MEMORANDUM

TO: Missouri Public Service Commission Official Case File
File No. GR-2010-0180, Union Electric Company d/b/a Ameren Missouri

FROM: David M. Sommerer, Manager – Procurement Analysis
Anne Crowe, Regulatory Auditor – Procurement Analysis
Kwang Choe, Ph.D., Regulatory Economist – Procurement Analysis
Derick Miles, P.E., Regulatory Engineer – Procurement Analysis
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/s/ David M. Sommerer 10/18/12	/s/ Jeffrey A. Keevil 10/18/12
Project Coordinator / Date	Staff Counsel's Office / Date

SUBJECT: Staff Recommendation in File No. GR-2010-0180, Union Electric Company d/b/a Ameren Missouri, 2009-2010 Actual Cost Adjustment Filing

DATE: October 18, 2012

EXECUTIVE SUMMARY

On October 15, 2010, Union Electric Company d/b/a Ameren Missouri (Ameren or Company) filed its Actual Cost Adjustment (ACA) for the 2009-2010 period. This filing revises the ACA rates based upon the Company's calculations of the ACA balance.

The Procurement Analysis Unit (Staff) of the Missouri Public Service Commission has reviewed the Company's ACA filing. A comparison of billed revenue recovery with actual gas costs will yield either an over-recovery or under-recovery of the ACA balance.

Ameren has a single Purchased Gas Adjustment (PGA) and ACA rate for all its Missouri service areas (state-wide rate). The Rolla area Ameren customers served from MoGas, however, continue to pay an additional incremental PGA charge for MoGas transportation.

Staff conducted the following analyses:

- a review of billed revenue compared with actual gas costs,
- a review of the time periods during which customers paid overcharges to Missouri Pipeline Company and Missouri Gas Company,
- a reliability analysis including a review of estimated peak-day requirements and the capacity levels needed to meet these requirements,
- a review of the Company's gas purchasing practices to evaluate the prudence of the Company's purchasing decisions for this ACA period; and,
- a hedging review to evaluate the reasonableness of the Company's hedging practices for this ACA period.

** **Denotes Highly Confidential Information** **

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Based on its review, Staff recommends an adjustment to the Company's filed ACA balance related to a billed revenue error of $375,584. Staff recommends an increase of $375,584 to the Rolla ACA balance and a corresponding decrease of $375,584 to the state-wide ACA balance.

Staff has no adjustments related to reliability analysis and gas supply and planning, however Staff's concerns regarding this area are discussed within the Reliability Analysis and Gas Supply and Planning section of the memorandum. Staff recommends the Commission order the Company to respond to these concerns within 30 days.

Staff has no adjustments related to hedging, however Staff's concerns are addressed in the Hedging section of the memorandum. Staff recommends the Commission order Ameren to respond to Staff's concerns/recommendations within 30 days.

At this time, the Staff has determined the following preliminary ending ACA balances as shown in the table below. However Ameren filed a petition in Cole County Circuit Court, Case No. 09AC-CC00398, to recover overcharges from MPC and MGC. Ameren has filed status reports in its ACA cases regarding its litigation. Therefore, Staff recommends the Commission hold this ACA case open so that Staff can monitor Ameren's pursuit of refunds from MPC and MGC and make further recommendations as necessary.

	Balance per Ameren Filing	**Staff Adjustments**	**Ending Balances**
Firm Sales ACA	$(586,617)*	$375,584	$(211,033)
Interruptible Sales ACA	$(127,830)	$0	$(127,830)
Rolla System: Firm Sales	$(312,967)	$(375,584)	$(688,551)

* *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.*

Staff recommends the Company respond to the recommendations herein within 30 days.

STAFF'S TECHNICAL DISCUSSION AND ANALYSIS

Staff's discussion of its findings is organized into the following five sections:

I. Overview
II. Billed Revenue
III. MPC and MGC Overcharges
IV. Reliability Analysis and Gas Supply Planning
V. Hedging
VI. Recommendations

Each section explains Staff's concerns and recommendations.

