MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GR-2008-0366, 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
Lesa Jenkins, P.E., Regulatory Engineer – Procurement Analysis Department

/s/ David M. Sommerer 12/28/2009	/s/ Lera Shemwell 12/28/2009
Project Coordinator / Date	General Counsel's Office / Date

SUBJECT: Staff Recommendation in Case No. GR-2008-0366, Union Electric Company d/b/a AmerenUE, 2007-2008 Actual Cost Adjustment Filing

DATE: December 28, 2009

BACKGROUND

The Procurement Analysis Department (Staff) has reviewed Union Electric Company d/b/a AmerenUE's (Company or AmerenUE) 2007-2008 Actual Cost Adjustment (ACA) filing. This filing was made on October 17, 2008, in Case No. GR-2008-0366. The filing contains the Company's calculations of the ACA balance.

AmerenUE's Missouri gas operations are served by the following pipelines: Panhandle Eastern Pipe Line (PEPL or Panhandle), Texas Eastern Transmission Corporation (TETCO), Natural Gas Pipeline Company of America (NGPL) and MoGas Pipeline (MoGas) (f/k/a Missouri Pipeline Company and Missouri Gas Company). PEPL serves approximately 101,000 customers in the Jefferson City/Columbia area; this area is also served by MoGas. TETCO serves approximately 19,000 customers in the Cape Girardeau area. NGPL serves approximately 1,800 customers in the Marble Hill area. AmerenUE acquired the Rolla system, formerly the Aquila MPS – Eastern system, on May 1, 2004. PEPL and MoGas serve approximately 3,800 customers in the Rolla, Salem, and Owensville area.

In Ameren's most recent rate case, GR-2007-0003, Ameren was authorized to create a state-wide, single Purchased Gas Adjustment (PGA) and ACA rate. The Rolla area customers served from MoGas continue to pay an additional incremental PGA for MoGas transportation.

RECOMMENDATIONS

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 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.

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

The Staff has not proposed any dollar adjustments to the Company's filed August 31, 2008 ACA account balances shown in the table below. However Staff proposes to reserve its recommendation on the ACA balances pending AmerenUE's pursuit of refunds from MPC and MGC. Ameren has filed a petition in Cole County Circuit Court, Case No. 09AC-CC00398. This ACA period includes charges for gas costs which are higher than the maximum rate determined by the Commission in its October 11, 2007 Revised Report and Order in Case GC-2006-0491. The Staff recommends AmerenUE remain active in pursuing a refund of overcharges from MPC and MGC. The Staff recommends the Commission hold this ACA case open so that Staff can monitor the progress of AmerenUE's pursuit of refunds from MPC and MGC for the overpayment of gas costs for this ACA and prior periods.

	Balance per AmerenUE Filing	Staff Adjustments	Ending Balances
Firm Sales ACA	$ 2,767,643	$ 0	$ 2,767,643
Interruptible Sales ACA	$ (46,672)	$ 0	$ (46,672)
Rolla System: Firm Sales	$ (343,862)	$ 0	$ (343,862)

An over-recovery is the amount owed to the customers by the Company and is shown in the table as a negative number. An under-recovery is an amount owed to the Company by the customers and is shown in the table as a positive number.

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

1. 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. Continue to assess and document the effectiveness of its hedges for the 2008-2009 ACA and beyond.
3. Respond to the recommendations herein within 30 days.

STAFF DICUSSION OF FINDINGS

MISSOURI PIPELINE AND MISSOURI GAS COMPANY CHARGES

During this ACA period, AmerenUE had firm transportation service agreements with then intrastate pipelines, Missouri Pipeline Company (MPC) and Missouri Gas Company (MGC). On June 1, 2008, the names of MPC and MGC changed to MoGas Pipeline when it became regulated by the Federal Energy Regulatory Commission (FERC). Prior to MoGas becoming regulated by FERC, 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 of MoGas.

The Commission issued its initial Order in Case No. GC-2006-0491 on August 28, 2007, with an effective date of September 7, 2007. The August 28th 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 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. The Commission is participating in the current MoGas rate case at FERC.

