

**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) Case No. GR-2008-0107
Factors to be reviewed in its 2006-2007)
Actual Cost Adjustment.)

AmerenUE's Reply

COMES NOW Union Electric Company d/b/a AmerenUE (AmerenUE or the Company), in accordance with the Missouri Public Service Commission's (Commission) *Order Directing Filing*, and states as follows:

1. On December 15, 2008, the Staff of the Missouri Public Service Commission (Staff) filed its Recommendation in this case.

2. On January 15, 2009, AmerenUE filed its *Response to Staff's Recommendation*.

3. On January 26, 2008, Staff filed its *Response to Ameren's Response*.

4. Finally, on February 3, 2009, the Commission ordered AmerenUE to file its reply to Staff's *Response to Ameren's Response* no later than February 13, 2009.

5. On February 11, 2008, AmerenUE filed a *Request for an Extension of Time*, requesting that it be given an extra week to provide its reply. The Commission granted that request and ordered AmerenUE's reply to be filed by February 20, 2009.

Reliability Analysis and Gas Supply Planning – Reserve Margin Considerations

6. The Commission has never created a hard and fast rule about how large a reserve margin an LDC should hold. AmerenUE agrees with this approach, as the Company believes that an appropriate reserve margin will vary with changes in various

factors, including economic conditions and the availability of pipeline capacity. For AmerenUE, NGPL¹ and Panhandle pipelines are fully subscribed and TETCO is fully subscribed except for a termination of capacity that was recently made by one of AmerenUE's Illinois affiliates. That means if there is some type of spike in growth or even the location of a large industrial plant in AmerenUE's LDC territory, a small reserve margin may leave the Company without the capacity to provide service for that demand. In a previous docket, two Commissioners expressed concern that Missouri pipelines did not have the capacity to serve new load, for example, from a large production plant.

In particular, as I have said before...I have significant concerns if we are—if our capacity issues, if that, indeed, it turns out to be what the problem is, has – is in any way causing a negative effect on economic development in areas of the state.²

So it is very difficult ...for me to see how we should be in a position of just saying that's something that should be allowed to continue. This issue in rural Missouri is a significant one, as I think probably all of you know. But it's not just related to ethanol plants, it has to do with other things, and other opportunities for economic development out in some of those regions.³

Both of the earlier statements are quotes from an individual who is no longer on the Commission. However, there were also concerns raised by a Commissioner who remains on the Commission. AmerenUE can only assume that the concerns raised by then-Commissioner Clayton are still valid concerns that this Commission believes the Company should consider. Specifically, then-Commissioner Clayton stated,

¹ NGPL does have some capacity for summer months, but is fully subscribed during the winter months, which is when AmerenUE load peak would occur.

² Commissioner Gaw, Case No. GW-2007-0397, April 27, 2007, p. 6, l. 24 through p. 7, l. 5.

³ Id. at p. 7, l. 12-19.

“What I don’t want is a region of the state to be left behind because of these [pipeline capacity] problems.”⁴

Further, AmerenUE clearly heard Commissioner reservations about the wisdom of terminating pipeline capacity that could not be purchased back in this fully subscribed environment.

Q. Once you let that [capacity] go, then it’s gone?

A. In this market, in this constrained market, yes.

Q. I’m going to have a hard time understanding why that was done at this point, but perhaps I’ll get a better explanation in a little while. But I’m having a difficult time understanding why that was a good idea right now.⁵

The questioning continued,

Q. And now, at this point looking back, the fact that you cut back on the reserve margins as a result of the settlement, has a negative impact on your ability to serve that situation [where a large transportation customer might seek sales service from AmerenUE].

A. Potentially in the future.⁶

Later, the Commissioners inquired of Staff about two instances (in Case Nos. GR-2001-488 and GR-2000-579) where AmerenUE had terminated pipeline capacity after Staff had recommended a disallowance because of their concern over the amount of reserve margin AmerenUE was carrying on a particular pipeline.

Q. Is this capacity that’s been reduced as a result of agreements on the past ACA cases?

A. No, sir. We do not tell them to reduce the capacities. Staff, in their review of the ACA process, we look to see if there’s adequate information to support the

⁴ Commissioner Clayton, May 30, 2007, p. 68, l. 9-10.

⁵ Case No. GW-2007-0397, April 27, 2007, p. 89, l. 8-16. Exchange between Commissioner Gaw and AmerenEnergy Fuels & Services Vice President of Gas Supply Scott Glaeser.

