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Missouri Public
Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the First Prudence Review of Costs Subject to the Commission-Approved Fuel Adjustment Clause of Union Electric Company d/b/a AmerenUE.	))))	File No. EO-2010-0255

STAFF'S PRUDENCE REPORT AND RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission ("Staff") and for its Report on Staff's Prudence Review of Costs Related to the Fuel Adjustment Clause for the Electric Operations of Union Electric Company d/b/a AmerenUE ("AmerenUE") for the period March 1 through September 30, 2009, and recommendation,[1] states to the Missouri Public Service Commission ("Commission"):

1. Staff initiated this prudence review on March 4, 2010, and filed notice on March 11, 2010, it had started the prudence review. The notice filing initiated this File No. EO-2010-0255.

2. This is the first prudence review of costs subject to AmerenUE's fuel and purchased power adjustment clause (FAC). These prudence reviews are required to take place at least every eighteen months.[2]

3. In AmerenUE's 2008 general electric rate case, Case No. ER-2008-0318, the Commission first approved AmerenUE's FAC with original tariff sheets numbered 98.1 – 98.7

[1] Adjustments to the Fuel and Purchased Power Adjustment factor based on the March 1, 2009 to May 31, 2009 and June 1, 2009 to September 31, 2009 accumulation periods were the subjects of Case Nos. ER-2010-0044 and ER-2010-0165, respectively.

[2] Union Electric Company Tariff MO. No. 1, 1st revised Sheet No. 98.6; Commission Rule 4 CSR 240-20.090(7) and § 386.266.4(4) RSMo Supp 2009.

Staff Exhibit No. 8
Date 1-10-11 Reporter Jenni
File No. EO-2010-0255

that became effective on March 1, 2009.[3] Original tariff sheet number 98.1 provided for four-month accumulation periods as follows: February-May, June-September and October-January.

4. Because AmerenUE's FAC tariff sheets became effective March 1, 2009, Staff reviewed for prudence the costs and revenues associated with AmerenUE's FAC for the period March 1, 2009 to September 30, 2009.

5. As explained in its report, based on its review, Staff has concluded AmerenUE was imprudent for not including all costs and revenues associated with certain sales of energy to American Electric Power Operating Companies (AEP) and to Wabash Valley Power Association, Inc. (WVPA) during the period of March 1 to September 30, 2009, in determining the associated FAC charges that are billed to its customers. When the costs and revenues associated with the AEP and WVPA energy sales are included in calculating AmerenUE's FAC charges, and when interest accrued through May 2010 is included, AmerenUE has sought to over-collect from its customers $8,776,751 for accumulation period 1 and $15,296,485 for accumulation period 2.

6. Staff recommends to the Commission these amounts should be included as customer refund adjustments made contemporaneously with the next available true-up adjustment following a Commission Order in this case, and include interest at the AmerenUE's short-term borrowing rate. Currently the Staff has a recommendation to change AmerenUE's Fuel and Purchased Power Adjustment (FPA) factor in File No. ER-2011-0018. Due to timing differences between when the Staff's recommendation was due and the end of the Staff prudence audit, the change to the FPA recommended by Staff in File No. ER-2011-0018 does not include an adjustment for imprudence. The next FPA change is scheduled to occur in February 2011.

[3] *In the Matter of Union Electric Company d/b/a AmerenUE for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in the Company's Missouri Service Area*, Case No. ER-2008-0318, Order Approving Compliance Tariff Sheets, issued February 19, effective March 1, 2009.

7. The Commission should be mindful of the schedule of events that are to take place based on when the Staff starts it prudence audit. Rule 4 CSR 240-20.090(7)(B) establishes the following schedule:

Time from start of Staff prudence audit to event	**Event**
Within 180 days	Submission of Staff recommendation to Commission regarding Staff's examination and analysis
Within 190 days	Request for hearing
Within 210 days	Commission Order, if no hearing requested

WHEREFORE, the Staff of the Missouri Public Service Commission hereby submits its report on its prudence review of the costs and revenues associated with AmerenUE's Commission-approved fuel adjustment clause for the period March 1 through September 30, 2009, and recommends the Commission find AmerenUE imprudent for not including all costs and revenues associated with certain sales of energy to American Electric Power Operating Companies and to Wabash Valley Power Association, Inc. during that period in determining the associated FAC charges and order AmerenUE to refund to its customers the sum of $24.1 million plus interest accrued after May 2010 by an adjustment to its FAC charge.

Respectfully submitted,

/s/ Nathan Williams

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 31st day of August 2010.

/s/ Nathan Williams

PRUDENCE REVIEW OF COSTS RELATED TO THE FUEL ADJUSTMENT CLAUSE FOR THE ELECTRIC OPERATIONS OF UNION ELECTRIC COMPANY, d/b/a AMERENUE

March 1, 2009 through September 30, 2009

MISSOURI PUBLIC SERVICE COMMISSION STAFF REPORT

FILE NO. EO-2010-0255

Jefferson City, Missouri
August 31, 2010

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

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Table of Contents

Staff Report on Prudence Review of Costs

I. Executive Summary

The Missouri Public Service Commission (Commission) first authorized Union Electric Company, d/b/a, AmerenUE (AmerenUE) to use a Fuel Adjustment Clause (FAC) in AmerenUE's 2008 general electric rate case, File No. ER-2008-0318. The Commission modified the AmerenUE FAC in AmerenUE's next general electric rate case, File No. ER-2010-0036.

