be distributed to Company's applicable customers as follows:

- A. The refund amount will be allocated to each firm sales, interruptible sales and transportation rate classification based upon the same allocation of such costs as calculated during the base period in Section II. herein.
- B. The amount of refund will be divided by the amount of Ccfs estimated to be sold and/or transported in the succeeding twelve (12) months to the applicable classes of customers. The resulting per Ccf adjustment, to the nearest 0.01¢, will be applied as a credit to bills to such customers over the succeeding twelve (12) months by multiplying such unit refund credit by the total Ccfs billed to each customer in each billing period.
- C. The length of the refund period shall generally be twelve (12) months, except that each refund period may be lengthened or shortened by the Company to avoid a total refund materially above or below the refundable amount.

\*Indicates Change

DATE OF ISSUE \_\_\_\_\_

DATE EFFECTIVE \_\_\_\_\_

ISSUED BY C. W. Mueller President & CEO St. Louis, Missouri  
Name of Officer Title Address