⁶ Id. at p. 127, l. 17-22.

cost. We didn't believe there was, so we made dollar adjustments. Those were negotiated in settlement agreements and those cases settled.

Q. Okay. We may be mincing over words here, but Staff adjustment on the ACA negatively impact Ameren[UE], if I understand you correctly.

A. Yes.

Q. And that was because Staff believed that there was more capacity than what was needed and that Ameren[UE] had on the Panhandle line?

A. Based on the information we had at the time, yes.

Q. So how is it that they wouldn't perceived [sic] that as suggesting to them that they should get rid of some of their capacity?⁷

Additionally, the Commissioners implied that the fact a pipeline is fully subscribed might be a factor to consider in any decision to terminate capacity. "Well, is it not true that Staff is aware that the Panhandle system was severely constrained or was fully constrained at the time that adjustment was made to Ameren[UE] on the ACA?"⁸

7. AmerenUE raises these issues because it is facing a situation where Staff may, at some point, propose a disallowance because of the reserve margin in at least one portion of AmerenUE's system. As the Company goes forward, it will continue to plan in a method that best ensures reliability of service for its customers, even if that requires it to maintain a higher reserve margin than it has done in the past. The Company will get into specifics below, but unless the Commission directs otherwise, AmerenUE will presume the concerns recited above are still valid considerations when it makes resource decisions.

⁷ Id at p. 121, l. 24 through p. 122, l. 21. Exchange between Commissioner Gaw and Lesa Jenkins, a Staff member in the Engineering and Management Services division.

⁸ Id at p. 124, l. 13-16. Commissioner Gaw.

Reliability Analysis and Gas Supply Planning – Cape Girardeau

8. Staff, for the second time, asks for an updated demand study for the Cape Girardeau Region (Cape region) by the end of February 2009. As AmerenUE stated in its *Response to Staff's Recommendation*, it will not have its updated demand study completed by that date but will have an updated study for the Cape region by May 29, 2009.

9. The Company's 2007 Demand Study for the Cape region stated that the results were unusual and that AmerenUE had concerns about the accuracy of this particular study. The Cape region study listed several uncertainties⁹ as the basis for the concern, including a lack of demand data during peak weather conditions over the past three years, along with recognition that this region is served by only one pipeline. TETCO has historically been fully subscribed. Because of that concern, AmerenUE stated its intent to update the Cape region demand study earlier than it would otherwise have done. As Staff points out, the study says that the Company intended to update its analysis after the 2007/2008 winter. AmerenUE did not do an update after the 2007/2008 winter. This was not intentional, but this work was overshadowed by the priority of buying and hedging natural gas supply in an extremely volatile market period. Additionally, AFS lost several employees, including one key individual.

10. In this instance, AmerenUE believes the fact it did not update the Cape region study as anticipated did not negatively impact its winter supply decisions for the 2008/2009 winter. The 2007/2008 winter in the Cape region was very mild. The coldest day experienced during the 2007/2008 winter was a 50 heating degree day (HDD) day on

⁹ Other uncertainties include the inherent difficulties of forecasting when an area is growing yet overall demand drops, sending conflicting signals which make future demand level forecasts even more difficult.

January 20, 2008, which was a Sunday. The coldest weekday was a 46 HDD day, on January 24, 2008. AmerenUE plans for a peak day based on the coldest weather experienced in 30 years, which for the Cape region is 73 HDD. See Exhibit 1. Accordingly, it was not a good winter for measuring peak demand and if AmerenUE had updated the Cape region demand study after the winter of 2007/2008, it likely would not have resolved the Company's concerns over the validity of the results. The Cape region is experiencing a colder 2008/2009 winter, so the update that AmerenUE is currently working on may provide more accurate information with which to estimate demand and, accordingly, a more reliable demand study. Of course, we know yet another variable is changing. While the Company may gain a better read of peak demand during cold weather, it will be necessary to qualify that result with the recognition that the impact of the current economic recession will likely further negatively influence demand.

11. By way of background, AmerenUE typically does three demand studies, one for each major pipeline that it relies upon to serve the Company's natural gas territory. All three studies were last updated in 2007 (using data from the winter of 2006/2007) and are normally updated every three years.

12. Staff next recommends that the Company consider a multi-year analysis for growth, which would consider whether one growth factor or a range of growth factors is more appropriate for this area. AmerenUE believes this suggestion has merit and will consider this in its current update to its demand study for the Cape region.