Missouri statute and Commission rule, Section 386.266.4(4) RSMo (Supp. 2009) and 4 CSR 240-20.090(7), respectively, require prudence reviews of an electric utility's FAC no less frequently than at eighteen-month intervals. In this prudence review, Staff analyzed items affecting AmerenUE's total fuel and purchased power costs net of off-system sales for the first two four-month accumulation periods of AmerenUE's FAC. The first accumulation period was February through May 2009; however, since AmerenUE's FAC did not become effective until March 1, 2009, the relevant part of the first accumulation period is March 1 through May 31, 2009. The second accumulation period began June 1, 2009 and ended September 30, 2009. Thus, the period reviewed in this prudence review and documented in this report is from March 1, 2009 to September 30, 2009.

In evaluating prudence, Staff reviews whether a reasonable person making the same decision would find both the information the decision-maker relied on and the process the decision-maker employed was reasonable based on the circumstances at the time the decision was made, i.e., without the benefit of hindsight. The decision actually made is deregarded and the review is an evaluation, instead, of the reasonableness of the information the decision-maker relied on and the decision-making process the decision-maker employed. If either the information relied upon or the decision-making process employed was imprudent, then an examination is made to determine whether the imprudent decision caused any harm to ratepayers. Only if an imprudent decision resulted in harm to ratepayers, will Staff recommend a refund.

Staff analyzed a variety of items while examining the prudence of the fuel and purchased power costs net of off-system sales associated with its FAC that AmerenUE incurred for the period March 1, 2009 through September 30, 2009. Based on its review, Staff concludes AmerenUE was imprudent for not including all costs and revenues associated with certain sales of energy to American Electric Power Operating Companies (AEP) and to Wabash Valley Power Association, Inc. (WVPA) during the period of this prudence review in determining the associated customer FAC adjustment. Staff concludes the AEP and WVPA energy sales during this period should have been treated as off-system sales for purposes of AmerenUE's FAC, and, therefore, refund amount of $24,073,236 ($8,776,781 from accumulation period 1 and $15,296,485 from accumulation period 2 which includes interest through May 2010) should be made to AmerenUE electric customers as a result of AmerenUE's imprudence If the Commission agrees with Staff that AmerenUE was imprudent in this respect and so finds, the refund amount of $24,073,236 should be made with the next available true-up adjustment following a Commission Order in this case, and include interest at the Company's short-term borrowing rate through the time the refund is made. These prudence amounts will be summed with that particular true-up adjustment. (If the true-up adjustment is for an under-collection (i.e., customers owe AmerenUE), the prudence refund amounts and true-up adjustment amount will be off-setting and if the true-up adjustment is for an over-collection (i.e., AmerenUE owes customers), they will be additive.) The result will then be used in determining the new Fuel and Purchased Power Adjustment (FPA) rates used for calculating the FAC adjustment billed to customers.

II. Introduction

A. General Description of AmerenUE's FAC

AmerenUE's commission-approved FAC allows AmerenUE to recover from (if the net costs exceed) or refund (if the net costs are less than) to its ratepayers ninety-five percent (95%) of the difference between its prudently incurred variable fuel and purchased power costs net of off-system sales and the net base fuel cost amount the Commisison sets in an AmerenUE general electric rate proceeding. Ideally, ninety-five percent (95%) of any over- or under-recovery of fuel and purchased power costs net of off-system sales during four-month accumulation periods are refunded or collected during twelve-month recovery periods through an increase or decrease in the FPA. Practically, that ideal is rarely, if ever met, and, therefore, AmerenUE's FAC is also designed for a true-up of any over- or under-recovery during a recovery period. Commission-ordered refunds due a Commission determination of imprudence in a prudence review are to be refunded to AmerenUE ratepayers at the same time a true-up adjustment is implemented.[1]

AmerenUE's first accumulation period began on February 1, 2009 and ended May 31, 2009; however, because AmerenUE did not have a FAC until March 1, 2009, the first month of the first accumulation period is irrelevant to this prudence review. AmerenUE's fuel and purchased power costs net of off-system sales, the ninety-five percent (95%) customer responsibility portion and interest costs (without treating the AEP and WVPA energy sales during this period as off-system sales) were lower by $12,648,964 in the March 1 to May 31, 2009, part of the first accumulation period than the associated net base fuel costs, so AmerenUE's FPAs were adjusted to collect less revenue effective in the October 2009 billing month. AmerenUE's second accumulation period began June 1, 2009 and ended September 31, 2009. AmerenUE's fuel and purchased power costs net of off-system sales, the ninety-five percent (95%) customer responsibility portion and interest costs (without treating the AEP and WVPA energy sales during this period as off-system sales) were higher by $18,953,587 in AmerenUE's second accumulation period than the associated net base fuel costs, so AmerenUE's FPAs were adjusted to collect additional revenue effective in the February 2010 billing month. The following table reflects the historical changes to AmerenUE's FPAs for its first two accumulation periods.

		Adjustment to Fuel and Purchased Power Rate for 1st Accumulation Period	Adjustment to Fuel and Purchased Power Rate for 2nd Accumulation Period
FPA - Primary with Voltage Level Adjustment		-$0.00035 per kWh	$0.000483 per kWh
FPA - Secondary with Voltage Level Adjustment		-$0.00036 per kWh	$0.000501 per kWh
FPA – Large Transmission with Voltage Level Adjustment		-$0.00033 per kWh	$0.000467 per kWh

Information provided in the Company response to Staff Data Request 1, mpsc 0001 4 csr0240-3.161 7-rp1.xls (7)(A)3 and mpsc 0001 4 csr0240-3.161 7 rp2.xls (7)(A)3

[1] File No. ER-2011-0018 contains a request from AmerenUE for a true-up of its first recovery period. Staff filed its recommendation to approve the change to the FPA factor. The change does not include an adjustment for the prudence determination in this case. The current effective date of the change to the tariff sheet is September 23, 2010. The FPA will next be modified in the February 2011 billing month.

