

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

AMEREN ILLINOIS COMPANY)	
d/b/a Ameren Illinois,)	
)	
Proposed clarification of natural gas tariffs)	Docket 15-0439
particularly sections related to transportation)	
of customer-owned natural gas)	

INITIAL BRIEF OF AMEREN ILLINOIS COMPANY

I. INTRODUCTION

In this docket, Ameren Illinois Company d/b/a Ameren Illinois (Ameren Illinois, AIC, or the Company) submitted proposed changes to clarify existing terms in the Company's natural gas tariffs, to better outline existing natural gas practices, fulfill a commitment regarding the initial rate classifications of successive natural gas transportation customers, and better align the Company's gas balancing cashout provisions with operational needs and with similar provisions at other Illinois gas utilities. The proposed changes will enhance the ability of customers and Ameren Illinois employees to apply the provisions of the Company's tariffs, particularly those that support the transportation of customer-owned natural gas.

Cashouts are part of the process by which Ameren Illinois assigns the commodity cost of matching delivered gas to consumed gas each day. On any given day, gas enters AIC's distribution system to serve both transportation customers and Purchased Gas Adjustment (PGA) customers (PGA customers are system sales customers, primarily residential customers, who rely on AIC to handle their gas supply needs and pay the monthly PGA rate approved by the Illinois Commerce Commission (the Commission) for their gas usage). Some of that gas enters the system at the direction of transportation customers (including retail gas suppliers on their behalf). When the aggregate amount supplied to the system by those transportation customers or retail gas suppliers on their behalf is less than the aggregate amount consumed by the end users, the transportation

customers are “short” or “negative” or “**under-delivered**”. In that case, AIC provides additional gas to meet the shortfall. Conversely, when the transportation customers deliver **more** gas into the system than they consume, the transportation customers are “long” or “positive” or “**over-delivered**”. AIC then buys the excess gas delivered by the transportation customers. “Cashout” refers to AIC’s sale or purchase of gas sold to cover transportation customers’ under-deliveries or over-deliveries.

The current gas balancing cashout provisions are flawed and are being used by suppliers to engage in arbitrage to the detriment of the PGA customer. The current gas balancing cashout provisions allow customers to use their available bank capabilities, as defined in Rider TBS - Transportation Banking Service (Rider TBS), and then any customer imbalance up to 20% of the Daily Confirmed Nomination (DCN). This amount is cashed out at the 100% Chicago market price¹ (sometimes referred to as the “Chicago Citygate”.) Any imbalance over 20% of the DCN is cashed out at 90% of the Chicago market price for over-deliveries, and 110% of the Chicago market price for under-deliveries. At worst, transportation customers are subject to only a 10% discount or premium to the market price for customer imbalances not covered by their banking service. These current provisions do not create enough of an incentive to deter some suppliers from mismanaging deliveries and creating system imbalances.

In the recent past there have been instances of arbitrage against PGA customers by third party suppliers in both small and large amounts. However, during January, February and March 2014, a supplier took advantage of AIC's existing tariff provisions and significantly over-delivered gas on days when price spreads between field zone and Chicago Citygate were also significant.

¹ The Chicago Market Price is the ‘Daily Chicago Citygate Price’ for daily cashout and ‘Monthly Average Daily Chicago Citygate Price’ for monthly balanced cashouts.

This supplier received a total cashout payment of \$3,208,570 during this three-month period. This \$3.2 million was ultimately passed on to AIC's PGA customers.

All parties are concerned and agree that the current tariff balancing and cashout provisions should not be used by third-party suppliers to engage in arbitrage to the harm of PGA customers. It was this concern that led AIC to develop an alternative gas balancing cashout provision. AIC's proposed cashout provisions are fair, balanced and reasonable. As explained in greater detail below, AIC's proposed cashout provisions are designed to send price signals to suppliers to more precisely match their daily natural gas deliveries with their customers' daily usage, thus minimizing cashouts. No other party has presented a workable solution. The Staff of the Illinois Commerce Commission (Staff) acknowledges a problem, but did not propose a solution. The Illinois Industrial Energy Consumers (IIEC) and Retail Energy Supply Association (RESA) (jointly referred to herein as IIEC/RESA or Intervenors) presented an unworkable solution that fails to solve any of the existing problems or cure any of the existing arbitrage opportunities.

