## BEFORE THE PUBLIC SERVICE COMMISSION

## OF THE STATE OF MISSOURI

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| In the matter of Union Electric Company<br>d/b/a AmerenUE's Purchased Gas<br>Adjustment Factors to be Audited in its<br>2006-2007 Actual Cost Adjustment. | )<br>)<br>)<br>) | Case No. GR-2008-0107 |

### STAFF RECOMMENDATION

COMES NOW the Staff ("Staff") of the Missouri Public Service Commission ("Commission") in the above-captioned matter and for its recommendation states as follows:

1. The Procurement Analysis Department (Staff) has reviewed Union Electric Company d/b/a AmerenUE's (Company or AmerenUE) October 18, 2007 Actual Cost Adjustment (ACA) filing for the 2006-2007 period. The filing in this case contains the Company's ACA balance calculations.

2. During this ACA period, AmerenUE separated its Missouri gas operations into the following pipeline service areas: Panhandle Eastern Pipe Line (PEPL), Texas Eastern Transmission Corporation (TETCO), and Natural Gas Pipeline Company of America (NGPL).

3. 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.

4. The Staff found an error in the recording of actual gas costs within the Company's ACA filing. This error had the effect of understating gas costs for the

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TETCO district. Therefore, the Staff proposes to decrease the amount of the Company's over-recovery of gas costs by $15,398 in the TETCO service area.

5. After reviewing the amount paid to Missouri Pipeline Company and Missouri Gas Company, Staff recommends this ACA case remain open pending disposition of GC-2006-0491 in the Appellate Courts. The Staff cannot recommend recovery of gas costs, which exceed the rates established by the Commission. Staff, therefore, recommends AmerenUE defer the gas costs until litigation is final.

6. This means the Company will remove the excess amounts of MPC and MGC gas costs from its ACA balance, which will reduce (or increase in the case of an over-recovery) the ACA rates by the deferred amounts until resolution of GC-2006-0491. The amount of gas costs the Staff recommends the Company defer for the 2006/2007 ACA period is $1,304,823 for the Rolla service area and $820,852 for the PEPL service area for a total of $2,125,675.

7. Additionally, the Staff recommends the Company adjust its TETCO ACA balance by $15,398 due to an error in recording actual gas costs. This proposed adjustment is shown in the table below as the sum of item (c).

8. The Staff recommends the August 31, 2007 ACA account balances shown in the table below to reflect the (over)/under recovery of the ACA balance. An over-recovery is an amount owed to the customers by the Company, while an under-recovery is an amount owed to the Company by the customers.

9. Respond to Staff's concerns in the Reliability Analysis and Gas Supply and Planning section.

10. Respond to the recommendations herein within 30 days.

WHEREFORE, the Staff recommends the Commission order Ameren to respond to Staff's recommendations noted above.

Respectfully submitted,

**/s/ Lera L. Shemwell**
Lera L. Shemwell
Deputy General Counsel
Missouri Bar No. 43792
Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-7431 (Telephone)
(573) 751-9285 (Fax)
Email: lera.shemwell@psc.mo.gov

## Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to all counsel of record this 15th day of December 2008.

/s/ Lera L. Shemwell

# MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GR-2008-0107, Union Electric Company d/b/a AmerenUE

FROM: David M. Sommerer, Manager – Procurement Analysis Department
Anne Allee, Regulatory Auditor – Procurement Analysis Department
Kwang Choe, Ph.D., Regulatory Economist – Procurement Analysis Department
Derick Miles, Utility Engineering Specialist – Procurement Analysis Department

/s/ David M. Sommerer 12/15/08 — Project Coordinator / Date

/s/ Lera L. Shemwell 12/15/08 — General Counsel's Office / Date

SUBJECT: Staff Recommendation in Case No. GR-2008-0107, Union Electric Company d/b/a AmerenUE, 2006-2007 Actual Cost Adjustment Filing

DATE: December 15, 2008

The Procurement Analysis Department (Staff) has reviewed Union Electric Company d/b/a AmerenUE's (Company or AmerenUE) October 18, 2007 Actual Cost Adjustment (ACA) filing for the 2006-2007 period. The filing, in Case No. GR-2008-0107, contains the Company's ACA balance calculations.