B. Prudence Standard

In *State ex rel. Associated Natural Gas Co. v. Public Service Com'n of State of Mo.*, 954 S.W.2d 520, 528-29 (Mo.App. W.D., 1997) the Western District Court of Appeals stated the Commission's prudence standard as follows:

The PSC has defined its prudence standard as follows:

> [A] utility's costs are presumed to be prudently incurred.... However, the presumption does not survive "a showing of inefficiency or improvidence."
>
> ... [W]here some other participant in the proceeding creates a serious doubt as to the prudence of an expenditure, then the applicant has the burden of dispelling these doubts and proving the questioned expenditure to have been prudent. (Citations omitted).
>
> *Union Electric*, 27 Mo. PSC (N.S.) 183, 193 (1985) (quoting ***529** *Anaheim, Riverside, Etc. v. Fed. Energy Reg. Com'n*, 669 F.2d 799, 809 (D.C.Cir.1981)). In the same case, the PSC noted that this test of prudence should not be based upon hindsight, but upon a reasonableness standard:
>
> [T]he company's conduct should be judged by asking whether the conduct was reasonable at the time, under all the circumstances, considering that the company had to solve its problem prospectively rather than in reliance on hindsight. In effect, our responsibility is to determine how reasonable people would have performed the tasks that confronted the company.
>
> *Union* Electric, 27 Mo. P.S.C. at 194 (quoting *Consolidated Edison Company of New York, Inc.* 45 P.U.R. 4th 331 (1982)).

In reversing the Commission in that case, the Court did not criticize the Commission's definition of prudence, but held, in part, that to disallow a utility's recovery of costs from its ratepayers based on imprudence the Commission must determine the detrimental impact of that imprudence on the utility's ratepayers. *Id.* at 529-30

This is the prudence standard Staff has followed in this review.

III. Net Fuel and Purchased Power Costs

The Staff reviewed for prudence for AmerenUE's first two accumulation periods the areas listed below.

A. Explanation of Fuel, Purchased Power Costs, Off-System Sales and Net Emission Allowances

For AmerenUE's FAC net fuel and purchased power costs are comprised of four major components: Fuel, Purchased Power, Revenue from Off-System Sales and Net Emission Allowances. The Fuel component is comprised of fossil fuel (coal, natural gas and oil) and nuclear fuel.

AmerenUE's parent, Ameren Corporation (Ameren), has charged Ameren Energy Fuels and Services (AFS) with the responsibility of engaging in the trading, purchase and sale of certain commodities on behalf of AmerenUE and its affiliates. Staff has only reviewed the AFS practices and polices as they directly relate to AmerenUE.

The objectives and management philosophy that AFS follows is detailed in the AFS Risk Management Policy (Highly Confidential) AmerenUE provided in response to Staff Data Request 62 in File No. ER-2010-0036:

> ** Section 1.2, page 4: AFS has outlined its core purpose as follows: To excel in servicing our customers, employees, communities, and investors, though the faithful pursuit of opportunity. We will achieve this purpose by building a team of diverse individuals who are focused on sustainable growth, and share common core values.
>
> To excel in serving their customer and investor, AFS has the following objectives for their procurement and hedging activity:
>
> - Ensure reliable fuel commodity supply to Ameren's subsidiary generating units and Local Distribution Companies (LDC'S).
> - Protect Ameren's earnings by effectively managing the fuel commodity costs for generation, including effectively managing emissions compliance costs.
> - Increase Ameren's earnings by capturing economic opportunities through arbitrage activities.
> - Reduce Ameren's inherent exposure to commodity price volatility through hedging.
>
> Ameren pursues a philosophy of mitigating financial risks through structured risk management techniques and controls. The primary goals of the risk management program in support of AFS' objectives are:

- Provide a Policy and organizational structure for the management of market, credit, and operational risks that are inherent in Ameren's regulated or unregulated operations related to fuel procurement and hedging as determined by the Risk Management Steering Committee (RMSC).
- Maintain control to the risk tolerance of the corporation by ensuring the limits established by this Policy are not exceeded.
- Ensure all necessary information is communicated to the RMSC, Front Office, Back Office and RM to keep relevant parties informed of the risk position of the organization at all times.
- Determine whether the market & credit operating conditions associated with hedging strategies and associated risk exposures are appropriate given Ameren's risk tolerance and objectives.
- Provide a set of procedures to assist in the mitigation of operational risks (e.g., segregation of duties, unapproved transaction, independent evaluation of position, etc.) **

B. Coal and Rail Transportation Costs

1. Description

For the period March 1, 2009 to September 30, 2009, Staff concluded that approximately ** $330,222,603 ** of AmerenUE's gross fuel cost was associated with coal it used in generating electricity. This cost of coal includes the cost of coal used for off-system sales plus various miscellaneous costs such as charges for rail and other ground transportation service, and other miscellaneous coal handling expenses.

Staff reviewed AFS's 2009 Powder River Basin (PRB) Coal Procurement Strategy document and AFS's Risk Management Policy document. AmerenUE's coal procurement strategy is summarized well in the Coal Procurement Strategy Executive Summary, page 1;

> ** In previous years, AFS has implemented a five-year purchasing plan where we roll in approximately 1/5 of subsequent year burns during an annual purchase cycle. This type of strategy provides for a predictable purchasing plan where a given year's burn is gradually layered in on a dollar-cost average basis… **

Staff has reviewed the various components and AFS's practices in complying with these stated parameters.