13. Staff continues to allege that the Company's existing customers are paying for excess capacity which is "idle" waiting for customer growth and economic development. While AmerenUE shares Staff's concern that its customers not be

burdened with paying for capacity that might never be used, the Company believes that the Commission should view this portion of its territory as unique. Almost the entire reserve margin for this area comes from AmerenUE's propane peaking plant. This plant is designed to provide peaking assistance only for two or three days and is not designed to be used on a continuous basis. This is very different from a situation where an LDC holds a large reserve margin on a pipeline at a high cost. The source of that reserve margin is different and it isn't correct to view it as exactly the same as pipeline capacity. Prior to terminating firm capacity or permanently releasing storage – either of which it might be impossible to reacquire, AmerenUE believes that a full evaluation of all aspects of this system must occur. That is exactly the evaluation AmerenUE is currently undertaking in the update to its Cape region demand study.

14. One last factor to be considered, as set forth in AmerenUE's 2007 demand study, the effective deliverability of the propane air plant has not been verified. The Company agrees with Staff's suggestion that it should better evaluate the full capabilities of the plant, but it cannot do so until the weather is cold enough for long enough to allow for an extensive test. Tests were performed in 2007 and 2008; however these tests were not full operational tests and only a minimal amount of gas was injected into the distribution system. Instead, the majority of the gas was flared. To verify the capability of this plant, a full operational test will need to be conducted during very cold temperatures. A test was performed on January 16, 2009, but minor problems developed with the plant. AmerenUE intends to evaluate the peak-day deliverability once a full test can be performed, likely next winter. The Company believes the results of a full test may lead to the assignment of a different capacity to the plant.

15. Finally, AmerenUE would point out that this is an area of its system where the Company is reluctant to terminate capacity. Although it may be theoretically possible to release some capacity, to do so would reduce the areas from which the Company can access lower priced production due to TETCO's unique capacity design. It would also reduce its operational flexibility, leaving it open to more operating penalties. When that concern is added to the concerns expressed in Case No. GW-2007-0397 (cited above), AmerenUE is very hesitant to release capacity absent a finding by the Commission that such a release is necessary – and AmerenUE does not believe such a release is necessary or prudent at this time.

Reliability Analysis and Gas Supply Planning – Marble Hill

16. Staff recommends AmerenUE evaluate the targeted levels of storage in the Marble Hill Region to allow for flexibility for warm weather in October and November. AmerenUE's *Response to Staff's Recommendations* explained the reasons why this storage unit was filled 2.8% above the amount in the Company's storage plan. Staff asserts this explanation misses the fact that Staff's concern is different than the concerns expressed in previous ACA audits. The Company disagrees – Staff's position is essentially the same. The Company planned to have this storage unit 97.2% filled in the fall but, because of demand variations in a very small area, filled the storage to 100% earlier than expected. This entire explanation is set forth in its *Response to Staff's Recommendation* and the Company will not repeat it here. Of course, the Company continues to evaluate its storage plan for this area and part of that evaluation is to determine what target levels of storage are correct.

17. Staff recommends the Company evaluate its procedures for monitoring storage balances and for making adjustments when the weather is colder or warmer than normal. AmerenUE does not object to this recommendation, although the Company would point out that it reviews and evaluates these procedures in the normal course of business even without this recommendation. That said, Staff's statement that the Company should re-evaluate its storage plan "so that gas sales would not be the only remedy when storage is full and the weather is warm in October and November" is puzzling. The only other option would be to fill the storage unit to a lower level prior to October, hoping that the weather would be warmer than usual so that gas would be available to inject into storage for providing service in the winter. Of course, that doesn't seem consistent with AmerenUE's general strategy for ensuring reliable service to its customers. Shouldn't the Company err on the side of having its storage unit filled prior to winter? The Company would rather have gas in storage prior to October and November and be forced to sell a minor portion of its firm gas supply, even at a loss, so that the Company is sure it has the gas necessary to provide service to customers. Staff is asking the Company to adopt a strategy with more risk (albeit small) in order to avoid the potential of a very small dollar loss (which could also be a small gain). AmerenUE does not believe that to be the most prudent course of action and, although it will re-evaluate its plan and seek a resolution for this concern, its agreement to do this should not be interpreted as a willingness to change its philosophy in this area.

