MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GR-2003-0326, Union Electric Company d/b/a AmerenUE

FROM: Dave Sommerer, Manager - Procurement Analysis Department
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/s/ Dave Sommerer 12/22/04	/s/ Thomas R. Schwarz, Jr. 12/22/04
Project Coordinator / Date	General Counsel's Office / Date

SUBJECT: Staff Recommendation in Case No. GR-2003-0326, Union Electric Company d/b/a AmerenUE's 2002-2003 Actual Cost Adjustment Filing

DATE: December 22, 2004

The Procurement Analysis Department (Staff) has reviewed Union Electric Company d/b/a AmerenUE's (Company or AmerenUE) 2002-2003 Actual Cost Adjustment (ACA) filing. This filing was made on October 17, 2003, and is docketed as Case No. GR-2003-0326. The filing contains the Company's calculations of the ACA balance.

AmerenUE separates its Missouri gas operations into the following pipeline service areas: Panhandle Eastern Pipe Line (PEPL or Panhandle), Texas Eastern Transmission Corporation (TETCO), and Natural Gas Pipeline Company of America (NGPL). PEPL serves approximately 90,000 customers in the Jefferson City/Columbia area. TETCO serves approximately 19,600 customers in the Cape Girardeau area. NGPL serves approximately 2,000 customers in the communities of Fisk and Lutesville.

Staff's review included an analysis of the billed revenues and actual gas costs used in the Company's computation of its ACA rates. A comparison of billed revenue recovery with actual gas costs will result in an over-recovery or under-recovery of the ACA balance. Staff also reviewed AmerenUE's gas purchasing practices to determine the prudence of the Company's purchasing decisions.

Because of internal resource limitations, the Staff conducted no reliability review for this ACA period. The Staff's review of the Company 2002-2003 capacity shows that, other than the retirement of the Jefferson City propane peaking facility in June 2003, the Company's contracted pipeline capacity for this period did not change from the previous ACA period.

AFFILIATED TRANSACTIONS

During the ACA review, the Staff examined the Company's affiliated transactions to ensure compliance with the Commission's Affiliated Transaction Rule 4 CSR 240-40.15. AmerenUE did not purchase gas from or sell gas to any affiliate during the ACA period; however, it did release a portion of its idle firm transportation capacity to Ameren Energy Marketing Company. The Staff reviewed the rates of these capacity release transactions and found that the rates charged by the Company were in compliance with the Affiliate Transactions Rule.

In addition to evaluating the details of each affiliate transaction, the Staff also reviewed the Company's *Policy for Complying with Affiliate Transaction and Code of Conduct Rules*. The Company states that this policy governs the relationship between the Natural Gas Supply and Transportation Division (NGST) and its affiliates in order to comply with state and federal regulations governing affiliate transactions and code of conduct rules. Although the capacity release rates charged to its affiliate were in compliance with the rule, the Staff found that the Company's affiliated transaction policy is inconsistent with the Commission's affiliated transaction rule. Therefore, the Staff wants to notify the Company, at the earliest opportunity, that there is a concern with its affiliate transactions policy.

The Commission's rule prohibits a regulated gas corporation from providing a financial advantage to an affiliated entity. The rule defines a financial advantage as occurring if a regulated gas corporation:

1. compensates an affiliated entity for goods or services above the lesser of the fair market price or the fully distributed cost to the regulated gas corporation to provide the goods or services for itself; or

2. transfers information, assets, goods or services of any kind to an affiliated entity below the greater of the fair market price or the fully distributed cost to the regulated gas corporation.

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The Company states its affiliate and code of conduct policy was intended to comply with state and federal regulations governing affiliate transactions. Therefore, Staff recommends that the Company respond in writing to Staff's concern regarding its affiliate transaction policy and schedule a meeting with Staff to assure that the Company policy is in compliance with the Missouri Commission's Affiliate Transaction Rule 4 CSR 240-40.15

HEDGING

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Price risk for local distribution companies (LDCs) is generally applicable to monthly and daily markets. In other words, the Company is exposed to the daily and the monthly market volatility. It is possible to achieve significant overall winter hedging coverage and at the same time leave individual winter months totally exposed to price escalation. An example would be a situation where December through February were 100% hedged, but November and March were at 0%. Overall, the winter hedge could yield a significant coverage of well over 75% and still not address the unprotected winter months. If pricing mechanisms worked in such a way as to be set one time for the entire winter, then a total seasonal approach to hedging might protect the monthly and daily exposures to price increases. However, this is not the price risk that most LDCs are faced with in terms of hedging.

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AUTHORIZED GAS USAGE CHARGE CORRECTION

During the 2002-2003 ACA review, AmerenUE sent Staff information correcting the authorized gas usage charges included in its ACA filing for the PEPL service area. Therefore, the Staff proposes to increase the PEPL revenues by a total of $39,561 to recognize the authorized gas usage correction.

RECOMMENDATIONS

The Staff recommends the Commission issue an order requiring AmerenUE to:

1. Establish the following account balances in its next ACA filing to reflect the (over)/under recovery of the ACA balances to be (refunded)/collected from the ratepayers as of August 31, 2003:

	Balance per AmerenUE Filing	Staff Adjustments	Ending Balances
Natural Gas Pipeline Co. of America: Firm Sales ACA	$ 64,619		$ 64,619
Interruptible Sales	$ (5)		$ (5)
Panhandle Eastern Pipe Line Co: Firm Sales ACA	$ (24,955)	$ (39,329)	$ (64,284)
Interruptible Sales ACA	$ (4,858)	$ (232)	$ (5,090)
Transportation	$ (539)		$ (539)
Texas Eastern Transmission Corp: Firm Sales	$ 613,194		$ 613,194
Interruptible Sales	$ (12,681)		$ (12,681)

2. Respond in writing to Staff's concerns regarding its *Policy for Complying with Affiliate Transaction and Code of Conduct Rules* and schedule a meeting with Staff to assure that the Company policy is in compliance with the Commission's Affiliate Transaction Rule 4 CSR 240-40.15.

3. Analyze its hedging risk for each winter month under normal conditions and cold weather conditions, including cold weather that may occur late in the winter season. This analysis should include a review of the volumes hedged and the associated cost.

4. Respond to the recommendations herein within 30 days.