AFS also utilizes a rail fuel surcharge hedge program in an effort to minimize price volatility associated with rail transportation of coal. In AmerenUE's response to Staff's Data Request 36, File No. ER-2010-0255, Mr. Ken Rutter explains;

> ** Ameren's rail contracts may incorporate fuel adjustment clauses. Due to the index nature of these adjustment clauses, Ameren may incur higher rail transportation costs associated with PRB coal moves. The fuel adjustment clauses are typically tied to a U.S. Dept. of Energy On-Highway Diesel (OHD) index. If the index exceeds contract defined thresholds the fuel surcharge percentage is applied to the linehaul freight charges. As new rail contracts are phased in Ameren's exposure to fuel adjustments will increase. Prudent risk management is necessary to limit Ameren's exposure to adverse fuel cost risk. AFS is authorized to hedge this risk with options on heating oil futures contracts & swaps. **

Staff has reviewed the various components and AFS's practices in complying with these stated parameters.

2. Summary of Cost Implications

If AmerenUE was imprudent in its purchasing decisions relating to coal, ratepayer harm could result from that imprudence by an increase in AmerenUE customer FAC adjustments.

3. Conclusion

Staff found no indication of imprudence by AmerenUE for AFS's purchase of coal and the handling of the rail fuel surcharge hedging policy for the period March 1, 2009 to September 30, 2009.

4. Documents Reviewed

   a. AmerenUE's fixed coal contracts in place for the delivery of coal to each of its generating units;

   b. AmerenUE's General Ledger, FPA calculation, and other work papers to determine the amount that AmerenUE paid for coal as compared to the total cost of coal that AmerenUE claims it incurred during its first two accumulation periods; and

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c. AmerenUE's responses to Staff data requests related to AmerenUE's coal purchasing practices in File Nos. EO-2010-0255 and ER-2010-0036 for the period March 1, 2009 to September 30, 2009.

Staff Expert: Dana Eaves

C. Natural Gas Expense

1. Description

For the time period of March 1, 2009 to September 30, 2009 it reviewed, Staff concluded approximately** $17,214,973 ** of AmerenUE's fuel costs were associated with natural gas used in the generation of electricity. This total includes AmerenUE's fuel costs for off-system sales, and various miscellaneous charges such as firm transportation service charges and other miscellaneous fuel handling expenses.

The purchase methodology of natural gas for the generation of electricity is described in the AmerenUE's response to Staff's Data Request 62 in File No. ER-2010-0036. Staff reviewed the document titled: Generation Plan for Gas-Fired CTG's, 2009. Pages 1-3 of this document describe AmerenUE's procurement strategy:

> ** General: Ameren Energy Fuels and Services acts as agent for the management of gas resources for Ameren Energy Generating Company, Ameren Energy Resources Company, and AmerenUE. AmerenUE is an integrated utility regulated by the Missouri Public Service Commission. AmerenUE owns and operates the following natural gas-fired generating facilities: Pinckneyville I & II, Kinmundy, Goose Creek, Raccoon Creek, Audrain Generating, Meramec Steam Plant, Meramec CTG, Peno Creek, Venice 2-5, Viaduct, and Kirksville. The units are offered to the MISO market on a day-ahead and real-time basis by the UE Tradefloor.
>
> Transportation and Services: A portfolio of firm transportation, interruptible transportation, storage, and balancing services was designed to support the operation of the various generating units. The AmerenUE fleet consists of gas-fired generation on three interstate pipelines: 800 MW on PEPL, 585 MW on MRT, and 1,000 MW on NGPL. In addition, there is a small gas fired unit on the AmerenUE LDC system served by TETCO and a small unit served by Atmos Energy Co.

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Natural Gas Supply: The gas supply strategy formulated for the summer generating season of 2009 was based upon five key components:

1. Fixed price base load or accompanied swap packages capable of being injected into storage.
2. Firm Transportation, storage withdrawal, and base load supply for Peno Creek and Pinckneyville 1-4.
3. Intraday wing packages that accommodate MISO operations and timelines.
4. Utilization of Spot purchases, Intra-day swings, and interruptible transportation for gas fired generation burns on extreme peak days.
5. Risk Management Policy compliance for volumetric and price hedge limits. **

As noted above, AFS, on behalf of AmerenUE, employs hedging activities in an attempt to mitigate the impacts of market swings in natural gas prices and aid in providing a reliable fuel commodity.

Financial hedges can be described as:

> Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract. An example of a hedge would be if you owned a stock, then sold a futures contract stating that you will sell your stock at a set price, therefore avoiding market fluctuations. Investors use this strategy when they are unsure of what the market will do. A perfect hedge reduces your risk to nothing (except for the cost of the hedge).[2]

AmerenUE's responses to Staff Data Requests 24 and 34 in File No. EO-2010-0255 and Data Requests 62 and 73 in File No. ER-2010-0036 defines the hedging parameters used by or on behalf of AmerenUE for natural gas burned for generation. Staff has reviewed the various components of AmerenUE's natural gas supply strategy and AmerenUE's practices in complying with these stated perimeters.

2. Summary of Cost Implications

If Staff found that AmerenUE was imprudent in its purchasing decisions relating to natural gas, ratepayer harm could result from that imprudence by an increase in FAC charges.

[2] www.investopedia.com

3. Conclusion

Staff found no indication of imprudence associated with AFS's natural gas purchases for AmerenUE for the period March 1, 2009 to September 30, 2009.

4. Documents Reviewed

a. AmerenUE's responses to Staff data requests related to AFS's hedging program for natural gas for AmerenUE and its affiliates in File Nos. ER-2010-0036 and EO-2010-0255 for the period March 1, 2009 to September 30, 2009; and

b. AmerenUE's General Ledger, FPA calculation, and other work papers to determine the amount that AmerenUE paid for natural gas as compared to the total cost of natural gas that AmerenUE claims it incurred during the period March 1, 2009 to September 30, 2009.