The Company's proposal replaces the current provisions with fair and equitable alternatives. The proposed cashout pricing mechanism would require Rider T - Transportation Service (Rider T) customers or their suppliers to receive the lower of the PGA cost or the market price when the Rider T customer or their supplier over delivers gas after applying Rider TBS balancing provisions. Conversely, the proposed change would charge the Rider T customer or their supplier the higher of the PGA cost or the market price when the customer or their supplier under delivers gas after applying Rider TBS balancing provisions. This is fair in that the gas used to cure any over- or under-deliveries of gas is either purchased from, or sold to, PGA customers and should thus be associated in some instances with prices paid by PGA customers. The PGA cost applied to the cashout would be the rate in effect during the month that the cashout is applied. The Company will

maintain the Market Price as the ‘Daily Chicago Citygate Price’ for daily balanced customer cashouts and the ‘Monthly Average Daily Chicago Citygate Price’ for monthly balanced customer cashouts. Changing the proposed cashout language encourages a better match of deliveries and usage for gas transportation customers, reduces Suppliers’ arbitrage opportunities, and minimizes PGA customers’ exposure to cashout payments resulting from arbitrage incidents. Further, the proposed provisions ensure that PGA customers will not pay more than their current rate of the PGA for gas purchased from Rider T customers when those customers over-deliver gas in excess of their Rider TBS bank availability.

Although other parties in this docket have made suggestions and proposals, none solve the problems highlighted by the Company. For example, Staff suggests looking at the balancing and cashout provisions utilized by both Peoples Gas and Nicor but does not make a specific recommendation. IIEC/RESA primarily recommends doing nothing at all.

In this proceeding, parties have expressed alleged concern about aspects of AIC’s proposed gas balancing cashout provisions. In particular, some parties have expressed concerns about alleged cross-subsidization, elimination of tolerance bands, AIC’s proposed asymmetric methodology and, in general, whether the current provisions need to be modified at all. The Company addresses these concerns below and shows that Staff and the Intervenors’ proposals are unsupported by the record, unsupported by the law, and unwarranted as a matter of policy. Though all parties appear to express concerns about the ability of entities to use the existing provisions to engage in arbitrage, neither Staff nor the Intervenors have presented a workable alternative proposal that will reduce opportunities to engage in arbitrage, minimize system imbalances or dissipate costs pushed to PGA customers. The Company’s proposal should be approved, without modification.

A. Legal Standard

Section 9-201(a) of the Illinois Public Utilities Act (the Act) provides that, unless otherwise ordered by the Commission, any proposed change in any rate or other charge or classification, or in any rule, regulation, practice or contract must be filed 45 days prior to becoming effective. (220 ILCS 5/9-201(a).) On the expiration of 45 days, the Commission determines whether to suspend the tariff pending a hearing or to allow it to go into effect. A. Finkl & Sons Co. v. Illinois Commerce Commission, 325 Ill. App. 3d 142, 756 N.E. 2d 933 (2001). The Act requires that a proposed tariff be just and reasonable. (220 ILCS 5/9-101, 201(c).) Further, Section 9-201 of the Act provides that when the Commission investigates a tariff, it “shall establish the rates or other charges, classifications, contracts, practices, rules or regulations proposed, in whole or in part, or others in lieu thereof, which it shall find to be just and reasonable.” Illinois Bell Tel. Co. v. Illinois Commerce Commission, 327 Ill. App. 3d 768, 774, 762 N.E.2d 1117, 1122 (2002).

B. Procedural History

On June 12, 2015, Ameren Illinois filed with the Commission proposed revisions to its natural gas tariffs. Specifically, the filing clarifies existing terms in the Company’s natural gas tariffs, outlines existing natural gas practices, fulfills a commitment made in Docket 14-0097 regarding the immediate access to transportation service for successor businesses and new customers, and better aligns Ameren Illinois’ gas balancing cashout provisions with its operational needs. On July 28, 2015, the Commission suspended the proposed tariff provisions for 105 days. Shortly thereafter, IIEC and RESA intervened in the matter.

On January 8, 2016, the Administrative Law Judge (ALJ) ruled that to the extent Staff or any party proposes changes to the tariff sheets filed by Ameren Illinois on June 12, 2015, it shall

make a compliance filing setting forth the proposed changes in legislative style. Staff and Intervenors filed their proposed changes to the tariff sheets on January 11, 2016.

Pursuant to notice duly given in accordance with the law and the rules and regulations of the Commission, an evidentiary hearing was held before a duly authorized ALJ on January 13, 2016, during which Ameren Illinois, Staff and Intervenors moved into the record their respective exhibits, subject to cross examination. Testifying on behalf of Ameren Illinois was Ms. Vonda K. Seckler, Manager, Gas Supply for Ameren Illinois. Ms. Seckler sponsored Ameren Exhibits. 1.0 (Rev.) through 1.6, and 2.0 through 2.8.

Testifying on behalf of the Commission Staff was Dr. David Rearden, Senior Economist. Dr. Rearden sponsored Staff Exhibit 1.0. Testifying on behalf of the Intervenors was Mr. Brian C. Collins, of Brubaker and Associates, Inc. Mr. Collins sponsored IIEC/RESA Exhibits 1.0 through 1.3.

At the conclusion of the evidentiary hearing, the record was marked “Heard and Taken,” subject to the late filing of certain exhibits introduced at hearing.