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 filed a notice of appeal and the Western District Court of Appeals affirmed the Commission's decision on December 22, 2009.

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

By September 2007, however, AmerenUE, MPC and MGC were aware of the initial Commission Order in GC-2006-0491. Despite the Commission Order, 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 service, it adjusted the billed rates and paid the amount consistent with the Commission's Order. However, each month after protesting, AmerenUE later paid the balance of the bills for MPC and MGC transportation charges due to its concern over disconnection. These higher charges are included in AmerenUE's ACA calculation for this review period. The overpayment for this ACA period is $1,204,602 for the Rolla area and $692,623 for the PEPL area.

The months impacted by this ACA review are September 2007 through August 2008. The lower rates not only affect September 2007 through May 2008 of this ACA period, but also impact the rates charged in prior closed ACA periods back to the 2002/2003 ACA. On July 21, 2009, AmerenUE filed its Petition in the Cole County Circuit Court to recover the total overcharges in the amount of $7,449,885.68. This amount relates to the current and all prior ACA periods affected by the Commission's Order in GC-2006-0491.

Staff recommends AmerenUE remain active in pursuing a refund of these overcharges for its customers. It also recommends, as it did in the prior ACA period, the Commission hold this case open to monitor AmerenUE's success in its pursuit of refunds for the 2007/08 ACA and prior periods.

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 LDC's plans and decisions regarding estimated peak-day requirements and the LDC's pipeline capacity levels to meet those requirements, peak-day reserve margin and the rationale for this reserve margin level, and natural gas supply plans for various weather conditions.

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

<u>Cape Girardeau Region (served by Texas Eastern Transmission Company - TETCO)</u>

<u>Propane Peaking Facility</u>

AmerenUE has a propane facility for this area, which is designed to improve reliability by operating in peak or high natural gas usage situations. AmerenUE's position on its reliance on the propane peaking facility has changed for this ACA period. Since the upgrades to the plant in 2006, AmerenUE's review has shown that the load requirement is increasing for the Northwest portion of Cape Girardeau, along the Interstate 55 corridor. To provide sufficient pressure to serve this growth area during cold conditions, the pressure at another regulator station is reduced, thus reducing the output of the propane plant. The Company has re-calculated the propane capacity to ** _____ ** MMBtu per day (previously ** _____ ** MMBtu per day).

On October 8, 2009, Staff and AmerenUE personnel discussed the propane plant and the Company agreed to notify Staff when it establishes a new actual flow record for the propane facility. AmerenUE is able to do this only during periods of extreme cold weather.

During this discussion AmerenUE also agreed to update Staff as to the impacts on its system (upgrades/downgrades, as appropriate) of Federal Regulations related to the Chemical Facility Anti-Terrorism Act of 2009 (CFAT). AmerenUE personnel stated that a company typically has a few years to comply with these types of regulation; however, due to the sensitive security measures with the United States Homeland Security, at this point, Staff does not know what will be required of AmerenUE.

Because the deliverability of the propane plant is reduced by growth in other areas and may be affected by changes in federal regulations, Staff recommends that AmerenUE provide an annual update for reliance on the propane facility as part of its Natural Gas Supply Plan for the Cape Girardeau Region, in its annual ACA filing.

Marble Hill Region (served by Natural Gas Pipeline Company - NGPL)

AmerenUE's Storage Balance Targets Nearing the Winter Season

Staff has concerns with AmerenUE's target ending October storage balance. Going into October 2007, AmerenUE was 9.4% ahead of its storage plan. AmerenUE had to sell natural gas at a loss in October to stay beneath its contractual maximum storage quantity. AmerenUE over-nominated natural gas supplies in October and November, resulting in cash-out charges because it could not inject the gas into storage. In October, AmerenUE sold 4,600 Dth. of natural gas back to BP Energy for ** ___________________ ** (includes 31 Dth. of fuel to transport back to BP).

The natural gas nomination imbalances were cashed out per the NGPL tariff provisions. The cash-out volume for October and November exceeded the +/- 2% tolerance per the NGPL tariff.