Staff Expert: Dana Eaves

D. Fuel Oil

1. Description

For its review of the period March 1, 2009 to September 30, 2009, Staff concludes approximately ** <u>$143,683</u> ** of AmerenUE's cost of fuel was associated with fuel oil used in the generation of electricity. This cost of fuel oil used to generate electricity includes the cost of fuel oil AmerenUE used for off-system sales plus various miscellaneous costs, such as ground transportation service charges and other miscellaneous fuel handling expenses.

AmerenUE response to Staff Data Request 30 in File No. ER-2010-0255 describes in detail AFS's policies for the procurement of fuel oil for its affiliates including AmerenUE. Staff reviewed the document titled; Fuel Oil Inventory Policy. This document describes AFS's fuel oil procurement strategy, page 2:

> Oil Procurement:
>
> ** <u>In order to ensure availability of oil at a reasonable price, the Business Development & Emission Control Commodities Department with Ameren Energy Fuels and Services (AFS) annually sends a Request for Proposal (RFP) to regional oil suppliers to submit bids on fuel oil supply for each plan.</u>

Blanket purchase orders are executed with the suppliers selected for each site for a one-year term. In addition to a primary supplier, a secondary supplier is selected for each site in order to provide additional delivery capability during heavy burn condition. The secondary supplier also provides an alternate source if the primary supplier does not perform satisfactorily.

The selection of the suppliers is based on price, reliability, and proximity to the plant to be served. It is also a goal to diversify the oil portfolio in order to maintain a working relationship with several different suppliers. In the event of a purchase of greater than 150,000 gallons, risk management policy dictates that a separate bid is sent out to the spot market to ensure that the price received from the traditional supplier is the lowest. **

The generating units that use fuel oil and how this fuel is used is describe on page 2 of the response,

** AmerenUE's coal fired generating facilities use fuel oil mostly during startups and for fueling coal and ash handling equipment. Labadie and Rush Island also use oil as a peaking fuel to gain additional output in times of high load or elevated power prices. Several CTG units (Peno Creek 1-4, Venice 2 and Meramec 2, Kinmundy 1 & 2) use oil as a backup fuel to natural gas. In periods of very high natural gas prices, these units may run on oil for economic reasons. **

Staff has reviewed the various components of AFS's fuel oil procurement strategy and AFS's practices in complying with these stated parameters relating to fuel oil for AmerenUE.

2. Summary of Cost Implications

If AmerenUE was imprudent in its purchasing decisions relating to fuel oil, ratepayer harm could result from the imprudence by an increase in FAC charges.

3. Conclusion

Staff found no indication of imprudence by AFS or AmerenUE related to the purchase of fuel oil for the period March 1, 2009 to September 30, 2009.

4. Documents Reviewed

a. AmerenUE's General Ledger, FPA calculation and other supporting work papers to determine the amount AmerenUE paid for fuel oil as compared to the total cost

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of fuel oil AmerenUE claims it incurred during its first two accumulation periods; and

b. AmerenUE's responses to Staff Data Requests related to AFS's purchasing practices of fuel oil in File Nos. ER-2010-0036 and EO-2010-0255 for the period March 1, 2009 to September 30, 2009.

Staff Expert: Dana Eaves

E. Nuclear Fuel

1. Description

From its review of the period March 1 to September 30, 2009, Staff concluded that approximately ** $38,353,023 ** of AmerenUE's cost of fuel was associated with nuclear fuel used in the generation of electricity at AmerenUE's Callaway facility. This cost of nuclear fuel includes the amount associated with the cost of nuclear fuel for off-system sales. The cost of nuclear fuel includes various miscellaneous costs, such as Westinghouse credits, ground transportation service charges and other miscellaneous nuclear fuel handling expenses.

AmerenUE Nuclear Fuel Risk Management Policy is the controlling document for the acquisition and control of nuclear fuel for the Callaway facility. Staff has reviewed the various components and AmerenUE's practices in complying with these stated parameters relating to nuclear fuel.

2. Summary of Cost Implications

If AmerenUE was imprudent in purchasing nuclear fuel, ratepayer harm could result from that imprudence by an increase in customer FAC charges.

3. Conclusion

Staff found no indication of imprudence related to the purchase of nuclear fuel for the two accumulation periods covering March 1, 2009 to September 30, 2009.

4. Documents Reviewed

AmerenUE Fuel Risk Management Policy, AmerenUE's General Ledger, AmerenUE's FPA calculation, and other work papers to determine the amount AmerenUE paid for nuclear fuel as compared to the total cost of nuclear fuel AmerenUE claims it incurred during the period March 1 to September 30, 2009.

Staff Expert: Dana Eaves

F. Purchased Power Agreements

1. Description

During the period March 1 to September 30, 2009, AmerenUE met some of its capacity and energy needs through two Purchased Power Agreements (PPA). Copies of the PPAs were provided to Staff as AmerenUE responses to Staff's Data Request No. 75 in File No. ER-2010-0036. Staff reviewed the following AmerenUE PPAs for prudency:

a. Service Agreement between Entergy Arkansas, Inc. and Union Electric Company d/b/a AmerenUE.

b. Renewable Resource Power Purchase Agreement by and between Pioneer Prairie Wind Farm I, LLC and Union Electric Company d/b/a AmerenUE.