II. UNCONTESTED TARIFF PROPOSALS

Other than the issues set forth below in the contested issues section of this brief, there are no objections by any party to the Commission approving the bulk of the tariff proposals set forth in the June 12, 2015 tariff filing and Ameren Exhibit 1.0 (Rev.). Accordingly, the Commission should approve these provisions, without change, as they would clarify existing terms in the Company’s natural gas tariffs, assist in outlining existing natural gas practices, and fulfill a commitment regarding the immediate access to transportation service for successor businesses and new customers. These uncontested provisions are explained in further detail below.

1. Definition of Gas Day

Ameren Illinois proposed a definition for Gas Day to clarify that the timeframe of a “day” as referenced in the current Customer Terms and Conditions, Rate GDS-4, Rate GDS-5, and Rider T is that of a “Gas Day”, which starts at 9:00 a.m. (Ameren Ex. 1.0 (Rev.) at 4:81-84.)

2. Retail Gas Suppliers (RGS) is added to the Late Payment Charge

Ameren Illinois proposed to add RGS to the late Payment Charge section of its Customer Terms and Conditions tariff. The additional language conforms to the Company’s existing process for applying a late payment charge to a customer’s bill when charges assessed to an RGS are not paid as specified in this Section. (*Id.* at 4:88-89.)

3. Adjust Customer Gas for British Thermal Unit (BTU) content

The language in the Rider T tariff will now state the Company’s long standing and current practice of adjusting deliveries of customer-owned gas to reflect the BTU content of the gas. (*Id.* at 5:91-92.) The intent of this language is to memorialize the Company’s practice. (*Id.* at 5:93.)

4. Notifying Customers of Operational Flow Orders or Critical Days

The proposed change to the Rider T tariff will conform the tariff to the Company’s process for notifying those customers directly affected by the issuance of an Operational Flow Order (OFO) or Critical day. (*Id.* at 5:96-98.) Additionally, information on the OFO or Critical Day will be posted on the Company’s website and Supply Choice Portal for those customers not directly affected by the OFO or Critical Day. (*Id.* at 5:98-99.)

5. Maximum Daily Contract Quantity (MDCQ)

The revisions to the MDCQ update the Customer Terms and Conditions to state the Company’s practice of using historic usage data to establish the level of any modified MDCQ,

while allowing for deviations from actual usage data under extraordinary circumstances. (Ameren Ex. 1.0 (Rev.) at 4:101-103.)

6. Unauthorized Gas Use Charge

The revisions to the Unauthorized Gas Use tariff are made consistent with the language in the Rider T tariff for billing during Critical Days. (*Id.* at 5:105-106.) The Unauthorized Gas Use Charge of \$6.00 per therm for all unauthorized use is applied in addition to all other applicable Monthly or Daily cashout and balances charges. (*Id.* at 5:106-108.)

7. Allow Access to Transportation Service for Successor and New Customer

The tariff change allows successor and new customers immediate access to transportation service as required in Docket 14-0097. The operative language is included in the Customer Terms and Conditions and the Supplier Terms and Conditions tariffs. (*Id.* at 6:113-114.) Further, this change allows new customers, including successor businesses at a location to be billed under the provisions of Rider T effective with their first delivery service bill with proper advance notice. (*Id.* at 6:114-116.)

III. CONTESTED ISSUE – NATURAL GAS CASHOUT PROVISIONS

A. Staff's Position

1. Staff's concerns regarding the Ameren Illinois proposal

Staff agrees with Ameren Illinois that the current provisions provide opportunities for suppliers to engage in arbitrage. (Tr. 94.) Further, Dr. Rearden agrees with Ameren Illinois' desire to prevent recurrence of imbalance cashouts. (ICC Staff Ex. 1.0 at 3:58-59.) Staff offers two (2) issues that should concern the Commission regarding large cashouts. First, Staff asserts that all cashouts, both positive and negative, flow through the PGA. Staff reasons that if high cashouts are paid to suppliers without them having to provide any operational or gas supply benefit, there is a subsidy being provided by the sales customers². (*Id.* at 4:76-78.) Second, Dr. Rearden testified that Ameren Illinois plans its gas purchases and storage usage assuming that the supplier stays in balance, and any deviations from this plan to accommodate suppliers can raise gas costs for sales customers. (*Id.* at 4:80-83.)

In light of the opportunities for suppliers to engage in arbitrage, and the fact that they have engaged in such activities in the recent past, Ameren Illinois proposed modifying the cashout provisions. Ms. Seckler testified to the reasons for the proposed changes by stating that the ultimate goal is to prevent transportation customer activity from increasing sales customers' costs. (Ameren Ex. 1.0 (Rev.) at 11:222-229.) Staff agreed with the Company's goals and strongly agreed with the ultimate goal to prevent transportation customer activity from increasing sales customers' costs. (ICC Staff Ex. 1.0 at 6:114.) However, Staff raised a concern that the Company's proposed cashout provisions may be unfair to suppliers. (*Id.* at 6:116-117.) Dr. Rearden asserts that currently Ameren Illinois does not pay the PGA rate for gas but rather market price for gas that it provides to sales customers because Ameren purchases spot gas at market prices. (*Id.* at 7:136-137.) Further, Dr.