During this ACA period, AmerenUE separated its Missouri gas operations into the following pipeline service areas: Panhandle Eastern Pipe Line (PEPL), Texas Eastern Transmission Corporation (TETCO), and Natural Gas Pipeline Company of America (NGPL). PEPL serves approximately 102,000 customers in the Jefferson City/Columbia area (including Wentzville). This area is also served by Missouri Pipeline Company. TETCO serves approximately 19,300 customers in the Cape Girardeau area. NGPL serves approximately 1,900 customers in the Marble Hill area. AmerenUE acquired the Rolla system, formerly the Aquila MPS – Eastern system, on May 1, 2004. PEPL, Missouri Pipeline Company (MPC), and Missouri Gas Company (MGC) serve approximately 4,100 customers in the Rolla, Salem, and Owensville area.

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.

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Appendix A

Staff conducted the following analyses:

(a) a hedging review to determine the reasonableness of the Company's hedging practices for this ACA period;

(b) a reliability analysis including a review of estimated peak-day requirements and the capacity levels needed to meet these requirements; and

(c) a review of the Company's gas purchasing practices to determine the prudence of the Company's purchasing decisions for this ACA period.

**GAS COSTS – CORRECTION**

The Staff found an error in the recording of actual gas costs within the Company's ACA filing. This error had the effect of understating gas costs for the TETCO district. Therefore, the Staff proposes to decrease the amount of the Company's over-recovery of gas costs by $15,398 in the TETCO service area.

**MISSOURI PIPELINE AND MISSOURI GAS COMPANY CHARGES**

During this ACA period, AmerenUE had firm transportation service agreements with intrastate pipelines, Missouri Pipeline Company (MPC) and Missouri Gas Company (MGC). During this ACA period, on June 21, 2006, the Staff filed a complaint against MPC and MGC in Case No. GC-2006-0491. The complaint alleged that, through their transactions with an affiliate, MPC and MGC lowered the maximum transportation rates they could charge non-affiliates. AmerenUE is a non-affiliate.

The Commission issued its initial Order in Case No. GC-2006-0491 on August 28, 2007, with an effective date of September 7, 2007. This Order was withdrawn on October 4, 2007, and reissued October 11, 2007, with an effective date of October 21, 2007. Although the Commission's Revised Order was effective October 21, 2007, the Order found that, by operation of their tariff, MPC and MGC had lowered their maximum firm reservation rates beginning in May 1, 2005. The Commission further found when on July 1, 2003, MGC lowered rates for its affiliate, Omega, it also lowered both its firm and interruptible commodity rates for all non-affiliates. MPC and MGC, now MoGas Pipeline, implemented new rates effective June 1, 2008 when it became FERC regulated.

MPC and MGC appealed the Commission's Order in GC-2006-0491 to the Cole County Circuit Court. On October 10, 2008, the Circuit Court affirmed the Commission's decision. MPC and MGC have filed a notice of appeal.

The months impacted by this ACA review are September 2006 through August 2007. The lower rates not only affect all months of this ACA period, but also impact the rates charged in prior closed ACA periods back to the 2002/2003 ACA.

Prior to August 2007, AmerenUE paid the rates billed by MPC and MGC and passed these rates along to customers. AmerenUE could not have known the rates it paid would be higher than the maximum rates determined by the Commission in its August 2007 Order.

AmerenUE received and paid its gas bill for August 2007 in September 2007, and in September 2007, AmerenUE, MPC and MGC were aware of the initial Commission Order in Case No. GC-2006-0491. However, MPC and MGC continued to bill AmerenUE rates that exceeded the maximum rates ordered by the Commission. Once AmerenUE became aware of the Commission's initial Order and received its bill from MPC and MGC for August 2007 service, it adjusted the billed rates and paid the amount consistent with the Commission's Order. AmerenUE later paid the balance of the bill for the August 2007 MPC and MGC transportation charges, but these are not included in AmerenUE's ACA calculation for this review.

After the Commission issued its Order in GC-2006-0491, AmerenUE was on notice that it had the potential right to refunds for its overpayment of gas costs for this ACA period, as well as earlier periods, and that refunds could be passed on to its natural gas customers. The amount of the overpayment for this period is calculated by comparing the rates authorized by the Commission to the rates paid by AmerenUE. The overpayment for this ACA period is $1,304,822.88 for the Rolla area and $820,852.28 for the PEPL area. The Staff estimates the overpayments of gas costs for prior ACA periods to be approximately $1,000,000 in total.

