

## MEMORANDUM

TO: Missouri Public Service Commission Official Case File,  
Case No. GR-2012-0077, Union Electric Company d/b/a Ameren Missouri

FROM: David Sommerer, Manager - Procurement Analysis  
Kwang Choe, Ph.D., Regulatory Economist – Procurement Analysis  
Anne Crowe, Regulatory Auditor - Procurement Analysis

/s/ David M. Sommerer 3/11/13  
Project Coordinator / Date

/s/ Jeffrey A. Keevil 3/11/13  
Staff Counsel / Date

SUBJECT: Staff's Reply to Ameren Missouri Response to Staff Recommendation in  
Case No. GR-2012-0077, Ameren Missouri's 2010-2011 Actual Cost  
Adjustment Filing

DATE: March 11, 2013

Procurement Analysis (Staff) has reviewed Ameren Missouri's (Company or Ameren) February 11, 2013 response to Staff's Recommendation in the 2010-2011 Actual Cost Adjustment (ACA) filing, GR-2012-0077. This Reply addresses those areas where the parties disagree to the extent comments are necessary or where clarification is required. Comments are provided for: Refund of Missouri Pipeline Company and Missouri Gas Company Overcharges; and Hedging.

### **Refund of Missouri Pipeline Company (MPC) and Missouri Gas Company (MGC) Overcharges**

The Staff recommended this case be held open in order to monitor Ameren Missouri's pursuit of refunds from MPC and MGC (now known as MoGas).

In its response the Company disagrees with Staff's recommendation and states it does not believe that it is necessary to hold this case open since none of the gas costs being reviewed include any overcharges from MoGas and since closing this case will not affect Staff's ability to monitor Ameren Missouri's pursuit of collection of the judgment.

Due to the cumulative nature of the ACA balance, this period's ACA balance is impacted by the lack of recognition of past overcharges from MPC and MGC. These past overcharges impact this period's ACA balance by overstating the cumulative amount of gas costs needed to be recovered from the Company's customers. Thus, a final ACA balance recommendation for this ACA period cannot be determined until the ACA balances from these prior periods are finalized.

## Hedging

- Although the goal of hedging is to provide price stability as the Company states in its response, the Staff has been increasingly concerned about the continued negative financial impacts from the hedging transactions over the years including the current ACA period.
- The Company quotes the Commission's rules regarding hedging, 4 CSR 240-40.018(1)(C):

*"Part of a natural gas utility's balanced portfolio may be higher than spot market price at times, and this is recognized as a possible result of prudent efforts to dampen upward volatility."*<sup>1</sup>

The rule recognizes the higher prices of the hedging portfolio **at times**. The Staff believes that it is important to continually evaluate the trends of hedging costs.

- The Staff also points out that under the Pricing Structures, Mechanisms and Instruments to be used by the LDCs the hedging rule 4 CSR 240-40.018(2)(H) reads:

*"Other tools utilized in the market for cost-effective management of price and/or usage volatility."*

The rule clearly takes into consideration the cost-effectiveness of hedging.

- The Company states in its response,

*"Ameren Missouri has used more call options, as a reaction to the lower price environment in which the Company operates today."*

The Staff recognizes this change and recommends continued evaluation of a diversified portfolio of hedge instruments and of the volumes to be hedged.<sup>2</sup>

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<sup>1</sup> There are typos in the company's quote of the rule 4 CSR 240- 40.018(1)(C) that omit the words, "*at times*".

<sup>2</sup> This is part of a trend among utilities as reflected in a recent article from Gas Daily, "Market leads users to shift hedging strategies." *Gas Daily* 19 Feb. 2013:1, 5-7.

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

In the Matter of Union Electric Company,     )  
d/b/a Ameren Missouri's 2010-2011     )     Case No. GR-2012-0077  
ACA Audit     )

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI     )  
                                      )  
COUNTY OF COLE     )     ss.

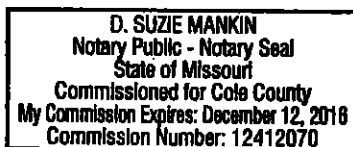
David M. Sommerer, being of lawful age, on his oath states: that as a Utility Regulatory Manager in the Procurement Analysis Unit, Utility Services Department, Regulatory Review Division, he has participated in the preparation of the foregoing report, in memorandum form, consisting of 2 pages to be presented in the above case; that he has verified that the foregoing 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 Crowe, Utility Regulatory Auditor IV:	Refund of MPC and MGC Overcharges
Kwang Choe, PhD, Regulatory Economist II:	Hedging

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.

  
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David M. Sommerer

Subscribed and sworn to before me this 11<sup>th</sup> day of March, 2013.



  
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Notary Public