² Sales customers are primarily residential customers.

Rearden states that Ameren Illinois also does not need to make spot purchases because it can use oversupply and compensate the marketers at market rate. (*Id.* at 7:141-143.) Dr. Rearden additionally testifies that under the Company's proposed cashout provisions, there are certain conditions under which Ameren Illinois could buy and sell gas to suppliers at prices significantly below or above the market and that the result could be that the suppliers are forced to subsidize sales customers. (*Id.* at 8:167-170.)

Ms. Seckler responds that Dr. Rearden has not considered several important facts related to the gas services offered by AIC or the process by AIC to address imbalances created by transportation customers. (Ameren Ex. 2.0 at 4:85-87.) Specifically, she asserts: 1) Dr. Rearden should have considered that AIC *does not* routinely purchase spot gas to remedy transportation imbalances, 2) the availability of Rider TBS to assist transportation customer in balancing their gas loads, and 3) the Company needs to maintain system integrity which is critical to providing reliable gas service to all AIC customers. (*Id.* at 5: 97-106.)

a. Misconceptions regarding spot purchases

Rather than purchase gas on spot, AIC manages imbalances using primarily a portfolio of assets paid for by PGA customers. (*Id.* at 5:110.) This portfolio of assets includes flexible services such as flowing swing supply, leased storage, on-system storage, Operator Balancing Agreements, Point Operator Agreements, pipeline parking agreements and linepack. (*Id.* at 5:112-115.) The costs of these assets are included in the PGA costs and are ultimately paid for by sales customers. (*Id.* at 5:118-119.) Staff acknowledges that sales customers and not transportation customers pay for AIC assets that are used to remedy transportation customer-created imbalances. (Ameren Ex. 2.2; Tr. 93-95.) This fact is important because PGA assets which are paid for by sales customer are being used to remedy system imbalances caused by transportation customers and their suppliers,

which, in turn, justifies AIC's use of the PGA rate as an important component of AIC's cashout pricing.

b. Failure to consider the potential to use Rider TBS

Staff does not address Ameren Illinois' Rider TBS in its direct testimony as a way to mitigate supplier imbalances and subsidization caused by supplier deliveries. Rider TBS is a banking service offered to all Rider T customers. (Ameren Ex. 2.0 at 8:179.) The purpose of Rider TBS is to provide a service that allows transportation customers to both set aside any excess gas delivered to the Company for use at a later time, and to pull from that set aside gas on those occasions when the amount of gas they delivered is less than their usage. (*Id.* at 8-9:180-183.) The use of Rider TBS by suppliers would alleviate Staff's concern regarding the disparity between the market price and the PGA price leading to a subsidy. As shown in Ameren Exhibit 2.5, the use of Rider TBS can minimize cashouts. Ms. Seckler testified that Ameren Exhibit 2.5 was created using IIEC/RESA Exhibit 1.2 (which demonstrates the impact on two (2) accounts belonging to the same transportation customer under the Company's existing and proposed cashout provisions) and added the use of Rider TBS. (*Id.* at 9:200-201.) As depicted in Ameren Exhibit 2.5, the transportation customer would not be impacted by the cashout provisions proposed by AIC if they had elected Rider TBS.

Ms. Seckler explains that it is AIC's goal to have suppliers match their deliveries to their customers' usage and Rider TBS would help them balance deliveries and usage to minimize cashouts. (*Id.* at 9-10:204-207.) Staff acknowledges and agrees that by using Rider TBS, suppliers could minimize cashouts and Staff further agrees that suppliers can reduce their cashouts by more closely matching their deliveries to their customers' usage. (Ameren Ex. 2.4) Staff also agreed that if deliveries match usage, not only will cashouts be smaller but there will likely be little or no

subsidy to suppliers, Rider T customers or sales customers. (Ameren Ex. 2.6.) AIC's banking service will mitigate the cashout amounts and any potential subsidy.

c. Failure to consider system integrity

System integrity was not directly addressed in Staff's testimony. Maintaining system integrity is of the utmost importance to AIC. (Ameren Ex. 2.0 at 11:227.) Staff acknowledges that it is Ameren Illinois' obligation to provide safe and reliable service to the customers and communities it serves. (Tr. 90.) So when considering the system's integrity and effectiveness, it is critically important that imbalances are kept to minimum. In this regard, Dr. Rearden agreed that the system can be impacted by the delivery of too much or too little gas, and acknowledged that the Company is in the best position to balance and manage its natural gas system. (*Id.*) The only logical conclusion, and one that the Commission needs to fully comprehend, is that it would be adverse to the Company's interest - and its customers' - to depend on the under- or over-delivery by suppliers of gas to balance its system. This assumes that the "broad" balancing argument is even an option, and it's not given how the Company's natural gas system is designed. (Tr. 75.) Ms. Seckler testified that all of the components of AIC's natural gas system are not interconnected with all of the other components. (*Id.*) Specifically, Ameren Illinois has geographic areas that are served by one or two pipelines and are not interconnected to other geographic areas within Ameren Illinois service territory. (*Id.* at 76.) Based on Ms. Seckler's testimony, Dr. Rearden's example of a supplier's over-delivery offsetting the needs of the Company is, at best, limited in its practical application. If the over-delivery is not in the same geographic area or interconnected to the area where the need took place then that over-delivery cannot provide the Company's gas needs in an area that is not interconnected.