I. OVERVIEW

Ameren's natural-gas operations are served by the following interstate pipelines: Panhandle Eastern Pipe Line (PEPL), Texas Eastern Transmission Corporation (TETCO), Natural Gas Pipeline Company of America (NGPL), and MoGas Pipeline (MoGas) (f/k/a Missouri Pipeline Company (MPC) and Missouri Gas Company (MGC)). PEPL serves approximately 102,000 customers in the Jefferson City/Columbia area. TETCO serves approximately 19,000 customers in the Cape Girardeau area. NGPL serves approximately 1,700 customers in the Marble Hill area. PEPL and MoGas serve approximately 3,700 customers in the Rolla, Salem, and Owensville area.

II. BILLED REVENUE

Staff calculates the ACA rate by comparing the Company's billed revenues to its actual gas costs. During the 2009/2010 ACA period, Staff found the Company's ACA filing contained a billed revenue error for both its state-wide ACA and its Rolla area ACA, which resulted in overstated billed revenue for Rolla and an (equal) understated billed revenue for the state-wide ACA. To correct this error, Staff proposes an adjustment to increase the Rolla ACA over-recovery balance in the amount of $375,584 with a corresponding decrease in the state-wide over-recovery balance of $375,584.

III. MPC AND MGC OVERCHARGES

The Missouri Pipeline Company (MPC) and Missouri Gas Company (MGC) overcharge issue remains an open issue from prior ACA Cases due to ongoing litigation. This issue involves pipeline capacity overcharges by MPC and MGC which Ameren paid and passed through to its customers.

History of Issue

Ameren had firm transportation service agreements with Missouri intrastate pipelines, MPC and MGC. On June 21, 2006, in Case No. GC-2006-0491, the Staff filed a complaint against MPC and MGC alleging that MPC and MGC gave their affiliate lower rates for transportation service and, by doing so, lowered the maximum transportation rates MPC and MGC could charge non-affiliated customers. Ameren is a non-affiliate customer of MPC and MGC.

The Commission issued its initial Order in Case No. GC-2006-0491 on August 28, 2007, with an effective date of September 7, 2007, and a Revised Report and Order on 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 tariffs, in giving an affiliate lower rates, MPC and MGC had lowered the maximum firm reservation tariffed rates beginning May 1, 2005. The Commission further found, when MGC lowered rates for its affiliate on July 1, 2003, it also lowered both its tariffed firm and interruptible commodity rates for all non-affiliates. Despite the Commission's October 11, 2007 Revised Report and Order setting maximum tariff rates, MPC and MGC continued to bill Ameren higher rates. Ameren paid MPC/MGC's bill, under protest, and passed the overcharges through to its customers.

The overcharges continued until MPC and MGC, now MoGas Pipeline, implemented new Federal Energy Regulatory Commission (FERC) regulated transportation rates, effective June 1, 2008, upon FERC's approval of MoGas' FERC filed tariff rates.

Current ACA Period

During this 2009/2010 ACA period, the Commission's order in Case No. GC-2006-0491 was affirmed by the Western District Court of Appeals in Case No. WD 70325, *Missouri Pipeline Co. v. Missouri Public Serv. Com'n.* 307 S.W.3d 162 (Mo.App. W.D. 2009) *cert. denied* February 2, 2010. The Commission's Revised Report and Order became final and unappealable after the Western District Court of Appeals issued its mandate on April 22, 2010.

Ameren is pursuing refunds of overcharges through a case in Cole County Circuit Court. As in ACA Case Nos. GR-2009-0337, GR-2008-0336, and GR-2008-0107, Staff recommends this case also be held open in order to monitor Ameren's actions with regard to its pursuit of refunds. Although the gas costs for this 2009/2010 ACA period do not include overcharges from MPC and MGC, due to the cumulative nature of the ACA balance, past overcharges impact this period's ACA balance.

IV. RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING

Reliability Analysis and Gas Supply Plan Review

As a gas corporation providing natural gas service to Missouri customers, the Local Distribution Company (LDC) is responsible for: 1) conducting reasonable long-range supply planning and 2) the decisions resulting from that planning. One purpose of the ACA process is to review the Company's planning for gas supply, transportation, and storage to meet its customers' needs. For this analysis, Staff reviewed the LDC's plans and decisions regarding estimated peak day requirements and the capacity levels to meet those requirements, peak day reserve margin and the rationale for this reserve margin, and natural gas supply plans for various weather conditions.