Missouri Pipeline and Missouri Gas Company Charges

18. Staff states that it does not believe that AmerenUE has done anything less than cooperate fully with Staff during and after Case No. GC-2006-0491 (the Overcharge

Case). AmerenUE appreciates that statement. However, Staff voices doubt about AmerenUE's decision to pay under protest MPC/MGC's charges, starting in October of 2007, which were above the amount ordered in the Overcharge Case. Staff says it is concerned about the likelihood of recovering refunds from MPC/MGC.

19. AmerenUE recognizes there is a risk that, even with the pursuit of court action, it may be difficult to recover the overpayments from MPC/MGC. However, given that the Company believes it could not have gotten an injunction to prohibit disconnection, the Company chose the option which ensured gas was delivered so that it could serve its customers. When faced with uncertainty, AmerenUE believes this is the choice this Commission wants Missouri LDCs to make.

20. Staff asserts that AmerenUE could have filed a complaint with the Commission. This is an option that was not discussed in AmerenUE's original response in this case. However, this option must be evaluated under the circumstances that existed at the time AmerenUE was faced with this decision. MPC/MGC had filed multiple actions seeking to stay the effect of the Commission's order in the Overcharge Case, as well as a separate action appealing the Commission's Order in the Overcharge Case. MPC/MGC's argument in all of these actions included an assertion that the Commission did not have jurisdiction over its operations because it had become a FERC jurisdictional interstate pipeline. This was a long and difficult case before the Commission and AmerenUE was unsure of how the circuit court would rule. This concern was validated by events which occurred in late 2007 and early 2008. In December of 2007, the Commission filed for, among other types of relief, a petition for a preliminary injunction, alleging that MPC/MGC were not abiding by the terms of their tariffs and the

Commission's order in the Overcharge Case.¹⁰ The circuit court denied the request for a preliminary injunction in February of 2008. AmerenUE made a decision that it was safest to pay under protest and then take action to recover those overpayments at a later date. This planned course of action has not changed.

21. Finally, AmerenUE would note that it did keep Staff apprised of this issue, as documented by the email attached to this *Reply* as Exhibit 2.

WHEREFORE, AmerenUE respectfully requests that the Commission accept this *Reply* in fulfillment of the Commission's February 3, 2009 *Order Directing Filing*.

Respectfully submitted,

UNION ELECTRIC COMPANY,
d/b/a AmerenUE

/s/ Wendy K. Tatro

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¹⁰ 07AC-CC01144 PSC v. Mo Pipe, et al.



**TETCO-UE Citygate Loads, Temperatures, and HDD
Winter 2007-2008**

Seven Peak Load Days

| Date | TETCO Total Load MMBtu | End User Load MMBtu | UE System Load MMBtu | Cape Girardeau, Missouri | | | | Weekday 1 Weekend 0 | Gas Day HDD |
|-----------|------------------------------|---------------------------|----------------------------|---------------------------|---------------------------|---------------------------|--------------------------|------------------------------|----------------|
| | | | | Maximum Daily Temp. | Minimum Daily Temp. | Average Daily Temp. | Heating Degree Day | | |
| 24-Jan-08 | 22,753 | 1,755 | 20,998 | 27 | 12 | 20 | 46 | 1 | 49 |
| 2-Jan-08 | 22,262 | 1,920 | 20,342 | 23 | 12 | 18 | 48 | 1 | 48 |
| 19-Jan-08 | 21,331 | 1,489 | 19,842 | 31 | 12 | 22 | 44 | 0 | 49 |
| 20-Jan-08 | 21,106 | 1,804 | 19,302 | 23 | 8 | 16 | 50 | 0 | 48 |
| 13-Feb-08 | 20,596 | 2,099 | 18,497 | 24 | 18 | 21 | 44 | 1 | 43 |
| 3-Jan-08 | 20,120 | 1,990 | 18,130 | 30 | 11 | 21 | 45 | 1 | 41 |
| 25-Jan-08 | 19,815 | 1,839 | 17,976 | 28 | 9 | 19 | 47 | 1 | 43 |