Notably, Rider T suppliers and ultimately Rider T customers have almost complete control over the amount of imbalance they create and cashout incurred. (Ameren Ex. 2.0 at 11:239-240.) In Ameren Exhibit 2.6 (Dr. Rearden's responses to AIC data requests AIC-ICC 1.03 and 1.10), Dr. Rearden confirms that if suppliers' deliveries match customer usage, all else equal, cashouts are likely to be small and there is likely to be little or no subsidy to suppliers, Rider T customers or sales customers. (Ameren Ex. 2.6.) Therefore, it is not the Company but suppliers and transportation customers who have the knowledge and control over their strategic and operational plans and can mitigate any cashouts.

2. Staff's solution is unworkable

Staff does not agree with Ameren Illinois' proposal for a new cashout provision and believes that it could potentially be unfair to suppliers. (ICC Staff Ex. 1.0 at 6:116-117.) Staff asserts that to avoid the likelihood suppliers subsidize the sales customer, or vice versa, cashouts should generally rely on market prices to settle imbalances. (*Id.* at 9:172-173.) Dr. Rearden expresses that employment of the maximum or minimum of market price and current month PGA is an imperfect approach, and recommends the cashout procedures of Nicor and Peoples Gas as templates for tariff language. (*Id.* at 9:178-180.)

In the end, Staff's proposed suggestions are unworkable under Ameren Illinois' current system and services for two (2) reasons. First, Nicor and Peoples Gas transportation services are different than AIC's, and given the transportation services offered by Ameren Illinois, the cashout methods that Peoples Gas and Nicor utilize will not provide the desired incentives for customers and suppliers to deliver gas in volumes that are consistent with customers' usage. (Ameren Ex. 2.0 at 12:260-264.) Specifically, Peoples Gas has tailored their cashout methods to the design of their transportation services, which restrict daily deliveries through the Maximum Daily Nomination,

impose bank injection/withdraw limits and then calculate imbalance cashout at the end of the month. (*Id.* at 12-13:269-272.) Nicor's program is designed for residential and small commercial customers and those programs are designed differently than general gas transportation programs like that available under AIC's Rider T. (*Id.* at 14:318-319.) Specifically, Nicor's tariff provides that Nicor tells suppliers how much gas they need to deliver to its system on a daily basis, whereas under AIC's Rider T program, customers and their suppliers determine how much gas they will deliver on any given day. (*Id.* at 14:325-326.) Nicor does not have cashout procedures in their current tariffs that provide a useful alternative to the AIC proposal. However, Ms. Seckler states Nicor does use a pricing structure for their Authorized Use and Unauthorized Use for under-deliveries which is similar to AIC's proposed language and has been approved by the Commission for use as a pricing mechanism. (*Id.* at 15:337-340.) Further review of Nicor's tariff revealed that Nicor does not have any market based cashouts for the large volume transport customers, and the services they do provide are different from AIC's Rider T services. (*Id.* at 15:342-344.) Staff agrees with this characterization. (Ameren Ex. 2.7.)

Second, both utilities that Staff suggested AIC use as guides to designing cashout provisions require daily metering *for all* of their transportation customers. Dr. Rearden acknowledged the Company does not require daily metering for all Rider T customers, and that only 5% of Ameren Illinois' customers have daily metering. (*Tr.* at 97.) Daily metering is critically important to both Nicor's and Peoples Gas' cashout provisions because their services are designed around a customer being daily metered. (Ameren Ex. 2.0 at 13; 16.) This allows both Peoples Gas and Nicor to monitor customers' deliveries and usage daily. With daily metering Nicor and Peoples Gas can apply more strict delivery requirements than can AIC. (*Id.* at 13:285-286; 16:359-360.) The strict delivery requirements of Nicor and Peoples Gas effectively minimize the imbalances caused by

suppliers and transportation customers. This minimization of imbalances has a direct correlation to minimizing cashouts.

Due to the control that suppliers and customers have in determining the customer's deliveries and the Company's inability to require daily metering, the cashout provisions of Peoples Gas and Nicor cannot simply be substitutes or used as examples for AIC.

