

**FISCHER      DORITY**  
PROFESSIONAL CORPORATION

James M. Fischer  
Larry W. DORITY

Attorneys at Law  
Regulatory & Governmental Consultants

101 Madison, Suite 400  
Jefferson City, MO 65101  
Telephone: (573) 636-6758  
Fax: (573) 636-0383

July 3, 2003

Dale Hardy Roberts  
Secretary/Chief Regulatory Law Judge  
Missouri Public Service Commission  
200 Madison Street, Suite 100  
P.O. Box 360  
Jefferson City, Missouri 65102

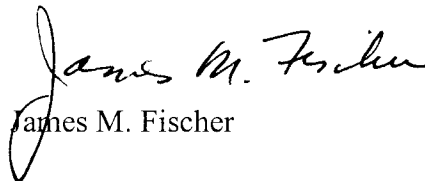
RE: Proposed Natural Gas Price volatility mitigation rule;  
Case No. GX-2002-0478

Dear Mr. Roberts:

Enclosed for filing in the above-referenced matter are the Initial Comments Of Union Electric Company d/b/a AmerenUE. A copy of the Initial Comments has been hand-delivered, emailed, or mailed this date to the counsel listed below.

Thank you for your attention to this matter.

Sincerely,

  
James M. Fischer

Enclosures

cc: Office of the Public Counsel  
General Counsel, Missouri Public Service Commission  
Thomas M. Byrne  
Dean Cooper  
Michael C. Pendergast  
Robert J. Hack  
Douglas Walther

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

In the Matter of Proposed Rulemaking Concerning    )  
Mitigation of Natural Gas Price Volatility                )     **Case No. GX-2002-478**

**INITIAL COMMENTS OF  
UNION ELECTRIC COMPANY D/B/A/ AMERENUE**

**COMES NOW** Union Electric Company, d/b/a AmerenUE (hereinafter "AmerenUE"), by and through counsel, and pursuant to the Commission's Notice in the June 2, 2003 edition of the Missouri Register, Vol. 28, No. 11, submits the following comments in response to the Commission's Proposed Rule relating to natural gas price volatility mitigation.

AmerenUE is supportive of the proposed rule set forth in 4 CSR 240-40.018 (hereinafter the "Proposed Rule"). The Proposed Rule, if adopted, will provide Missouri gas utilities a clear signal of the Commission's general policy regarding gas price volatility mitigation and the utilization of price hedging strategies and instruments. AmerenUE also supports the Proposed Rule because it does not dictate that specific hedging strategies or instruments be utilized by Missouri gas utilities. The Proposed Rule recognizes that the complexity of price hedging strategies and instruments combined with the unique circumstances of each utility would render a rigidly structured rule impracticable and possibly harmful to Missouri ratepayers. AmerenUE is also supportive of the Proposed Rule because it recognizes price hedging programs will result in gas supplies that are priced above the spot market at times which can be the result of prudent hedging strategies designed to reduce exposure to a volatile gas market. AmerenUE believes it is important for the Commission to issue such policy statements as a means of

providing guidance and assurances to gas utilities in Missouri during this uncertain and volatile period in the natural gas industry.

The Proposed Rule affirms that it is prudent for gas utilities to develop a balanced portfolio of gas supply pricing mechanisms with the goal of reducing price volatility and providing price stability for customers. The Proposed Rule also recognizes that various types of pricing structures and instruments are necessary to achieve these important goals. However, the Proposed Rule is silent with respect to the treatment of the costs or benefits of price hedging instruments through the Purchased Gas Adjustment (PGA) mechanism. Many price hedging instruments, such as NYMEX futures contracts or financial swap contracts, will have associated cash gains or losses created when the position is closed. These gains or losses are paired with physical gas supply that is indexed or priced at the market to create a fixed price for the gas supply. The Proposed Rule would be enhanced by specifying that the cash gains or losses associated with financial instruments used to mitigate price volatility can be flowed through the PGA mechanism when they are incurred, subject to the normal prudence review process during the annual ACA audit.

AmerenUE also offers the following comments to the Proposed Rule to provide clarity to the various types of pricing structures and instruments to be considered by gas utilities.

- In order to provide clarification to “Section (2) (F) Futures Contracts”, the addition of “NYMEX” (New York Mercantile Exchange) prior to “Futures Contracts” will provide a more precise definition of this instrument.
- To provide clear direction regarding the use of financial instruments from various banks and financial institutions, a new subsection of (2) should be

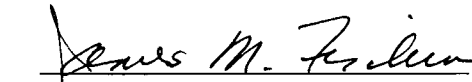
added to include “Financial Swaps and Options from OTC Markets” where OTC refers to “Over the Counter” or or markets in which the transactions are committed directly with a bank or financial institution. This addition to the Proposed Rule would clarify that various natural gas financial swaps and options from banks and other financial institutions may be used for the purpose of price hedging and volatility mitigation. AmerenUE believes this addition is necessary due to the increasingly important role financial institutions are playing in offering price hedging instruments in the natural gas markets.

- The pricing structures listed in Section (2) should also contain indexed contracts as a component of a gas utility’s price structure. Indexed contracts perform an important function by providing gas supply at current market-based prices which balances the fixed or hedged gas supply price structures in the portfolio. A balanced portfolio must always retain a certain level of market-based contracts since the price of gas can decline as well as rise. Indexed contracts can also be used to provide physical gas supply at market-based prices on which NYMEX or financial swap contracts are matched up to create fixed price gas supply.
- Section (1) (C) states that price hedging strategies employed by gas utilities can result in gas supply that “may be higher than spot market price at times” and that this is the result of “prudent efforts to dampen upward volatility”. The word “upward” should be replaced with “price” since

many hedging strategies and instruments are designed to dampen or eliminate price volatility, both upward and downward.

Finally, AmerenUE would like to thank the Commission for the opportunity to participate in the development of the proposed reporting rule.

Respectfully submitted,

  
James M. Fischer, MBE #27543  
FISCHER & DORITY, P.C.  
101 Madison, Suite 400  
Jefferson City, Missouri 65101  
Telephone: (573) 636-6758  
Facsimile: (573) 636-0383  
E-mail: [jfischerpc@aol.com](mailto:jfischerpc@aol.com)

and

Thomas M. Byrne, MBE #33340  
Ameren Services Company  
One Ameren Plaza  
1901 Chouteau Avenue  
P.O. Box 66149 (MC 1310)  
St. Louis, MO 64166-6149  
Telephone: 314-554-2514  
Fax: 314-554-4014  
Email: [TByrne@ameren.com](mailto:TByrne@ameren.com)

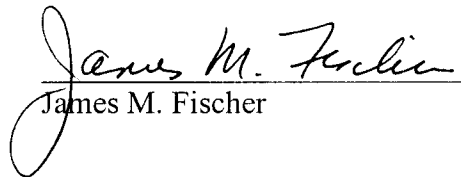
ATTORNEYS FOR UNION  
ELECTRIC COMPANY D/B/A  
AMERENUE

**CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed, emailed, or hand-delivered this 3rd day of July, 2003, to:

General Counsel's Office  
Missouri Public Service Commission  
P.O. Box 360  
Jefferson City, MO 65102

Douglas E. Micheel  
Office of the Public Counsel  
P.O. Box 7800  
Jefferson City, MO 65102

  
James M. Fischer