Three-Day Peak

| Date | TETCO Total Load MMBtu | End User Load MMBtu | UE System Load MMBtu | Cape Girardeau, Missouri | | | | Weekday 1 Weekend 0 | Gas Day HDD |
|----------|------------------------------|---------------------------|----------------------------|---------------------------|---------------------------|---------------------------|--------------------------|------------------------------|----------------|
| | | | | Maximum Daily Temp. | Minimum Daily Temp. | Average Daily Temp. | Heating Degree Day | | |
| 1-Jan-08 | 19,650 | 1,709 | 17,941 | 34 | 20 | 27 | 38 | 1 | 41 |
| 2-Jan-08 | 22,262 | 1,920 | 20,342 | 23 | 12 | 18 | 48 | 1 | 48 |
| 3-Jan-08 | 20,120 | 1,990 | 18,130 | 30 | 11 | 21 | 45 | 1 | 41 |
| Total | 62,032 | 5,619 | 56,413 | | | | | | |

Cruthis, Emma N

From: Cruthis, Emma N
Sent: Thursday, September 13, 2007 1:52 PM
To: 'bob.schallenberg@psc.mo.gov'; 'lera.shemwell@psc.mo.gov'
Cc: Tatro, Wendy K
Subject: FW: Invoice Dated 9/4/07

Attached is the note that we received from Missouri Pipeline concerning invoice.

From: David J. Ries [mailto:dries@missouripipeline.com]
Sent: Friday, September 07, 2007 12:21 PM
To: Cruthis, Emma N
Cc: Glaeser, Scott A; Tatro, Wendy; Byrne, Thomas M; Massmann, James J; 'Deford, Paul'
Subject: RE: Invoice Dated 9/4/07

Well, I was beginning to think you guys had lost your sense of humor in this process but apparently that's not the case. It is fairly clear that neither one of us was satisfied with the MPSC order since we have both filed for rehearing and therefore the order is not yet effective. Even it was effective today, this bill was issued last week and therefore the order would not be applicable to this prior service. It is my belief that the only current result of the MPSC order is continued employment for a bunch of lawyers while this all gets separated out through the rehearing and appeals process. I expect we will have a better idea of the overall result a couple of years from now. In the interim period I can not allow you to drive me into bankruptcy.

In the General Terms and Conditions of the tariffs, all bills are due and payable within 10 days of being sent. The August bill was sent on September 4th and therefore payment is due on September 14th. Payment after September 14th will accrue interest at the rate of prime plus 2% or currently 10.25%. Transportation invoices not paid within 30 days of their due date will have receipts and deliveries suspended. I have reviewed the invoice for August and have found no billing errors.

Meanwhile I continue to wait for your response to my proposed MoGas Pipeline Transportation Agreement to be effective 10-1-2007 which will provide you approximately \$165,000 of annual cost reduction going forward.

Let me know if you have any questions.

Dave

From: Cruthis, Emma N [mailto:ECruthis@ameren.com]
Sent: Thursday, September 06, 2007 2:13 PM
To: David J. Ries
Cc: Glaeser, Scott A; Tatro, Wendy; Byrne, Thomas M; Massmann, James J
Subject: Invoice Dated 9/4/07

Mr. Ries;

We have received the invoice for our Missouri Pipeline Company and Missouri Gas Company contracts: MP-1013-TAF, MG-1006-TAF, MG-1002-TAF, and MG-1005-TAF for the Month of August 2007, which has been calculated based on rates prior to the Missouri Public Service Commission Report and Order in Case No. GC-2006-0491, issued August 28, 2007. As stated in this order, page 49, "the rates Missouri Pipeline Company and Missouri Gas charged to an affiliated shipper became the maximum rate that could be charged to a non-affiliated shipper on June 21, 2006". These rates are MPC \$.1699 Commodity, MGC \$.20 Commodity, both of which have Reservation rate of \$0. Based on this order, we believe that our invoice should be as outlined below:

| | | Commodity | Amt. |
|-------------|---------|-----------|------------|
| | QTY/dth | Rate | Due |
| MP-1013-TAF | 10,969 | \$ 0.1699 | \$1,863.63 |

Exhibit 2

02/09/2009

| | | | | |
|-------------|-------|----|--------|------------------|
| MG-1006-TAF | 3,410 | \$ | 0.2000 | \$ 682.00 |
| MG-1002-TAF | 6,612 | \$ | 0.2000 | \$1,322.40 |
| MG-1005-TAF | 947 | \$ | 0.2000 | <u>\$ 189.40</u> |
| | | | | \$4,057.43 |

Please forward a revised invoice to my attention.

Thank you,

Emma Cruthis

Managing Executive
Gas Supply Division
Ameren Energy Fuels and Services
(314) 554-3396

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing Reply was served on the following parties via electronic mail (e-mail) on this 20th day of February, 2009.

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/s/ Wendy K. Tatro

Wendy K. Tatro