

STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION

At a session of the Public Service  
Commission held at its office  
in Jefferson City on the 3rd  
day of May, 1995.

In the matter of Union Electric Company's )  
tariff designed to conduct a pilot project )  
entitled "Use of Financial Markets to Manage )  
Gas Costs." )

CASE NO. GT-95-315

ORDER APPROVING TARIFF SHEETS

On April 13, 1995, Union Electric Company (UE) filed proposed tariff sheets designed to implement a pilot project entitled "Use of Financial Markets To Manage Gas Costs". UE requested expedited treatment so the tariff sheets could become effective earlier than the customary thirty days.

UE's stated purpose for the project is to allow UE, the Staff of the Commission (Staff), and the Office of the Public Counsel (Public Counsel) to gain experience on a trial basis in the use of financial market instruments such as futures, options, collars, and derivatives to manage the risk of gas supply costs. The project would use financial instruments to hedge no more than fifty percent of UE's projected gas needs for only its service area supplied by Texas Eastern Transmission Corporation (TETCo). Said service area is in southeastern Missouri and includes the city of Cape Girardeau. Any gains or losses incurred as a result of the project would be shared with UE's sales customers as follows:

<u>Amount</u>	<u>Losses</u>	<u>Gains</u>
Under \$40,000	100% pass through to customers	100% pass through to customers;
\$40,000 to \$265,000	80% pass through to customers	80% pass through to customers;
	20% absorbed by UE	20% retained by UE;
Over \$265,000	100% absorbed by UE	50% pass through to customers;
		50% retained by UE.

The recovery of costs for the project would be governed exclusively by the above schedule for gains and losses, and would not be subject to disallowance in any actual cost adjustment or other regulatory proceeding. Additionally, all gains and losses would be distributed over UE's entire Missouri service area, rather than only the area supplied by TETCo.

The project would be in effect for an initial term of June, 1995 through March, 1996. The project may be extended for an additional year after joint review of the project by Staff, Public Counsel, and UE in March, 1996. The project will not extend beyond March, 1997.

On April 21, 1995, Public Counsel filed a motion requesting that the Commission reject UE's proposed tariff sheets. Public Counsel expressed concern that primarily ratepayer money would be risked and that Commission review of the project is lacking.

On April 26, 1995, UE filed a response to Public Counsel's motion. UE noted that Staff had initiated the development of the project and that Public Counsel had participated in the development of the project's provisions. UE also stated that the project is specifically structured to minimize any potential adverse impact on UE's ratepayers.

On April 26, 1995, Staff filed a recommendation concerning UE's proposed tariff sheets and on April 28, 1995, Staff filed a response to Public Counsel's motion. Staff stated that the project will provide a valuable base of practical experience and knowledge about the futures market with very little risk to UE's customers. Staff recommended that the Commission approve the proposed tariff sheets.

The Commission has reviewed UE's proposed tariff sheets, Public Counsel's motion, and the responses of UE and Staff. The Commission understands Public Counsel's concerns given recent news reports regarding futures trading. However, the Commission finds that the project contains minimal risk to ratepayers. According to Staff calculations, total ratepayer losses would be limited to \$220,000 per year of the project. Staff also calculated that the maximum loss per Ccf through the program would be \$0.0017 per Ccf of throughput. For a typical ratepayer, the maximum possible loss from the project would be approximately \$2.00. Although there is always risk associated with the futures market, the Commission finds that linking UE's purchases to physical volumes makes the program less speculative than the subjects of recent news reports.

Furthermore, the project could result in a benefit to ratepayers. While ratepayers could share in gains from the project, the experience gained by Staff, UE, and Public Counsel could prove invaluable in serving the public in the future.

The Commission finds the proposed tariff sheets to be reasonable. The project poses a potential benefit to the public and a minimal risk to the ratepayers. Thus, the Commission determines that Public Counsel's motion should be denied and UE's proposed tariff sheets should be approved.

**IT IS THEREFORE ORDERED:**

1. That the motion filed by the Office of the Public Counsel to reject the tariff sheets filed by Union Electric Company is hereby denied.

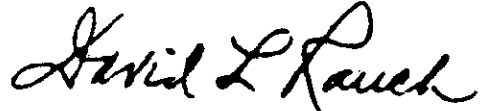
2. That the following tariff sheets filed by Union Electric Company are hereby approved for service on and after May 13, 1995:

P.S.C. Mo. No. 2

3rd Revised Sheet No. 28 Canceling 2nd Revised Sheet No. 28;  
1st Revised Sheet No. 38 Canceling Original Sheet No. 38;  
Original Sheet No. 72;  
Original Sheet No. 73;  
Original Sheet No. 74.

3. That this Order shall become effective on May 13, 1995.

BY THE COMMISSION



David L. Rauch  
Executive Secretary

(S E A L)

Mueller, Chm., McClure, Perkins,  
Kincheloe and Crumpton, CC., Concur.