

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

In The Matter of the Application of)	
Union Electric Company,)	
d/b/a Ameren Missouri for authorization)	<u>File No. EO-2015-0320</u>
to Manage Sulfur Dioxide Emission)	
Allowance Inventory ¹)	

STAFF RECOMMENDATION
TO APPROVE APPLICATION WITH LIMITATIONS

COMES NOW the Staff of the Missouri Public Service Commission, by and through counsel, and for its *Recommendation* in this matter hereby states:

1. Union Electric Company d/b/a Ameren Missouri (Ameren Missouri) filed an application with the Missouri Public Service Commission (Commission) June 2, 2015, for authority to sell and or trade EPA-issued sulfur dioxide (SO₂) and nitrogen oxides (NO_x) emission allowances under the Cross-State Air Pollution Rule (CSAPR) for 2015 and subsequent years. Ameren Missouri also requested to end its reporting requirements for sales and trades of CAIR NO_x allowances. The Commission directed the Staff of the Missouri Public Service Commission (Staff) to file its recommendation no later than July 31, 2015.

2. SO₂ and NO_x allowances were controlled by the Clean Air Interstate Rule (CAIR) from 2005 to 2015 until CSAPR came into effect. The Commission granted Ameren Missouri authority to manage its CAIR emissions allowances in EO-2010-0149 and EO-98-401, as well as the authority for a one-time trade of SO₂ allowances for NO_x allowances in EO-2012-0158. Ameren Missouri will only be permitted allowances granted under CSAPR starting in 2015.

¹ Note that Ameren Missouri in its *Application* also requests authority to manage its nitrogen oxide allowance inventory.

3. Pursuant to Section 393.190.1 RSMo, no utility may sell or transfer portions of its works or system without first obtaining the permission and approval of the Commission. All applications for permission must comply with the requirements of 4 CSR 240-2.060 and the specific filing requirements of 4 CSR 240-3.110, regarding an application for authority to sell, assign, lease or transfer assets.

4. Staff's *Memorandum* filed as Attachment A to this pleading describes the history of Ameren Missouri's CAIR SO₂ and NO_x allowances and that the Commission has previously granted Ameren Missouri the authority to manage those allowances.

5. Staff recommends that the Commission grant Ameren Missouri authority to manage its entire SO₂ and NO_x emissions allowance inventories the EPA issues to it under CSAPR in 2015 and in all future years as follows:

- A. Ameren Missouri shall be limited to selling and/or trading up to one-half of its issued SO₂ and NO_x allowances, respectively, without seeking specific Commission approval. Ameren Missouri may request authorization to sell additional allowances above these levels through a filing with the Commission. All proceeds from the sale of SO₂ and NO_x emissions allowances issued under CSAPR shall flow through Ameren Missouri's fuel adjustment clause.
- B. Ameren Missouri shall be required to submit quarterly and annual reports for SO₂ and NO_x allowances under CSAPR as a non-case related submission in the Commission electronic filing information system (EFIS), in the same manner, to the extent applicable, as those reports Ameren Missouri is already submitting to the Commission for previous emission allowance programs under CAIR.
- C. Ameren Missouri shall maintain and make available to Staff Ameren Missouri's database that supports all of its allowance transactions and inventory balances under CSAPR.
- D. For all sales in combination with other transactions, such as power contracts, Ameren Missouri shall record resulting profits from these sales of SO₂ and NO_x emission allowances at an amount at least equal to the current market value as established by the monthly price index published by Argus Air Daily. If Argus Air Daily ceases publication, or

for other reasons Ameren Missouri wishes to switch to a different reputable third party publication then Ameren Missouri will provide notice in EFIS, in the same non-case related repository that it is providing its quarterly and annual reports, prior to selecting and utilizing a different third party publication and then explain in a meeting with Staff why such a change is necessary. Staff will ask the Commission to resolve any disagreement regarding such a change that cannot be resolved within a reasonable period of time.

6. In addition, Staff recommends the Commission grant Ameren Missouri partial relief from existing reporting requirements.

- A. Staff recommends that the Commission authorize Ameren Missouri to discontinue submitting quarterly and annual reports for NO_x emission allowances the EPA issued under the previously existing CAIR program.
- B. Staff recommends that Ameren Missouri be required to continue to submit in EFIS, as a non-case related submission, quarterly and annual reports for SO₂ emission allowances under the EPA's Acid Rain program, that these transactions continue to flow through Ameren Missouri's FAC and that Ameren Missouri continue to adhere to all items previously stipulated to and ordered in all other cases with regard to SO₂ emission allowances.

