

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission)
On Its Own Motion)
)
-vs-)
) Docket No. 06-0746
Illinois Power Company,)
d/b/a AmerenIP)
)
Reconciliation of revenues collected under)
gas adjustment charges with actual costs)
prudently incurred)

DRAFT PROPOSED ORDER

BY THE COMMISSION

On November 21, 2006, the Illinois Commerce Commission (“Commission”) entered an Order Commencing PGA Reconciliation Proceedings directing Illinois Power Company, d/b/a AmerenIP (“AmerenIP”), to present evidence in this docket at a public hearing showing the reconciliation of revenues collected under its purchased gas adjustment (“PGA”) tariff with the actual cost of gas supplies prudently incurred and recoverable under said PGA tariff for the period from January 1, 2006 through December 31, 2006 (“Reconciliation Period”). Notice of the filing of AmerenIP’s testimony and exhibits with the Commission was posted in AmerenIP’s business offices and was published in newspapers having general circulation in AmerenIP’s service territory, in the manner prescribed by 83 Ill. Adm. Code 255, in compliance with the Commission’s November 21, 2006 Initiating Order.

Pursuant to proper legal notice, a telephonic evidentiary hearing was held in this matter before a duly authorized Administrative Law Judge of the Commission at its

offices in Springfield, Illinois on October 1, 2007. Appearances were entered by Commission Staff (“Staff”) and counsel for AmerenIP. No petitions to intervene were filed. The parties were afforded the opportunity to cross-examine all witnesses and to offer evidence with respect to all issues in this proceeding. At the hearing, counsel for AmerenIP requested confidential treatment of certain proprietary information in the record. The proprietary information sought to be protected consists of the details of specific contract negotiations; gas supply, transportation and storage transactions; and price hedging and forecasting information, the disclosure of which, according to AmerenIP, would adversely affect AmerenIP’s relationship with gas suppliers and its ability to negotiate future gas supply arrangements. Staff did not object to the request. At the conclusion of the aforesaid evidentiary hearing, the record was marked “Heard and Taken.”

In accordance with Section 9-220 of the Public Utilities Act (“Act”), 220 ILCS 5/1-101, et seq., the Commission may authorize an increase or decrease in rates and charges based upon changes in the cost of purchased gas through the application of a PGA clause. Section 9-220(a) requires the Commission to initiate annual public hearings “to determine whether the clauses reflect actual costs of...gas...purchased to determine whether such purchases were prudent, and to reconcile any amounts collected with the actual cost of...gas...prudently purchased.” In each such proceeding, the burden of proof shall be upon the utility to establish prudence of its applicable costs.

For gas purchases, the provisions of Section 9-220 are implemented in 83 Ill. Adm. Code 525, “Uniform Purchased Gas Adjustment Clause” (“Code”). Section 525.40 of the Code identifies gas costs that are recoverable through the PGA clause.

Adjustments to gas costs through the Adjustment Factor are addressed in Section 525.50. The gas charge formula is contained in Section 525.60. Annual reconciliation procedures are described in Section 525.70.

The record contains a description of AmerenIP's practices and procedures for reconciling the revenues collected under its PGA tariff with the actual costs recoverable under such tariff during the Reconciliation Period.

AmerenIP Testimony

Mr. Gary J. Murphy, Financial Specialist, Fuel Accounting in the Accounting Department of Ameren Services Company, an affiliated service company of AmerenIP, testified that his responsibilities include many aspects of AmerenIP's natural gas accounting, including Purchased Gas Adjustment. Mr. Murphy sponsored AmerenIP Exhibit No. 1.1, a schedule which identifies and reconciles all components of AmerenIP's 2006 gas costs and recoveries. Mr. Murphy also sponsored AmerenIP Exhibit No. 1.2 which states the basis for presentation of filing of AmerenIP's annual reconciliation. Mr. Murphy further testified that an independent auditor, PricewaterhouseCoopers LLP, audited the revenue and cost data presented in AmerenIP Exhibit No.1.1. A copy of the audit report was submitted as AmerenIP Exhibit No. 1.3, and an Officer Verification was submitted as AmerenIP Exhibit No. 1.4. AmerenIP Exhibit Nos. 1.1 thru 1.4 were all attached to Mr. Murphy's direct testimony identified as AmerenIP Exhibit No. 1.0

Mr. Kenneth Dothage testified as the Gas Supply Manager in the Gas Supply Division of Ameren Energy Fuels and Services Company ("AFS"), the affiliated company that provides AmerenIP and other affiliates of Ameren Corporation ("Ameren")

with fuel and natural gas supply and management services. (See AmerenIP Ex. 3.0) Mr. Dothage testified regarding the recent negotiation of virtually all of AFS' pipeline and storage capacity on four of its largest upstream interstate pipeline suppliers. His exhibit, AmerenIP Exhibit No. 3.1, provides confidential and proprietary details surrounding AmerenIP's firm pipeline transportation and storage agreements.