B. AIC's proposal is just and reasonable regardless of the positions taken and concerns raised by IIEC/RESA.

1. It is unreasonable to leave Ameren Illinois' current cashout provisions unchanged.

Ameren Illinois has presented this Commission with substantial evidence of financial arbitrage by transportation customers and their suppliers to the harm of PGA customers. Even though they agree that Ameren Illinois tariff provisions should not be used for financial arbitrage, Intervenors' primary proposal in this proceeding is that the Commission do nothing: "since Ameren Illinois has not proven that the existing cashout provisions have resulted in net harm to PGA customers, Ameren Illinois' existing balancing tolerance bands and existing market pricing for transportation customer imbalances should be maintained in its tariffs". (Tr. 138; IIEC/RESA Ex. 1.0 at 4:68-71; IIEC/RESA Ex. 1.0 at 3:52-55.) IIEC/RESA's proposal falls short both in fact and in law.

First, the contention that AIC has failed to show some "net harm" to PGA customers fails in fact. In this proceeding AIC has submitted substantial evidence which demonstrates harm to PGA customers. Ms. Seckler testified that the costs to rectify transportation customer imbalances are all borne by PGA customers. (Tr. 62-63.) Ms. Seckler also testified that the Company can demonstrate negative consequence on PGA customers due to the current Ameren Illinois cashout provisions. (Ameren Ex. 1.0 (Rev.) at 13:253-269; at. 14-18.) Evidence

presented by Ameren Illinois demonstrates that for the most obvious arbitrage activity by suppliers during the 2013-2014 heating season, one supplier was paid more than \$3.2 million for its arbitrage activities and the costs for these cashout payments were paid for by PGA customers. (*Id.* at 18.)

Mr. Collins' testimony at the evidentiary hearing further supports this set of facts. Mr. Collins acknowledges that PGA customers don't determine how much gas transportation customers nominate. (Tr. 118; 120-121.) Regardless of this lack of control over transportation customer nominations and deliveries, he further acknowledges that under AIC's current tariff, cashout payments made due to the transportation customer imbalances are paid for by those PGA customers (*Id.*). Mr. Collins' testimony supports Ameren Illinois' position that the current cashout provisions are not just and reasonable since the costs associated with transportation customer imbalances are borne by PGA customers. This clearly demonstrates harm to PGA customers.

As to Intervenors' arbitrarily created test of "net harm" to PGA customers, the evidence presented by AIC demonstrates this as well. In fact, Ms. Seckler testified that in every month over a three-year period analyzed by AIC, there was a net impact to PGA customers. (Tr. 77-78.) Ameren Illinois demonstrated through its response to IIEC data request 3.11, what the actual impact is to PGA customers, month after month, over this three-year period of time. (Tr. 77.) Therefore, Ameren Illinois has demonstrated by the substantial evidence in this proceeding that, in fact, transportation customer imbalances do not net to zero and therefore there is harm and "net harm" being done to PGA customers.

The Intervenors' contention that AIC has failed to show some "net harm" to PGA customers also fails in law. There is no legal standard that AIC must meet in this proceeding

requiring it to demonstrate “net harm” to PGA customers. Intervenor’s made-up standard places an inappropriate hurdle in the path of Ameren Illinois’ proposed revisions. Pursuant to Section 9- 201(c) of the Act, Ameren Illinois is obliged to prove the justness and reasonableness of its proposed rates or other charges, classifications, contracts, practices, rules or regulations, in whole and in part. (220 ILC 5/9-201.) Ameren Illinois has presented substantial evidence and met this burden. However, that is not the same as proving customers are currently being harmed or that some net harm exists. Although, it should be noted that alleviating customer harm can be one of the attributes that makes a new tariff provision just and reasonable. (Order, Docket 09-0312 (Mar. 24, 2010), at 40.)

Also, in terms of public policy, it would be perverse for the Commission to adopt a standard by which utilities could only improve their tariffs, practices and rules if they first prove customer harm or “net harm”. Intervenor’s are just wrong on the law by contending that AIC must show “net harm” to PGA customers under the current tariff. Ameren Illinois has shown that sales customers have, at times, shouldered financial responsibility for the consequences of transportation customer and supplier arbitrage and other gas imbalances. AIC’s proposed cashout solution is rationally and proportionally aimed at curtailing arbitrage opportunities and associated subsidies, and to allow AIC to adequately protect the integrity of its natural gas system.

2. The Intervenor’s have failed to propose a reasonable or workable solution.

No party has disputed that a major supplier has used AIC’s current cashout provisions contained in Rider T for a multi-million dollar financial arbitrage to its benefit and to the detriment of PGA customers, and that opportunity remains under AIC’s existing tariffs for any supplier to do the same with similar market conditions. (Ameren Ex. 2.0 at 19.) Further, no

party has disputed that Rider T cashout provisions should encourage suppliers to deliver the same amount of gas that their customers use. (*Id.*) Doing nothing is not a solution. (IIEC/RESA Ex. 1.0 at 18.) Intervenors proposed that as an alternative to doing nothing, the Commission order Ameren Illinois to include an Economic Operational Flow Order (EOFO) in Rider T of its delivery service tariff. (*Id.*) In addition to the fact that it fails to address the need to encourage supplier gas deliveries to match actual usage, the Intervenors' EOFO proposal is not appropriate for three (3) reasons. First, the EOFO proposal is not workable under Ameren Illinois' currently offered services; second, the proposal is incomplete and contains insufficient information for proper implementation; and, third, the proposal is devoid of critical provisions which would work in conjunction with any such provision if adopted.