WHEREFORE, Staff asks that the Commission grant Ameren Missouri's request for authority to manage its CSAPR sulfur dioxide and nitrogen oxides emission allowances with the above-stated limitations; and grant such other and further relief as the Commission considers just in the circumstances.

Respectfully submitted,

/s/ Whitney Payne

Whitney Payne

Legal Counsel

Missouri Bar No. 64078

Attorney for the Staff of the

Missouri Public Service Commission

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by electronic mail, or First Class United States Postal Mail, postage prepaid, on this 31st day of July, 2015, to all counsel of record.

/s/ Whitney Payne

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
File No. EO-2015-0320; Application of Union Electric Company d/b/a Ameren Missouri for Authorization to Manage its Sulfur Dioxide Emission and Nitrogen Oxide Allowance Inventory

FROM: Charles Poston, Energy Unit - Engineering Analysis
John Cassidy, Auditing Unit – Utility Services

/s/Dan Beck 7/31/2015 /s/ Whitney Payne 7/31/2015
Energy Unit / Date Staff Counsel's Office / Date

SUBJECT: Staff Report and Recommendations to Approve with Limitations Ameren Missouri's Application to Manage Sulfur Dioxide and Nitrogen Oxide Emission Allowances Inventory

DATE: July 31, 2015

Overview

Union Electric Company d/b/a Ameren Missouri filed an application with the Missouri Public Service Commission on June 2, 2015 requesting:¹

1. Authority to sell and/or trade sulfur dioxide (SO₂) and nitrogen oxide (NO_x) emission allowances as issued under the Cross-State Air Pollution Rule (CSAPR) in 2015 and in subsequent years. Should such authority be granted, Ameren Missouri has agreed to submit quarterly and annual reports regarding these new items similar to those it is already submitting to the Commission for existing emission allowance programs. The proposed reporting requirements are detailed in Schedule B of Ameren Missouri's application.

2. Approval to end the reporting requirements that are applicable to Ameren Missouri's authority to sell and trade NO_x emission allowances created under the Clean Air Interstate Rule (CAIR).

On June 3, 2015 the Commission issued an order directing Staff to file a recommendation regarding Ameren Missouri's application for authorization to manage its SO₂ and NO_x allowance

¹ In the caption of its application Ameren Missouri only refers to managing its sulfur dioxide emission allowance inventory, but in the body of its application it also requests authority to sell and trade nitrogen oxide emission allowances.

inventory no later than July 6, 2015. Staff filed a motion for an extension of time on June 24, 2015 following a telephone conference with Ameren Missouri personnel on June 22, 2015. Staff asked that the Commission extend the filing date for its recommendation to no later than July 31, 2015. The Commission granted this request in an order issued on June 24, 2015.

Background on Emission Allowances

The United States Environmental Protection Agency (EPA) has created cap and trade programs to reduce the emissions of SO₂ and NO_x from power plants in parts of the country including Missouri. Emission allowances issued by the EPA are permits that allow the permit holder to emit one ton of a regulated substance per allowance.

The Acid Rain Program (ARP) was created under Title IV of the 1990 Clean Air Act Amendments and requires reductions in emissions of SO₂ and NO_x from electric generation units. A permanent cap of the total annual amount of SO₂ emitted by power plants was phased in over a period of twenty years. The ARP established the first national cap and trade program in the United States. Under ARP, NO_x emission reductions were not given a cap and restrictions only affected a subset of generating units.

From 2005 through 2014 the EPA's Clean Air Interstate Rule (CAIR) was used to control regional interstate transport of fine particulate matter (soot) and ozone (smog). A number of states, including Missouri, were required to reduce their emissions of SO₂ and NO_x. Three cap and trade programs were created by this rule:

- An annual SO₂ trading program
- An annual NO_x trading program
- A seasonal NO_x trading program

The annual SO₂ and NO_x cap and trade programs created by the EPA's CAIR were eliminated on January 1, 2015 when new programs established under the EPA's Cross-State Air Pollution Rule (CSAPR) came into effect. The seasonal NO_x trading program created by the EPA's CAIR was last used during the ozone seasons in 2014. The CSAPR seasonal NO_x trading program took effect on May 1, 2015. In 2015 and going forward, only those SO₂ and NO_x emission allowances that the EPA grants under CSAPR can be used to comply with CSAPR.