Staff's review for the Ameren service areas produced the following comments and concerns:

Reserve Margins – Panhandle – Columbia/Rolla Region

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Because of this concern, Staff recommends, prior to or in conjunction with its Fall 2012 Gas Supply and Hedging Presentation, the Company provide documents demonstrating its plans to meet a peak day load. The plan should consider the variability in Ameren's peak day model. (i.e. upper 95% confidence interval); or provide documents supporting the plan to meet customer peak day needs with a negative reserve margin.

Marble Hill Region Storage and Gas Supply

In the prior four ACA cases Staff commented on the storage balances going into the winter. Ameren has made changes to its supply plans that address the prior Staff comments and thus Ameren's supply plans going into the winter are not a concern for this ACA.

V. HEDGING

The Staff reviewed Ameren's hedging program. 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, though hedging of storage injections can also be a consideration in hedge planning. In particular, the Company's goal is to hedge prices to reduce market price volatility. Ameren's 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. In particular, the Company's goal is to hedge prices to reduce 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 this period are phased in, based on factors including current futures prices, availability of gas supply, as well as general market conditions.

Ameren receives regular natural-gas market reports analyses from energy and financial firms and regular market reports and assessments. The Staff reviewed Ameren's hedging practices for the winter months, November 2009 through March 2010. Ameren's hedging implementation plan is to protect approximately 67-75% of normal winter demand requirements against market price volatility for the three Ameren systems, PEPL-UE, TETCO-UE and NGPL-UE. The price protection, including storage, comes from fixed-forward contracts, and financial natural-gas swaps. Most of these hedges were placed between late October 2006 and mid

October 2009 for the winter heating season of November 2009 through March 2010. These resulted in ** ___ ** hedged overall for Ameren, based on actual delivered volumes for the winter months and ** ___ ** based on normal volumes for the winter months.[1]

Although Staff is not suggesting that the Company should design its hedging strategy to try to beat the market, the Company's hedging plan should be flexible enough to incorporate the changing market circumstances. The Company should evaluate its hedging strategy in response to the changing market dynamics as to how much the existing hedging strategy actually benefits its customers while achieving the goal of stable price level. For example, the Company should continue to evaluate whether the volumes and the types of the instruments are appropriate under the current market. Additionally, the Company should be careful in timing market in its hedging execution, since the market price may not always move in the Company's favor. The Company should also examine the balance between storage and other financial hedging instruments in the overall hedging portfolio for warmer weather scenario as well as for normal load.

VI. RECOMMENDATIONS

1. a. The Staff recommends the Company increase the Rolla ACA balance and decrease the state-wide ACA balance to reflect the billed revenue error of $375,584.

   b. Ameren filed a petition for refunds of MPC/MGC overcharges in Cole County Circuit Court, Case No. 09AC-CC00398. The Company has filed status reports regarding its MPC/MGC litigation. The Staff recommends the Commission hold this ACA case open so that Staff can monitor Ameren's pursuit of refunds from MPC and MGC and make further recommendations as necessary.

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2. Staff also asks the Commission to order Ameren to respond to Staff's concerns in the Reliability Analysis and Gas Supply and Planning section. Staff has no financial adjustments related to Reliability Analysis and Gas Supply and Planning.

3. The Staff recommends the Company continued to assess and document the effectiveness of its hedges for the 2010-2011 ACA and beyond. The Staff also recommends the Company analyze and document any changes to the Company's hedging policy / plan. If the Company plans to change hedging strategies, the Company should provide the Staff copies of all analyses including any and all documents regarding changes to the Company's hedging policy / plan, such as:

   a. All supporting documents considered for the hedging policy/plan changes made including, but not limited to, the volumes to hedge, the types of hedging instruments to use, the prices to hedge, and the timing of hedges.

   b. All documents of showing how changes to the natural gas market environment or other factors have affected the Company's hedging policy/plan so that it reasonably balances the protection of rate payers and the achievement of cost effective hedging results.

4. Respond to the recommendations herein within 30 days.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a Ameren Missouri's Purchased Gas Adjustment (PGA) Factors	)))	File No. GR-2010-0180

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 of the Utility Services Department, he has participated in the preparation of the foregoing report, in memorandum form, consisting of 7 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:	Billed Revenues and Actual Gas Costs
Derick Miles, PE, Utility Regulatory Engineer I:	Reliability Analysis and Gas Supply Planning
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.

David Sommerer

David M. Sommerer

Subscribed and sworn to before me this 18th day of October, 2012.

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