

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Union Electric Company's)
(AmerenUE's) Purchased Gas Adjustment)
(PGA) Factors to be Audited in its 2002-) Case No. GR-2003-0326
2003 Actual Cost Adjustment.)

AMERENUE'S RESPONSE TO STAFF RECOMMENDATION

COMES NOW Union Electric Company d/b/a AmerenUE ("AmerenUE") and for its response to the Missouri Public Service Commission Staff's ("Staff's") recommendation in this proceeding states as follows:

1. On December 27, 2004, the Staff filed a recommendation and memorandum regarding AmerenUE's 2002-2003 Actual Cost Adjustment filing. Staff recommended that the Commission require AmerenUE to adjust its account balances as specified in the recommendation, to respond in writing to certain concerns the Staff has identified regarding the consistency of AmerenUE's policies with the Commission's affiliate transaction rules, and to provide additional analysis of its hedging risk for each winter month.
2. On December 28, 2004 the Commission issued its Order Directing Response, in which it required AmerenUE to respond to the Staff's recommendation and memorandum no later than January 26, 2005.
3. AmerenUE agrees to implement each of the three recommendations the Staff has made in this proceeding. With regard to the Staff's first recommendation, AmerenUE will adjust its account balances in its next ACA filing to reflect the ACA balances to be (refunded)/collected from the ratepayers as specified in the Staff

recommendation. Specifically, for the Panhandle Eastern Pipe Line Co PGA, AmerenUE will adjust the Firm Sales ACA from (\$24,955) to (\$64,284), and AmerenUE will adjust the Interruptible Sales ACA from (\$4,858) to (\$5,090).

4. In its second recommendation, the Staff asked that AmerenUE respond in writing to certain concerns that the Staff raised regarding potential inconsistencies between AmerenUE's policy for pricing pipeline capacity release transactions between its affiliates, and the Commission's affiliate transaction rules found at 4 CSR 240-40.015. Specifically, the Staff points out that the Company's *Policy for Complying with Affiliate Transaction and Code of Conduct Rules* provides that ** _____

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The Commission's affiliate transaction rules, on the other hand, prohibit a regulated gas corporation from providing a financial advantage to an affiliated entity. Under those rules, a financial advantage occurs 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.

The Staff also requested that AmerenUE schedule a meeting with the Staff to assure that its policy is consistent with the Missouri affiliate transaction rules.

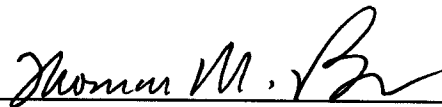
5. AmerenUE does not believe that its policy concerning the pricing of capacity release transactions is directly inconsistent with the Commission's affiliate transaction rules. One important reason is that the policy does not require AmerenUE to release capacity to an affiliate under any circumstances, and AmerenUE would simply not engage in such a release if it would violate the Commission's affiliate transaction rules. The Staff recommendation itself recognized that the capacity release rates charged in affiliate transactions in which AmerenUE was involved were in fact in compliance with the Commission's rules. Nonetheless AmerenUE believes that the Staff makes a valid point that it would be helpful to amend the policy to make it absolutely clear that the pricing of all capacity release transactions involving AmerenUE must comply with the asymmetrical pricing provisions of the Missouri affiliate transaction rule. AmerenUE agrees to meet with the Staff to develop mutually acceptable language for its policy consistent with the Staff's recommendation.

6. In its third recommendation, the Staff asked that AmerenUE be required to 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. The Staff proposed that this analysis should include a review of the volumes hedged and associated costs. Again, AmerenUE does not object to this recommendation. AmerenUE agrees to provide Staff with the hedging analysis it has requested for the winter of 2005-2006 by October 15, 2005.

WHEREFORE, AmerenUE respectfully requests that the Commission accept this response to the Staff's recommendation and memorandum, and issue an order in this proceeding consistent with this response.

Respectfully submitted,

UNION ELECTRIC COMPANY
d/b/a AmerenUE

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Dated: January 27, 2005

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 27th day of January 2005.