Based on the timing of this ACA period, and the date of the Commission's Order, AmerenUE did not yet have reasonable time to take action to pursue overpayments of gas costs for this ACA period. However there are actions the Staff expects AmerenUE will take subsequent to August 2007 to pursue refunds on behalf of its customers, not only for the 2006/2007 ACA period, but also for prior periods. The Staff expects AmerenUE to diligently pursue and return any refund received from MPC and MGC to its customers through the PGA/ACA. Therefore, the Staff recommends the Commission hold this ACA case open to monitor and evaluate the diligence of AmerenUE in pursing these refunds for the 2006/2007 ACA and prior periods.

For the 2007/2008 ACA period, Case No. GR-2008-0366, AmerenUE should provide information regarding all actions it has taken to ensure its customers pay only the authorized maximum MPC and MGC transportation rates.

## RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING

As a gas corporation providing natural gas service to Missouri customers, the Company is responsible for conducting reasonable, long-range supply planning and for the decisions resulting from that planning. One purpose of the ACA process is to examine the reliability of the Local Distribution Company's (LDC) gas supply, transportation, and storage capabilities. For this analysis, Staff reviews the LDCs plans and decisions regarding estimated peak-day requirements and the capacity levels to meet those requirements, peak-day reserve margin and the rationale for this reserve margin, and natural gas supply plans for various weather conditions.

The Staff, in its 2005/2006 ACA Recommendation, requested that the Company submit its 2007 Demand Studies after March of 2007. Ameren did provide the studies to Staff upon completion; however, the Company could not have used the studies for planning purposes for the 2006/2007 ACA period. The studies will be used for the 2007/2008 ACA period. Staff compared the peak day, system growth, and reserve margins to the 2004 Demand Studies for future planning.

The following is a list of comments and concerns by Staff as they pertain to Reliability Analysis and Gas Supply Planning for each service area.

***Columbia Region (served by Panhandle Eastern Pipe Line Company, Missouri Pipeline Company , and Missouri Gas Company (Rolla system only))***

The Columbia system has encountered customer growth of 6.6% from November of 2004 to March of 2007, and has an estimated annual system load growth of 0.5%. AmerenUE reduced the contracted pipeline transportation capacity for this ACA period. Based on projections of the peak day estimate from the 2004 Demand Studies, this ACA period has a ** ____ ** reserve margin. Staff compared the peak day estimates for the 2004 and 2007 demand studies and has noted that the peak day estimate has increased for the 2007 studies. AmerenUE's increased 2007 peak day estimate places the reserve margin for the 2007/2008 winter ** ____________________ ____________________ ** Staff will continue to monitor the Company's evaluation of the needed capacity on the pipeline systems for this service area.

***Cape Girardeau Region (served by Texas Eastern Transmission Company)***

AmerenUE increased the pipeline transportation capacity and reserve margins on this system for this ACA period. The Company provides its reasons (from the 2007 Demand Study) for the higher reserve margin and Staff has the following comments regarding three of AmerenUE's justifications:

| AmerenUE Justification | Staff Comment |
|---|---|
| Propane peaking plant - The propane air plant, which was upgraded in 2006, provides ** ___ ** of the peak-day supply. The operation of the plant requires callout of personnel for a full 24 hours to achieve capacity and adequate flow of natural gas from the TETCO pipeline to provide proper blend of propane air mixture. | If colder weather were forecast, the Company would not wait until the extreme weather occurred to place the propane facility on stand-by. If AmerenUE believes that it cannot fully rely on the propane plant for peak-day delivery, then it should evaluate the capability and reliability of this plant for peak-day requirements and update the Demand Study to reflect reasonable assumptions. Any changes to the Demand Study for propane delivery should be forwarded to Staff when a draft is available. |
| Peak-day volume uncertainties – Actual usage data in the 2004 Demand Study shows higher usage than the usage for actual days in the 2007 Demand Studies, yet there are colder days in the 2007 study versus the 2004 study. | AmerenUE's analysis already considers the variability of usage for any given heating-degree day. To arbitrarily imply that the peak-day volume may be higher if only older data is considered, and new data is not included, is not reasonable. AmerenUE did not make any comments regarding increase in energy efficiency and its impact on customer requirements or other rationale for the decrease in peak day requirements. If the Company believes there are errors attributable to data points, the Company should remove the data points, explain the data point removal and re-evaluate its peak-day model. The lack of an extremely cold day for peak-day analysis (extreme HDD data) will not skew the model as AmerenUE implies. AmerenUE stated in the 2007 Demand Studies that updated regression will be performed after the 2007/2008 season. The Company should provide the results of its study no later than February 2009. |
| Negative growth and economic development - AmerenUE's projection of growth is a ** __________ ** over the next five years. AmerenUE and economic development officials are seeing growth in the Cape Girardeau service area. Because of the newly constructed Interstate I-55 north of Cape Girardeau, future growth is anticipated. | If the prior growth assumptions are not reasonable, the Company should update its growth estimates and consider whether one growth factor, or a range of growth factors are more appropriate for this service area. If a range of growth factors is appropriate, AmerenUE should provide peak-day estimates using the range of reasonable growth estimates (a sensitivity analysis) for this service area for the 2007/2008 ACA period, and for a period 5 years beyond 2007/2008. In the 2007 Demand Studies, AmerenUE comments that the Company will provide an updated regression analysis of the Cape Girardeau region to include data through the winter of 2007/2008. Staff recommends that this information be provided by February of 2009. |