As it relates to purchased power agreements, other than those listed above, Matt Michels, AmerenUE's Managing Supervisor, Resource Planning replied to Staff's Data Request 75 in File No. ER-2010-0036 as follows:

> While AmerenUE does not understand the requestor's use of the phrase "purchase power contracts" to include them, please note that AmerenUE is a party to large number of master enabling agreements, including various interconnection agreements and EEI Master Power Purchase and Sale Agreements. These agreements provide for the general terms and conditions under which AmerenUE and the counterparty may transact at points in the future. These agreements do not, in and of themselves, obligate the counterparty to sell power and energy to AmerenUE, nor do they specify the pricing, term and any special conditions of specific transactions. Transactions other than hourly transaction are normally confirmed with either a written confirmation or electronically via the ICC communication system. These confirmations contain the specifics regarding volume, price, delivery location and any special conditions...

The Staff understands that these agreements are not long-term purchased power agreements, but rather make capacity available to be called on as needed. For this reason the master enabling agreements were not directly reviewed for prudency, but were reviewed in total as "spot market" purchases.

2. Summary of Cost Implications

If AmerenUE was imprudent by purchasing additional power or capacity to meet its demand, ratepayer harm could result from that imprudence by an increase in FAC charges.

3. Conclusion

Staff found no evidence of imprudence related to AmerenUE's long-term purchased power agreements.

4. Documents Reviewed

AmerenUE's Responses to Staff Data Requests 22 and 75 in File Nos. EO-2010-0255 and ER-2010-0036 respectfully.

Staff Expert: Leon Bender

G. Purchased Power Energy Costs

1. Description

Staff reviewed both the prices of and the amounts AmerenUE paid for long-term purchased power contracts referenced in Section F above. AmerenUE's long-term contract with Entergy Arkansas, Inc. expired August 31, 2009, and was not renewed. AmerenUE's contract with Horizon Wind Energy for energy at the Pioneer Prairie wind farm began on September 1, 2009, which is the last month of this prudence review period. This 15-year, fixed-price, take-or-pay contract is for energy from the wind farm and the associated Renewable Energy Credits (REC's).

The Horizon Wind Energy contract energy was sold at a fixed price of $0.069 per kWh for the 15-year contract term, which is above the spot market average price of $0.037 per kWh during the seven months of the prudence review period. However, the review period spot market average price is lower than in the recent past, due to lower market prices for natural gas.

Effective January 1, 2011, AmerenUE must meet the requirements of 4 CSR 240-20.100 Electric Utility Renewable Energy Standard Requirements (RES) and must generate or purchase no less than two percent (2%) of its annual retail electric sales from renewable energy sources during calendar years 2011 through 2013. The RES requirement for renewable energy increases to no less than five percent (5%) for 2014 through 2017, to no less than ten percent (10%) for 2018 through 2020, and to no less than fifteen percent (15%) in each calendar year beginning in 2021. The Commission's RES rules allow for utilities to "bank" REC's for up to three years. Thus, the energy generated since the beginning of the Horizon Wind Energy contract can be used to satisfy AmerenUE's requirements for 2011 and 2012.

Every megawatt-hour of electricity produced for the Horizon Wind Energy Contract also creates a REC[3] which has a market value. Any RECs above those needed to meet the RES requirements, if the Commission authorizes their sale[4], may be sold. Currently, revenue from the sale of RECs is not addressed in AmerenUE's FAC.

In addition to the long-term purchased-power contracts discussed above, AmerenUE also purchases short-term energy in the MISO and PJM day-ahead markets (hourly) and by bilateral agreements. Typically, AmerenUE relies on these short-term energy sources to help it to meet its load during forced or planned generation plant outages and when the market price for that short-term energy is both below the marginal cost of providing that energy from AmerenUE's generating units and below the cost of longer-term capacity purchases. Staff reviewed AmerenUE's hourly and monthly purchased power information for the prudence review period.

2. Summary of Cost Implications

If AmerenUE was imprudent by purchasing energy to meet its demand at a cost that exceeded AmerenUE's cost to generate that energy itself, ratepayer harm could result from that imprudence by an increase in FAC charges.

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[3] A Renewable Energy Credit is the renewable attribute of a megawatt hour of energy generated by a renewable resource.

[4] A letter dated August 10, 2010 from the Missouri Public Service Commission, re: Disposition of RECs on or after August 31, 2010.

3. Conclusion

Staff found no evidence AmerenUE acted imprudently with regard to purchases of short-term energy in the MISO and PJM day-ahead markets or by bilateral agreements during the prudence review period. AmerenUE's fuel and purchased power costs were slightly higher in the period reviewed than they would have been had the wind power AmerenUE purchased been economically dispatched instead of being obtained by the fixed-price, take-or-pay Horizon Wind Energy contract. However, the Horizon Wind Energy contract is a long-term contract and must be viewed in light of the long-term needs of AmerenUE and its obligation to meet the RES requirements. Staff does not find AmerenUE's decision to enter into the Horizon Wind Energy contract to be imprudent.

4. Documents Reviewed

a. AmerenUE's responses to Staff Data Request Nos. 1, 2, 11, 13, 25, 33, 39;

b. Hourly purchased power data submitted by AmerenUE in compliance with 4 CSR 240-3.190; and

c. AmerenUE response to Staff Data Request No.75 in File No. ER-2010-0036.

Staff Expert: Leon Bender

H. Off-System Sales

1. Description

Off-system sales revenues are a component of the calculation of AmerenUE's FAC charges to its customers. They are described as "Revenues from Off-System Sales allocated to Missouri electric operations," or "OSSR," in AmerenUE FAC Tariff Schedule No. 5 Original Sheet No 98.3.

For the prudence review period of March 1 to September 30, 2009, Staff found that AmerenUE's level of off-system sales revenue was approximately ** $218,879,288 **.