Ms. Seckler testified as to several reasons why the Intervenors' EOFO proposal is not workable under currently offered services. (Ameren Ex. 2.0 at 32.) Not only can AIC not forecast and predict price disparities, as would be required under the EOFO proposal, but also the majority of AIC's transportation customers do not have daily metering and for those that do have daily metering, the usage does not register in real-time. (*Id.* at 33-34.) This fact is important because a central point of the EOFO proposal is for AIC to somehow ascertain that a supplier's customer or customer group's daily usage varied from its DCN. AIC will not be able to make this determination for about 95% of its customers who are monthly balanced and for whom usage is not known until after the end of the delivery month. (*Id.* at 34.) It would take a significant amount of speculation and/or guesswork for the Company to determine when there has been an over- or under-delivery to a monthly balanced pool group or customer on an EOFO day. The total usage is not known for many days later after the delivery has already been made and the data is received as a monthly aggregate total of usage for that time period. (*Id.*) The mismatch of

the EOFO proposal with AIC's currently offered services is irreconcilable and the EOFO proposal is not workable.

Additionally, the EOFO proposal is incomplete and contains insufficient information for proper implementation. Mr. Collins testifies that in order to implement the proposed EOFO AIC would be forced to determine when (1) an EOFO is "reasonably necessary," (2) that it will need an EOFO to provide gas supply to the Company's customers at "a reasonable PGA cost," and (3) that there is a "significant and substantial PGA price impact caused by a suppliers' action." (Tr. 121-123.) Mr. Collins has not provided any information or definitions. (*Id.*) Therefore, the EOFO proposal is lacking critical information to allow Ameren Illinois to make any of these determinations with any level of confidence or certainty. Mr. Collins agrees his clients are big market players who are in the market to make money and that there could possibly be transportation customers who dispute AIC's decisions on these points. (*Id.* 109; 123-124.) Furthermore, the proposed EOFO would shift the entire burden of making the above-listed decisions to the Company and the entire risk for making an unfavorable call to the PGA customers or the Company as well. The transportation customers are in control of their own actions here and they are the parties in the best position to tailor their gas deliveries to more closely match actual usage. Neither AIC nor the PGA customers determine their gas deliveries or their gas usage. It would be unjust and unreasonable for the Commission to adopt such an incomplete and vague proposal given the lack of information provided and the risk it would create.

Finally, the EOFO proposal should be rejected because it is lacking critical provisions that would work in conjunction with any properly presented proposal. It would be inappropriate for the Commission to adopt the language advanced by IIEC/RESA in the EOFO proposal in

isolation. During the course of discovery Intervenors revealed that the EOFO provisions proposed by Mr. Collins are developed from the tariff provisions of Citizens Gas in Indianapolis, Indiana. (Ameren Cross Ex. 2.) Additionally, AIC requested by the same data request that Intervenors provide a copy of the relevant tariff provisions including balancing provisions. (*Id.*) In response Intervenors provided the cover page and one page from the definitions of the Citizen's Gas tariff. (*Id.*; Tr. 127.) Mr. Collins testified that he looked through the Citizens Gas tariff provisions. (Tr. 127.) But oddly he failed to include several provisions from that tariff which are critical to the implementation of his proposed EOFO. Mr. Collins' proposal is incomplete in that it fails to inform the Commission of the fact that Citizens Gas implements the EOFO only in conjunction with cashout provisions that are nearly identical to those proposed by AIC and objected to by IIEC/RESA in this proceeding. (Ameren Cross Ex. 3.) Mr. Collins testifies that the Citizens Gas tariff provisions include cashouts for imbalances at the higher or lower of a PGA-like price or a market based price. (Tr. 129-130.) He further states that the Citizens Gas cashout provisions are very similar to the pricing provisions proposed by AIC in this proceeding to remedy customer imbalances. (*Id.* 130.) The EOFO proposal is lacking this critical provision from the Citizens Gas tariffs, and the Commission should have been presented with the full disclosure that the EOFO is not implemented by utilities in a vacuum. And that in fact the very utility upon which the EOFO proposed here is based implements it in conjunction with cashout provisions which are very similar to those proposed by AIC.

The EOFO proposal fails to recognize all sides of the equation in Citizens Gas' cashout tariffs. The EOFO proposal is unreasonable because when viewed in isolation it presents an incomplete picture and cannot be adopted in isolation. The complete picture is that Citizens Gas

implements the EOFO with the asymmetric cashout provisions and that supports the conclusion that AIC's proposal is just and reasonable.

