Attachment to MPSC Case No. EO-2004-0108 DR #0006

ALTON AND POWER PLANT GAS COST ALLOCATION

INTRODUCTION

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

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

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

ALLOCATION PROCEDURES

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

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

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

STORAGE GAS ACCOUNTING

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

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