Past Case Filings by Ameren Missouri Regarding Emission Allowance Trading

Pursuant to the requirements of §393.190.1 RSMo., and rules 4 CSR 240-2.060, and 4 CSR 240-3.110, in the past Ameren Missouri has made several filings regarding the sales or trades of SO₂ and NO_x emission allowances.

Case No. EO-98-401

In the spring of 1998, Ameren Missouri forecasted that it would have a surplus of SO₂ allowances that the EPA had granted it under the ARP and asked the Commission for the authority to manage its allowance inventory through various market trading techniques. In December of 1998, the Commission approved a stipulation granting Ameren Missouri the authority it requested, subject to a series of restrictions. Ameren Missouri was allowed to manage its entire allowance inventory, but was limited to selling only up to one-half of its Phase I SO₂ allowances without seeking additional specific Commission approval. As part of that settlement, Ameren Missouri also agreed to record profits from the sale of all allowances at least equal to the current market value as established by the monthly price index published by Cantor Fitzgerald Environmental Brokerage Service for all sales of allowances that are in combination with other transactions, such as power contracts.² Ameren Missouri also agreed and the Commission ordered it to provide annual reports of all transactions that involved SO₂ emission allowances, and to maintain a database of transactions and inventory balances that would be available to the Staff upon Staff's request.

Case No. EO-2010-0149

On November 19, 2009, Ameren Missouri requested authority to manage NO_x emission allowances issued to it under CAIR. Following Staff's filing of a recommendation to grant the application, subject to a number of conditions, Ameren Missouri voluntarily dismissed its application on June 25, 2010. During October 2011, Ameren Missouri filed another application to manage its NO_x emission allowances in Case No. EO-98-401.

² Subsequent to the September 11, 2001 terrorist attacks that occurred at the World Trade Center in New York, the profits from the sale of allowances were determined using the Argus Air Daily index. It should be noted that since the time of the agreement reached in Case No. EO-98-401, Ameren Missouri has never sold emission allowances in combination with other transactions.

Case No. EO-98-401 (continued)

In October of 2011, Ameren Missouri filed a motion asking the Commission to modify its existing authority to sell or trade its SO₂ allowances by modifying it to include NO_x allowances issued under CAIR. Ameren Missouri filed this motion as CSAPR was set to take effect on January 1, 2012, and the NO_x emission allowances that the EPA granted to Ameren Missouri under CAIR were expected to become worthless. At the time, Ameren Missouri held a surplus of annual and seasonal NO_x emission allowances and it was possible that some of the surplus allowances could be sold or traded prior to the end of the year. The authority Ameren Missouri requested was specifically limited to NO_x emission allowances created by CAIR. Ameren Missouri stated that it would file a separate application if it sought authority to sell or trade NO_x emission allowances created under CSAPR. In the same month, the Commission approved Ameren Missouri's request and issued an order granting it the authority to manage its NO_x emission allowances that the EPA had issued to it under CAIR. The Commission ordered that Ameren Missouri comply with reporting for these transactions similar to Ameren Missouri's reporting requirements for SO₂ emission allowances the EPA issued to it under ARP. As part of this additional authority to sell NO_x allowances issued under CAIR, Ameren Missouri agreed that all proceeds from the sale of NO_x emission allowances would flow through Ameren Missouri's fuel adjustment clause (FAC) to the benefit of its ratepayers. Ameren Missouri first began flowing sales of both SO₂ and NO_x emission allowances under CAIR through its FAC in 2011.

Case No. EO-2012-0158

On November 22, 2011, Ameren Missouri filed an application asking the Commission for the authority to perform a one-time trade or exchange of 1,050 CSAPR SO₂ emission allowances for 500 CSAPR annual NO_x program emission allowances. Ameren Missouri made this request to maintain sufficient allowance margins to comply with CSAPR requirements. In January of 2012, the Commission approved Ameren Missouri's request, subject to the following conditions:

- Approval of the transaction and accounting treatment sought in Ameren Missouri's application was not determinative of future rulemaking.
- Approval of the transaction and accounting treatment did not bind anyone from challenging any aspect of the transaction's prudence.

- Approval was only granted for the limited transfer requested in Ameren Missouri's application.
- Ameren Missouri was required to request authorization from the Commission prior to closing any other transactions to sell, assign, lease, transfer, mortgage; or otherwise dispose of or encumber any CSAPR SO₂, seasonal NO_x, or annual NO_x emission allowances.