***Marble Hill Region (served by Natural Gas Pipeline Company)***

AmerenUE re-sold natural gas in the months of September and October 2006, and March and July of 2007, for a loss each month for a total loss of $18,912. In evaluating whether this decision was prudent, Staff considered the following:

1. AmerenUE contracted for its firm supply in March 2006 for delivery in April through October.
2. AmerenUE filled its storage capacity to 85.6% and 100% by the end of September and October, respectively.
3. As of April 2006, no Missouri school had participated in the Missouri School Aggregation Program for this service area.
4. In May 2006, AmerenUE was notified that schools in the Marble Hill area would be participating in the School Aggregation Program, and thus would not be purchasing their natural gas supplies from AmerenUE for July 2006 through June 2007.
5. The AmerenUE tariff requires the schools to provide notification on or before close of the business May 31st for participation in the School Aggregation Program.
6. Staff's analysis shows that the March and July 2007 sales were a result of high storage balances attributable to the excess gas purchased for the schools.
7. AmerenUE provided its analysis showing that selling the gas at a loss was less costly than the pipeline imbalances penalties.

Staff's review indicates AmerenUE's decisions to sell gas at a loss were not unreasonable. However, on a moving forward basis, because of the schools impacts on a smaller system like Marble Hill, Staff recommends that the Company contact the schools to gauge interest in obtaining their gas supplies from AmerenUE, prior to locking in contract volumes. Staff recommends the Company evaluate its storage balance target(s) nearing the winter season to allow flexibility for warm weather in October and November; this recommendation was also made in the 2005/2006 ACA, GR-2006-0333. Additionally, Staff recommends the Company evaluate its procedures for monitoring storage balances and making appropriate adjustments to its supply plans for this system. It is of particular concern because for a small system, the Company does not have the same supply options and flexibility that may be available to a larger service area.

## HEDGING

The Staff reviewed AmerenUE's hedging practice for the winter months of November 2006 through March 2007. The goal of a hedging plan is to mitigate the price volatility of the commodity (natural gas) for the winter heating season of November through March. AmerenUE's hedging implementation plan was designed to protect approximately 67-75% of normal winter demand requirements against market price volatility for three AmerenUE systems, PEPL-UE, TETCO-UE and NGPL-UE. Price protection, including storage, comes from fixed-forward contracts, and financial natural gas swaps. Hedges utilizing the fixed price contracts and the financial natural gas swaps were placed in late October 2003, and also between early January and mid-September 2006, for the winter heating season of November 2006 through

March 2007. PEPL-UE and TETCO-UE were ** ___ ** hedged, respectively, while NGPL-UE was ** ___ ** hedged for November 2006 through March 2007, based on actual delivered gas.