Collectively, the impact of the re-sale of natural gas and over-nominations resulted in total ** _________________ **. If the Gas Sales customers served solely by NGPL were considered, the result would be an impact of ** _____ ** per customer. However, the tariff that was in effect during this ACA has a single rate PGA (except for Rolla customers). Thus, costs are spread out over all customers reducing the impact to ** _____ ** per customer which is not material.

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For the past five consecutive ACA periods, AmerenUE has filled storage to 97% or greater of its storage capacity at the end of October. For four of these ACA periods, storage was so full AmerenUE had to sell natural gas in October. For the 2005/2006 ACA period, the Company was fortunate that the weather was colder than normal, and the market demand for natural gas was high, thus resulting in a profit for the resale of natural gas. However, had the weather been warm or normal, the excess natural gas may have been sold at a loss. For the 2003/2004, 2006/2007, and 2007/2008 ACA periods, the October sales resulted in losses. There was no sale of excess natural gas in the 2004/2005 ACA period.

For the 2005/2006 and 2006/2007 ACA Reviews, Staff has made comments regarding the high level of the Company's storage balances (for NGPL) at the end of October. As recommended in the prior two ACA reviews, Staff again recommends AmerenUE reconsider its target ending October storage balance to give itself more flexibility for injecting additional natural gas when October or November weather is warmer than expected. On a going forward basis, Staff has verified that the Company did not have sales of excess natural gas for the 2008/2009 ACA period.

HEDGING

The Staff reviewed AmerenUE's Natural Gas Supply Plan as it relates to hedging. AmerenUE's plan is to engage 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 strategy is to hedge against market price volatility. The current 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. The stated objective is to create a forward gas supply portfolio and to dollar-cost-average gas supply prices to mitigate price volatility for retail sales customers, reduce natural gas supply acquisition risk, enhance system reliability while maintaining flexibility to manage load variations, and separate physical delivery and financial exposure.

AmerenUE receives regular natural-gas market reports analyses from energy and financial firms. AmerenUE also receives consulting services for regular market reports and assessments.

The Staff reviewed AmerenUE's hedging practice for the winter months, November 2007 through March 2008. 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 is to protect approximately 67 -75% of normal winter demand requirements against market price volatility for the overall three AmerenUE systems, PEPL-UE, TETCO-UE and NGPL-UE. The price protection, including storage, comes from fixed-forward contracts, and financial natural-gas swaps. These hedges were placed between early February 2005 and late August 2007 for the winter heating season of November 2007 through March 2008, which resulted in 71% hedged overall for AmerenUE, based on actual volumes for the winter months and 75% based on normal volumes for the winter months. Although costs of hedging are spread across the three systems, operational impacts of the hedging may affect each system differently. PEPL-UE and TETCO-UE were 73% and 61% hedged, respectively, while NGPL-UE was 99% hedged for November 2007 through March 2008 based on actual delivered gas. PEPL-UE and TETCO-UE were 77% and 59% hedged based on normal volumes. For NGPL-UE, it was about 91% hedged based on normal volumes. There is a significant difference in the hedging level for NGPL compared to the planned level. AmerenUE's explains NGPL's small system has less flexibility for fixed price volumes than the larger systems and there has been a demand decline for this system. Staff is concerned the high level of hedging for the NGPL system using storage and fixed price base load supply contracts may have negative operational impacts in warm weather; however, the 2007/2008 winter was near normal.

The Staff recommends the Company continue to assess and document the effectiveness of its hedges for the 2008-2009 ACA and beyond. The analysis should include, but not be limited to, whether the hedging implementation was consistent with the hedging plan, identifying the benefits/costs based on the outcomes from the hedging strategy, and thus evaluating any potential improvements on the future hedging plan and its implementation. In addition, Staff recommends the Company evaluate whether the hedging plan for each of the three systems has operational implications for warm weather.

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.	)))	Case No. GR-2008-0366

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 7 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 Allee, Billed Revenues and Actual Gas Costs
Kwang Choe, Ph.D., Hedging
Derick Miles, Reliability Analysis and Gas Supply Planning
Lesa Jenkins, P.E., 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 28th day of December, 2009.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin
Notary Public