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-2006-0333
Factors to be Audited in its 2005-2006	)	
Actual Cost Adjustment.	)	

AMERENUE'S RESPONSE TO STAFF'S RECOMMENDATION

COMES NOW Union Electric Company d/b/a AmerenUE (AmerenUE or Company) and for its *Response to Staff's Recommendation*, states as follows:

1. On September 21, 2007, the Missouri Public Service Commission (Commission) Staff (Staff) filed its Staff *Recommendation* in this case. Attached to the recommendation was a Staff *Memorandum*. On October 5, 2007, Staff filed its *Amended Staff Recommendation*, correcting a table that had been set forth in the pleading.

2. On September 25, 2007, the Commission issued its Order Directing Response, requiring AmerenUE to file a written response to the *Recommendation* and to the attached *Memorandum*.

3. The Staff *Recommendation* and attached *Memorandum* contained three recommendations and listed five areas which Staff labeled as "concerns". AmerenUE will respond to each of these issues separately.

4. The first Staff recommendation is that AmerenUE establish certain account balances in its next ACA filing. AmerenUE does not object to this recommendation. In fact, these adjustments have already been made by the Company and can be found in the PGA filing made by AmerenUE on October 18, 2007, in Case No. GR-2008-0107.

5. The second recommendation centers around an error made by the Company in not charging two transportation customers for line-loss. Staff's recommendation is that the Company correct the line-loss error for transportation customers in its 2006/2007 ACA filing so that it does not impact the ACA balance for firm sales customers. On a forward looking basis, AmerenUE has already changed its processes so that line losses are included in transportation customers' usage. As far as the historical error and how to best correct that error, AmerenUE has already made its 2006/2007 ACA filing. Unfortunately, an adjustment for this line loss error was not included in the filing. The Company believes the adjustment recommended by Staff is correct and proposes to apply the adjustment in its 2007/2008 filing. AmerenUE believes the dollar amount at issue is minor, approximately $18,000.

6. The third recommendation is that AmerenUE continue to assess and document the effectiveness of its hedging program. This is an ongoing process at AmerenUE and the Company agrees to continue that process. As the Staff *Memorandum* points out, the Company's hedging strategy is to hedge against market price volatility. The goal is not to "beat the market" but rather to reduce price swings and achieve price stability. The Company is proud of its hedging strategy and continues to assess and document the results of the program. AmerenUE does not object to Staff's recommendation.

7. The Staff *Recommendation* then lists five "concerns" related to Reliability Analysis and Gas Supply and Planning. The first concern centers on the updating of AmerenUE's Demand Studies. Staff noted that AmerenUE updates its demand studies on a routine basis, at least once every three years. The current Demand Study is not due

to be updated until the end of 2007. The Staff *Memorandum* stated that Staff expects a revised Demand Study to be completed for use in the 2007/2008 ACA review. It is AmerenUE's intention to complete the next revision to its Demand Study by that time, and in fact, the work of updating the study is already under way. The update should be complete by the end of 2007; however, Staff has requested additional analysis, described in paragraph 3(D) of the Staff *Recommendation*, which may require additional time to complete.

8. The next Staff concern deals with AmerenUE's analysis of its capacity requirements by pipeline. Staff would like the 2007 Demand Study to contain specific studies of the appropriate Missouri Gas Company capacity for the Rolla/Salem/Owensville area and Missouri Pipeline Company capacity for the Wentzville/Curryville/Winfield area and the Rolla/Salem/Owensville area. While this analysis is an example of additional work which may delay slightly the update of the Company's Demand Study, AmerenUE does not object to providing this information.

9. The third concern listed criticizes the methodology used by AmerenUE for developing its customer load growth rates for certain areas of the AmerenUE system. Staff believes the load growth rates used may not be accurate for certain sections of AmerenUE's system. As stated above, the Demand Study is being updated at this time and it will use different load growth rates for the different areas of the AmerenUE system. This should alleviate Staff's concern. The Company will continue to examine its process of projecting load growth rates and will provide its explanation of future growth rates and the reasoning for choosing the numbers used in its planning process.

10. The fourth concern is a request that the 2007 Demand Study include reserve margin estimates for each pipeline starting with the 2007/2008 winter and continuing out at least the next five winters. The Company agrees to provide this information.