The Staff also reviewed AmerenUE's Natural Gas Supply Plan. In its gas procurement strategy, AmerenUE engages in long-term planning and procurement for its utility gas supply portfolio to insure system reliability and to mitigate price volatility for its purchased gas adjustment (PGA) sales customers. In particular, the Company's hedging strategy is to hedge against market price volatility. The current supply planning horizon for gas supply purchases and price hedging is thirteen seasons or six and one half years. Gas supply transactions and price hedges for each of the forward thirteen seasons are phased in based upon the proximity to the current season, the current futures prices, and the availability of supply and general market conditions. Ameren's objective is to create a forward gas supply portfolio, which mitigates price volatility for the PGA sales customers using a dollar-cost-average approach to gas supply, reduces natural gas supply acquisition risk, enhances system reliability while maintaining flexibility to manage load variations, and considers physical delivery and financial exposure. The primary goal of AmerenUE's hedging strategy is to dampen price swings; not specifically to reduce gas costs to the utility's customers. Beating the market is not Ameren's objective for a successful hedging strategy. Nevertheless, the fixed prices of earlier hedges that were placed for PEPL-UE system in late October 2003, for the winter heating season of November 2006 through March 2007, turned out to be substantially lower than those of the hedges placed in 2006 for the same 2006-2007 winter heating season.

AmerenUE receives regular natural-gas market analyses from energy and financial firms such as Conoco Phillips, Bank of Montreal, Deustche Bank, Barclays Capital, Fortis, JP Morgan Chase, and Merrill Lynch. AmerenUE also receives consulting services from Risk Management Inc. and PIRA for regular market reports and assessments.

**RECOMMENDATIONS**

1. The Staff recommends the Company adjust its account balances to reflect the total amount of the Staff's adjustment and establish the (over)/under recovery ACA balances shown in the table below. An over-recovery is an amount owed to the customers by the Company, while an under-recovery is an amount owed to the Company by the customers.

    a. The Staff's proposes the $15,398 adjustment in order to correct an error in recording the actual gas costs for the TETCO service area. This proposed adjustment is shown in the table below as the sum of the amounts in the Staff Adjustments column.

| | Balance per AmerenUE Filing | Staff Adjustments | Ending Balances |
|---|---|---|---|
| Natural Gas Pipeline Co. of America: Firm Sales ACA | $ 9,699 | 0 | $ 9,699 |
| Panhandle Eastern Pipe Line Co: Firm Sales ACA | $ (4,775,793) | 0 | $ (4,775,793) |
| Interruptible Sales ACA | $ 24,660 | 0 | $ 24,660 |
| Former Aquila Eastern System: Firm Sales | $ (321,237) | 0 | $ (321,237) |
| Texas Eastern Transmission Corp: Firm Sales | $ (1,992,022) | $ 11,518 | $ (1,980,504) |
| Interruptible Sales | $ (524,343) | $ 3,880 | $ (520,463) |

b. Respond to Staff's concerns in the Reliability Analysis and Gas Supply and Planning section. Staff has no adjustments related to Reliability Analysis and Gas Supply and Planning.

2. The Staff recommends the Commission hold this ACA case open so that Staff can monitor and evaluate the diligence of AmerenUE in pursuing refunds from MPC and MGC for the overpayment of gas costs.

3. Respond to the recommendations herein within 30 days.

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

| | | |
|---|---|---|
| In the Matter of Union Electric Company d/b/a AmerenUE's Purchased Gas Adjustment (PGA) Factors to be Audited in its 2006-2007 Actual Cost Adjustment | ) ) ) | Case No. GR-2008-0107 |

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI )
) ss.
COUNTY OF COLE )

David M. Sommerer, being of lawful age, on his oath states: that as a utility Regulatory Manager in the Procurement Analysis Department of the Utility Services Division, he has participated in the preparation of the foregoing report, consisting of 8 pages to be presented in the above case; that he has verified that the following Staff Memorandum was prepared by himself and Staff of the Commission that have knowledge of the matters set forth as described below; that he has verified with each of the Staff members listed below that the matters set forth in the Staff Memorandum are true and correct to the best of his knowledge and belief,

Anne M. Allee: Billed Revenues and Actual Gas Costs
Kwang Y. Choe: Hedging
Derick Miles: Reliability Analysis and Gas Supply Planning

that he has knowledge of the matters set forth in such report and that such matters are true to the best of his knowledge and belief.

David M. Sommerer

David M. Sommerer

Subscribed and sworn to before me this 15th day of December, 2008.

NIKKI SENN
Notary Public - Notary Seal
State of Missouri
Commissioned for Osage County
My Commission Expires: October 01, 2011
Commission Number: 07287016

Nikki Senn

Notary Public