Case No. EO-98-401 (continued)

On December 30, 2011, the US Court of Appeals in Washington issued a stay of CSAPR and instructed the EPA to continue to use CAIR on a temporary basis. Following that stay, Ameren Missouri filed a motion with the Commission in Case No. EO-98-401 on June 13, 2012 to extend its authority to sell or trade CAIR NO_x emission allowances for 2012 and into future years subject to a number of quarterly and annual reporting requirements. The Commission granted this motion by an order issued on June 20, 2012.

Case No. EO-2015-0320

On June 2, 2015, Ameren Missouri filed an application with the Commission requesting the authority to sell and trade SO₂ and NO_x emission allowances that the EPA grants to it under CSAPR. Ameren Missouri agrees in the application to submit quarterly and annual reports similar to those it is submitting for its NO_x emissions allowance transactions under CAIR and for its management of SO₂ and NO_x emission allowances under CSAPR. Due to the replacement of CAIR programs by CSAPR, Ameren Missouri also requests an end to the reporting requirements for trades of CAIR NO_x emission allowances.

STAFF RECOMMENDATIONS

1. Staff recommends that the Commission grant Ameren Missouri authority to manage its entire SO₂ and NO_x emissions allowance inventories the EPA issues to it under CSAPR in 2015 and in all future years as follows:

A. Ameren Missouri shall be limited to selling and/or trading up to one-half of its issued SO₂ and NO_x allowances, respectively, without seeking specific Commission approval. Ameren Missouri may request authorization to sell additional allowances above these levels

through a filing with the Commission. All proceeds from the sale of SO₂ and NO_x emissions allowances issued under CSAPR shall flow through Ameren Missouri's fuel adjustment clause.

B. Ameren Missouri shall be required to submit quarterly and annual reports for SO₂ and NO_x allowances under CSAPR as a non-case related submission in the Commission electronic filing information system (EFIS), in the same manner, to the extent applicable, as those reports Ameren Missouri is already submitting to the Commission for previous emission allowance programs under CAIR.


C. Ameren Missouri shall maintain and make available to Staff Ameren Missouri's database that supports all of its allowance transactions and inventory balances under CSAPR.

D. For all sales in combination with other transactions, such as power contracts, Ameren Missouri shall record resulting profits from these sales of SO₂ and NO_x emission allowances at an amount at least equal to the current market value as established by the monthly price index published by Argus Air Daily. If Argus Air Daily ceases publication, or for other reasons Ameren Missouri wishes to switch to a different reputable third party publication then Ameren Missouri will provide notice in EFIS, in the same non-case related repository that it is providing its quarterly and annual reports, prior to selecting and utilizing a different third party publication and then explain in a meeting with Staff why such a change is necessary. Staff will ask the Commission to resolve any disagreement regarding such a change that cannot be resolved within a reasonable period of time.

2. In addition, Staff recommends the Commission grant Ameren Missouri partial relief from existing reporting requirements.

A. Staff recommends that the Commission authorize Ameren Missouri to discontinue submitting quarterly and annual reports for NO_x emission allowances the EPA issued under the previously existing CAIR program.

B. Staff recommends that Ameren Missouri be required to continue to submit in EFIS, as a non-case related submission, quarterly and annual reports for SO₂ emission allowances under the EPA's Acid Rain program, that these transactions continue to flow through Ameren Missouri's FAC and that Ameren Missouri continue to adhere to all items previously stipulated to and ordered in all other cases with regard to SO₂ emission allowances.


Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

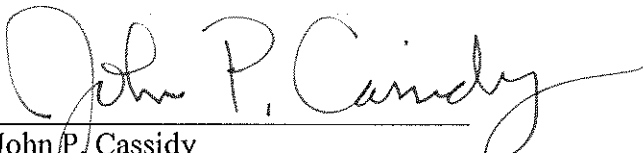
In the Matter of an Application of Union)
Electric Company d/b/a Ameren Missouri for)
Authorization to Manage Sulfur Dioxide)
Emission Allowance Inventory)
File No. EO-2015-0320

AFFIDAVIT OF JOHN P. CASSIDY

STATE OF MISSOURI)
)
COUNTY OF ST LOUIS) ss.

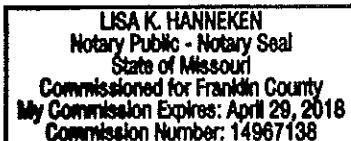
COMES NOW John P. Cassidy and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Staff Recommendation; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.


John P. Cassidy

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of St Louis, State of Missouri, at my office in St Louis, on this 30TH day of July, 2015.




Notary Public