Staff reviewed the off-system sales quantities, revenues and costs over the prudence review period. Staff compared the quantities and margins to historical information regarding AmerenUE's off-system sales.

2. Summary of Cost Implications

AmerenUE's revenues from off-system sales are offset against total fuel and purchased power costs. This is because AmerenUE's ratepayers pay for the sources used for that energy that AmerenUE sells off system, although serving those ratepayers (native load) is a higher priority than making an off-system sale. If AmerenUE was imprudent either because it made or did not make off-system sales, ratepayers could be harmed by that imprudence by an increase in FAC charges.

During the prudence review period AmerenUE sold energy to American Electric Power Operating Companies (AEP) and Wabash Valley Power Association, Inc. (WVPA)[5]. AmerenUE had energy to sell to AEP and WVPA, in-part, because AmerenUE's largest customer Noranda Aluminum, Inc (Noranda), as a result of damage to its smelting plant, severely curtailed the level of energy it was using. The smelting plant was damaged due to the sudden and prolonged loss of electricity service to the plant in the severe ice storm of January 28, 2009.

On January 29, 2009, AmerenUE filed with the Commission in File No. ER-2008-0318 an "Application for Rehearing and Motion for Expedited Treatment" (Application) seeking for the Commission to modify its FAC tariff the Commission had just authorized with its January 27, 2009 Report and Order[6] in that case. The terms of the FAC the Commission authorized with that Report and Order were the result of a stipulation and agreement. The terms of that FAC included AmerenUE's revenues from off-system sales being applied as an off-set to AmerenUE's fuel and purchased power costs. In its Application on page 4, despite having agreed to the terms of the FAC the Commission had just approved, AmerenUE proposed to modify its FAC tariff so;

> that incremental off-system sales revenues made possible by MWh not taken by Noranda (but which can then be sold-off system by AmerenUE) will be retained by AmerenUE to the extent, *but only to the extent*, necessary to offset the loss of retail margins from Noranda due to the loss of the Noranda

[5] The AEP and Wabash contracts consist of the following: Confirmation Letter between AmerenUE and the American Electric Power Service Corporation as agent for the AEP Operating Companies dated February 27, 2009, and the Electric Service Agreement between AmerenUE and the Wabash Valley Power Association, Inc. dated April 28, 2009.

[6] In the Matter of Union Electric Company, d/b/a AmerenUE's Tariffs to Increase Its Annual Revenues for Electric Services, Report and Order, Issue Date: January 27, 2009, pages 57-76

> load. Under the Modified FAC Tariff, once AmerenUE has received off-system sales revenues from MWh not taken by Noranda equal to the lost Noranda margin, all additional off-system sales revenue would flow to customers (without any sharing by AmerenUE).

The Commission denied AmerenUE's Application on February 19, 2009. In its order denying the Application, the Commission stated that the loss of the retail margin from Noranda was not a sufficient ground to set aside the approved stipulation and agreement regarding the flow of off-system sales through the AmerenUE's FAC and grant rehearing.

AmerenUE contracted with AEP and WVPA to deliver energy to them after the Commission denied AmerenUE's Application to modify its recently approved FAC. This was a prudent action by AmerenUE given the significant amount of energy AmerenUE would not be delivering to Noranda for months, at that time expected to be 12-15 months. However, AmerenUE designated these contracts to be "wholesale" contracts rather than to be off-system sales, and did not include the costs and revenues from them in calculating FAC charges.

3. Conclusion

Given the Commission's February 19, 2010 decision to not modify AmerenUE's FAC due to the loss of Noranda's load, it would be imprudent not to treat the revenues from the sales of the energy that became available due to the loss of the Noranda load as off-system sales revenues under AmerenUE's FAC. Therefore, AmerenUE was imprudent in not including the costs and revenues associated with the AEP and WVPS contracts in the FPA calculations for accumulation periods 1 and 2. When those costs and revenues are included for the period March 1 to September 30, 2009, the period of this prudence review, the result is that AmerenUE overcharged its customers during recovery periods 1 and 2 for the March 1 to September 30, 2009 period. Therefore, Staff proposes that the amount of $24,073,236 for the period March 1 to September 30, 2009, be refunded to ratepayers as a prudence review adjustment concurrently with AmerenUE's next FAC true-up adjustment.

Staff determined the proposed refund amount by modifying AmerenUE's FPA model filed in support of this case for both accumulation periods. Staff began by removing the kW's and MWh's associated with the AEP and WVPA contracts from the list of wholesale contracts in the calculations that determine the fixed and variable retail allocation factors.

This change accounts for the fuel costs to generate power for the AEP and WVPA contracts. Secondly, Staff included the revenue amounts in the model as reported in AmerenUE's response to Staff's Data Request 49. Staff then compared the modified FPA model result with AmerenUE's filed FPA to calculate the proposed refund amounts, including interest, for accumulation periods 1 and 2.

4. Documents Reviewed

a. Monthly reports submitted in compliance with 4 CSR 240-3.161(5);

b. AmerenUE's response to Staff Data Request Nos. 1 & 2;

c. Monthly outage data submitted by AmerenUE in compliance with 4 CSR 240-3.190;

d. Application for Rehearing and Motion for Expedited Treatment in File No. ER-2008-0318; and

e. Order Denying AmerenUE's Application for Rehearing in File No. ER-2008-0318.

Staff Expert: Dana Eaves

I. SO_2 and NO_x Allowances

1. Description

SO_2 Emission Allowances

All activities involving SO_2 emission allowances that occurred during March 1, 2009 to September 30, 2009 were recorded in the SO_2 Tracker authorized in File No. ER-2008-0318. Revenues and expenses from the sales of SO_2 allowances were not included in the FAC cost recovery for the time period of this audit.