3. IIEC/RESA's stated concerns are not supported by the evidence and are outweighed by the benefits of the Company's proposal.

IIEC/RESA identified alleged concerns with the AIC proposed cashout provisions. (IIEC/RESA Ex. 1.0 at 3-4.) IIEC/RESA claim adoption of the Ameren Illinois' proposal outside of a rate case will result in unjust and unreasonable transportation tariff prices and that the Company's proposal will result in the recovery of costs from transportation customers that Ameren Illinois does not actually incur for imbalances. (*Id.*) Neither of these alleged concerns is supported by the evidence in this matter.

Ameren Illinois' proposal is just and reasonable even outside of a rate case. Illinois law is very clear in that a utility may make a filing with the Commission to modify its terms and rates pursuant to Sections 9-201(a) & (c) of the Act. (220 ILC 5/9-201.) Even with this assertion IIEC/RESA has presented no evidence to support any claim of prejudice, unfairness or lack of due process in support of their claim. Furthermore, AIC's delivery service rates - the rates that might be changed in a rate case- are not affected by the proposed revisions which renders the IIEC/RESA assertion about the necessity of a rate case irrelevant. (Ameren Ex. 2.0 at 27.)

The evidence in this matter does not support IIEC/RESA's claim that AIC's proposal is unreasonable because it will inappropriately result in the recovery of costs from transportation customers that Ameren Illinois does not actually incur. Ms. Seckler testified that the costs for balancing activities - whether the purchase of spot market gas, use of pipeline or system assets, etc. - are paid for by sales customers through the monthly PGA charge. (Ameren Ex. 1.0 (Rev.) at 10.) Furthermore, Ms. Seckler testifies that the cashout process is a price signal intended to incent correct behavior by transportation customers and their suppliers, and that the Company

would prefer to never have to collect or distribute any monies through this mechanism. (Ameren Ex. 2.0 at 5.) As the evidence demonstrates, the transportation customers and their suppliers have the ability to minimize the imbalances they cause and thereby any recovery of costs from them. The cashout mechanism proposed by AIC is a fair communication to the transportation customer and their suppliers to minimize instances whereby they use gas and resources purchased for sales customers to make up for their customer imbalances. This pricing signal is fair and reasonable and supported by the evidence. Therefore IIEC/RESA's claims regarding inappropriate recovery of costs from transportation should be dismissed.

IV. CONCLUSION

The Commission should approve, without change, the tariff proposals set forth in the June 12, 2015 tariff filing and Ameren Exhibit 1.0 (Rev.) which are not contested, as they would clarify existing terms in the Company's natural gas tariffs, assist in outlining existing natural gas practices, and fulfill a commitment regarding the immediate access to transportation service for successor businesses and new customers.

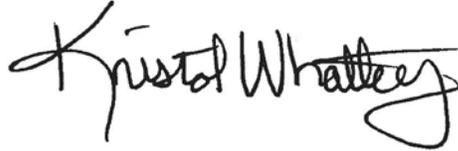
The goals set forth in this proceeding are simple - to reduce supplier arbitrage opportunity and to better encourage supplier gas deliveries to match the actual usage of their customers. The Commission should adopt AIC's proposed cashout provision because by sending appropriate pricing signals it will incent transportation customers and their suppliers to balance their deliveries and usage. The benefits to AIC's proposal outweigh the concerns raised by Staff and IIEC/RESA. AIC's proposal addresses system integrity concerns; it does not require AIC to subjectively call the IIEC/RESA proposed EOFO without complete information; and it minimizes the arbitrage opportunity that exists with the current cashout provisions. Additionally, the evidence in this matter only shows that AIC's proposal is just and reasonable. Staff has also

failed to present a workable solution while acknowledging that a significant problem exists. Intervenor are the only parties with a financial interest in the outcome of this proceeding. (Tr. 110.) Intervenor have failed to show that AIC's proposal is not just and reasonable, and their stated concerns are not supported by the evidence and are all outweighed by the need to protect the interest of the PGA customer from financial arbitrage, the negative impact from the transportation customer imbalances and the need for AIC to protect the integrity of its natural gas system. No party disputes the fact that millions of dollars have been paid out almost as a reward to suppliers who have gamed and exploited AIC's gas tariff cashout provisions - to the detriment of what are mostly residential customers. Deciding to do nothing would arguably leave PGA customers more vulnerable than they have ever been before in this regard since a roadmap has been provided by the specific actions of the supplier that performed the arbitrage during the 2013/2014 heating season and received a cashout payment totaling over \$3.2 million. The Commission should adopt AIC's proposal as just and reasonable and thereby protect PGA customers and the integrity of the AIC natural gas system.

Dated: January 27, 2016

Respectfully submitted,

AMEREN ILLINOIS COMPANY
d/b/a Ameren Illinois

A handwritten signature in black ink that reads "Kristol Whatley". The signature is written in a cursive, flowing style.

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