11. Finally, the Staff Memorandum questions the Company's actual storage level at a Natural Gas Pipeline Company of America (NGPL) facility as of the end of October as compared to its planned level for that date. Staff's Memorandum points out that filling the storage unit to 100% does not allow for the Company to inject additional gas into storage should there be a warm November. In this situation, Staff did not recommend a disallowance because, after experiencing a warm November, the Company sold the excess gas at a profit.

12. AmerenUE believes this reasoning is flawed and is concerned that applying this logic could easily lead to a recommendation for a disallowance in a situation where no imprudent action was taken. This is not a situation where the Company made a decision that put at risk its ability to provide natural gas service during periods of peak demand during the winter. Staff's analysis appears to hinge on whether or not the sale resulted in a gain or loss. Whether or not the Company made a profit on a single transaction should not be the determining factor of whether or not a certain action was a prudent decision. It is the reasoning and decision making behind the action that should be examined.

13. While Staff's factual recitation is not inaccurate, it is incomplete and disregards the operational needs which caused the Company to fill the storage 2.8% more than anticipated in its storage plan. As Staff points out, the facility in question is owned

by the NGPL and a portion of the facility is leased to AmerenUE. The Company uses the storage facility in providing winter service for approximately 2,000 customers. The Company's storage plan calls for it to be filled to 97.2% of its capacity by the end of October. In this instance, it was filled to 100% of its capacity. The difference, 2.8%, is the basis for Staff's concern.

14. Operational needs drove the decision to deviate slightly from the AmerenUE storage plan. Specifically, the demand experienced in this portion of AmerenUE's service area was lower than expected during the summer of 2006. The decrease in demand left the Company with two options – to sell the excess gas or to place it in storage. AmerenUE chose to place the excess in storage with the expectation that demand would increase during the fall. Demand was also low during the fall season, forcing AmerenUE to sell excess gas because its storage was full. The decision to fill the remaining 2.8% of storage is a fine adjustment in operating plans that is best left to the Company to make after it has assessed expected demand and market conditions. The Company believes the sale was a result of prudent decision making by the Company after the expected levels of demand did not materialize.

15. Staff indicates that it cannot fault the Company because the sale was made at a gain and that gain flowed through the ACA as a reduction to gas costs. While Staff does not recommend a disallowance in the current situation, the Company must take exception to Staff's analysis. This type of sale will occur again and AmerenUE won't always be able to make that sale at a gain. There will be times that the Company is forced to sell gas at a loss. It would be inappropriate for Staff's evaluation to hinge on

whether the sale was made at a gain or a loss. Rather, Staff should review all of the reasons a particular decision was made.

16. AmerenUE submits Staff's "concern" is similar to the reasoning behind a recommendation for disallowance that was rejected by the Commission in Case No. GR-93-149 in 1995. In that case, Staff recommended a disallowance because Laclede Gas Company (LGS) could have purchased additional capacity (4.2%) at a lower cost. The Commission found that merely identifying a single transaction which could, potentially, under ideal circumstances, have been handled differently did not constitute the appropriate basis for a disallowance recommendation. As the Commission stated in this Laclede Gas Company ACA case, "The Staff made only an attempt to show that LGC might have, under ideal and completely predictable conditions and on an average, not actual basis, squeezed another $388,000 in potential savings by purchasing some 4.2 percent additional commodity on the spot market over the course of the ACA period. This is far below the level of support necessary for a showing, by substantial and competent evidence, that LGC acted imprudently in its gas purchasing arrangements and activities." 4 MPSC 3d, *In the Matter of Tariffs filed by Laclede Gas Company to Reflect Rate Changes to be Reviewed in the Company's 1992-1993 Actual Cost Adjustment*, Case No. GR-93-149, Report and Order, December 8, 1995.

17. While the Staff does not propose a disallowance in the instant case, the language used in Staff's *Memorandum* clearly signals that, if the transaction had resulted in a loss, Staff would have recommended it be disallowed. AmerenUE asks the Commission to reject this analysis. AmerenUE submits that it has acted reasonably and prudently in utilizing the NGPL storage facility.

WHEREFORE, AmerenUE respectfully requests that the Commission accept this *Response* to the Staff's *Recommendation* and *Memorandum* in fulfillment of its September 25, 2007, *Order Directing Response* and that it reject the notion that 2.8% deviation from its storage plan constitutes imprudent action.

Respectfully submitted,

UNION ELECTRIC COMPANY,
d/b/a AmerenUE

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of AmerenUE's Response to Staff's Recommendation was served via electronic filing with the Missouri Public Service Commission and via electronic mail (e-mail) on this 22nd day of October, 2007, to:

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