NO_x Emission Allowances

In File No. EO-2010-0149, AmerenUE filed an Application with the Commission seeking authorization to manage its NO_x inventory, and on June 25, 2010, AmerenUE subsequently filed for dismissal of its application. On June 25, 2010, the Commission acknowledged the dismissal of application and closed the case. Therefore, as of this report, AmerenUE does not have the trading authority from the Commission to trade NO_X allowances.

2. Summary of Cost Implications:

At the point when the existing bank of SO_2 emission allowances is exhausted, AmerenUE will be required to purchase additional credits to offset its emissions. Selling SO_2 emission allowances that are needed in the future at a price that is lower than the future price AmerenUE would have to pay could be imprudent. These future purchases of allowances could possibly increase fuel costs and will be included in the FAC. If it was found that AmerenUE had been imprudent in its banking, purchasing and trading decisions relating to SO_2 emission allowances, ratepayer harm could result from an increase in rates.

If the cost of SO_2 and NO_x emission allowances were passed through the FAC prior to approval by the Commission, ratepayer harm could result from an increase in FAC adjustments.

3. Conclusion

Either SO_2 and NO_x emission allowance costs or revenues were part of the FAC during the time period of this audit. Therefore, Staff is not making a recommendation regarding AmerenUE's SO_2 and NO_x administration in this report. No revenues or expenses resulting from activities involving SO_2 and NO_x emission allowances were passed through the FAC during the two accumulation periods covering March 1, 2009 to September 30, 2009.

4. Documents Reviewed:

AmerenUE response to Staff Data Request Nos. 41, 44, 45, 46, and 50

Staff Expert: David Roos

IV. Interest Costs

1. Description

For the FAC accumulation and recovery periods AmerenUE is required to calculate the interest associated with the over- or under-recovered balance of fuel and purchased power costs and off-system sales revenues. AmerenUE applies its short-term interest rate to the over- or under-recovered balance and the interest is compounded on a monthly basis. This interest amount is component "I" of the FPA calculation described on Schedule No. 5 of Original Sheet No. 98.4.

2. Summary of Cost Implications

If AmerenUE was imprudent in its calculation of the interest amount or used an interest rate that was higher than AmerenUE's short-term interest rate, ratepayers could be harmed by increased FAC adjustment. If it was found that AmerenUE had been imprudent during the calculation of the interest amount or using a rate that was lower than AmerenUE's short-term interest rate, shareholder harm could result from a decrease in FAC adjustment.

3. Conclusion

Staff found no imprudence with regard to the issue of the Company's interest rate calculation applied to the over- or under-recovered balance.

4. Documents Reviewed

AmerenUE's interest calculation work papers in support of the interest calculation on the over- under-recovered balance.

Staff Expert: Matt Barnes

V. Outages

1. Description

AmerenUE generates most of its energy with its own generating units. Outages at any of the generating units have an impact on how much AmerenUE pays for fuel and purchased power. Outages can be either planned or unplanned. Staff examined AmerenUE's outages and the timing of those outages to determine if they were prudent. An example of an imprudent outage would be planning an extended outage of a large coal unit during peak demand times.

2. Summary of Cost Implications

An imprudent outage could result in AmerenUE purchasing expensive spot power or running its more expensive gas units to meet demand. Thus, AmerenUE would purchase more natural gas or purchased power and, consequently, have higher costs. If AmerenUE was imprudent in its decisions relating to plant outages, ratepayers could be harmed by that imprudence through an increase in FAC adjustment.

3. Conclusion

Staff did not find any evidence of imprudent outages during the time period examined in this review.

4. Documents Reviewed

a. AmerenUE's responses to Staff Data Requests 27, 38, 44, 45; and

b. Monthly Outage data submitted by AmerenUE in compliance with 4 CSR 240-3.190.

Staff Expert: Leon Bender

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the First Prudence Review of Costs Subject to the Commission-Approved Fuel Adjustment Clause of Union Electric Company d/b/a AmerenUE	)))))	Case No. EO-2010-0255

AFFIDAVIT OF MATTHEW J. BARNES

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Matthew J. Barnes, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report; 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.

Matthew J. Barnes

Matthew J. Barnes

Subscribed and sworn to before me this 31st day of August, 2010.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086

Susan L. Sundermeyer

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the First Prudence Review of Costs Subject to the Commission-Approved Fuel Adjustment Clause of Union Electric Company d/b/a AmerenUE	)))))	Case No. EO-2010-0255

AFFIDAVIT OF LEON C. BENDER

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Leon C. Bender, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report; 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.

Leon C Bender

Leon C. Bender

Subscribed and sworn to before me this 31st day of August, 2010.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086

Susan L Sundermeyer

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the First Prudence Review of Costs Subject to the Commission-Approved Fuel Adjustment Clause of Union Electric Company d/b/a AmerenUE	)))))	Case No. EO-2010-0255

AFFIDAVIT OF DANA E. EAVES

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Dana E. Eaves, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report; 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.

Dana E. Eaves

Dana E. Eaves

Subscribed and sworn to before me this 31st day of August, 2010.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086

Susan L. Sundermeyer

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the First Prudence Review of Costs Subject to the Commission-Approved Fuel Adjustment Clause of Union Electric Company d/b/a AmerenUE	)))))	Case No. EO-2010-0255

AFFIDAVIT OF DAVID C. ROOS

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

David C. Roos, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report; 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 C. Roos

David C. Roos

Subscribed and sworn to before me this 31st day of August, 2010.

NOTARY PUBLIC
NOTARY SEAL
STATE OF MISSOURI

SUSAN L. SUNDERMEYER
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