Mr. James K. Zeltmann testified as a Lead Gas Supply Executive in the Gas Supply Division of AFS. Mr. Zeltmann testified regarding AmerenIP's general purchasing policy for acquiring gas supply services, transportation and storage capacity. (See AmerenIP Ex. 2.0R) Mr. Zeltmann also testified regarding the changes made to AmerenIP's pipeline capacity and storage service contracts, including outlining what steps AmerenIP took during the Reconciliation Period to minimize its pipeline capacity costs. Mr. Zeltmann explained how AmerenIP determines the proper amount of leased storage for its supply portfolio and discussed why leased storage is important to providing high reliability. Mr. Zeltmann described how AmerenIP's on-system storage fields are used to supply gas to its distribution system, and explained what efforts AmerenIP pursues to ensure optimal use of its owned storage facilities. Mr. Zeltmann testified as to AmerenIP's general price hedging strategy and the purpose thereof. Mr. Zeltmann discussed the AFS Risk Management Policy ("Policy") to which AmerenIP's gas supply activity is subject; described the changes made to said Policy during the Reconciliation Period; and elaborated on how the Policy affects natural gas supply procurement. Mr. Zeltmann described AmerenIP's gas procurement activities for the Reconciliation Period and discussed AmerenIP's gas supply portfolio strategies including the hedging and price control methods used by AmerenIP during the Reconciliation

Period to mitigate the impact of natural gas price increases on its customers. AmerenIP Exhibits Nos. 2.1 through 2.4 reflect AmerenIP's compliance with the AFS Risk Management Policy price and volumetric hedge limits. Mr. Zeltmann testified that he believed AmerenIP's procurement of natural gas was prudent during 2006.

Staff Testimony

Burma C. Jones, an Accountant in the Accounting Department of the Financial Analysis Division of the Commission's Public Utilities Bureau, testified that she was assigned to review AmerenIP's PGA reconciliation, analyze the underlying data, and propose adjustments where appropriate. Ms. Jones testified that as a result of her review, she found that AmerenIP did not follow its own procedure as described in its response to Staff Data Request No. GS-18 in that it billed third parties for gas lost in two separate incidents as a result of damage to its lines in the amount of \$5,266, but did not apply the recovered costs to the PGA. Ms. Jones opines that it is impractical to propose a single adjustment for such an immaterial amount and, thus, she did not recommend an adjustment to reduce recoverable gas costs. However, AmerenIP should not construe the lack of an adjustment in the instant proceeding as the basis to discontinue billing for lost gas due to damage to gas lines by third parties.

Ms. Jones found no reason to object to AmerenIP's reconciliation and recommends that the Commission accept the reconciliation of revenues collected under the PGA clause with actual costs as reflected on AmerenIP Exhibit 1.1. Ms. Jones also recommends AmerenIP to continue billing for gas lost as a result of damage to gas lines by third parties and to flow the amounts collected for the lost gas through the PGA as a reduction to recoverable gas costs. Ms. Jones further recommends the other Ameren

utilities, Central Illinois Light Company, d/b/a AmerenCILCO, and Central Illinois Public Service Company, d/b/a AmerenCIPS, adopt a similar policy regarding gas lost as a result of damage to gas lines by third parties.

Eric Lounsberry, a Supervisor in the Gas Section of the Engineering Department of the Energy Division of the Commission's Public Utilities Bureau, testified that he reviewed the direct testimony of AmerenIP witnesses Mr. Murphy, Mr. Zeltmann and Mr. Dothage, as well as responses to numerous data requests that directly address issues related to the prudence of AmerenIP's natural gas purchasing practices during the Reconciliation Period. Mr. Lounsberry reported that he also conducted an on-site review of AmerenIP's gas supply and transportation contracts and the process AmerenIP used to select those contracts. Mr. Lounsberry testified that as a result of his review, he found no reason to dispute AmerenIP's assertion that all gas supply purchases were prudently incurred during the Reconciliation Period.

COMMISSION CONCLUSION

The Commission, having considered the entire record and being fully advised in the premises, is of the opinion and finds that:

- (1) AmerenIP is a corporation engaged in the distribution of natural gas to the public in Illinois, and, as such, is a public utility within the meaning of the Act;
- (2) the Commission has jurisdiction over AmerenIP and of the subject matter of this proceeding;
- (3) the statements of fact set forth in the prefatory portion of this Order are supported by the record and are hereby adopted as findings of fact;

(4) the evidence shows that during the Reconciliation Period, AmerenIP acted reasonably and prudently in its purchases of natural gas;

(5) the proposed reconciliation of revenues collected under AmerenIP's PGA tariff with the actual cost of gas supplies during the Reconciliation Period, as described in Appendix A attached hereto, should be accepted;

(6) Section 7(g) of the Illinois Freedom of Information Act, 5 ILCS 140/1 et seq., exempts from public disclosure:

Trade secrets and commercial or financial information obtained from a person or business where such trade secrets or information are proprietary, privileged or confidential, or where disclosure of such trade secrets or information may cause competitive harm;

the specified information contained in the proprietary versions of AmerenIP's Exhibit Nos. 2.0R, 3.0 and 3.1 fall within this exemption and should be accorded proprietary treatment until November 15, 2012; and

(7) all motions, petitions, objections, or other matters in this proceeding that remain unresolved should be resolved consistent with the conclusion contained herein.

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that the reconciliation submitted by AmerenIP of the revenues collected under its PGA tariff with costs prudently incurred for the purchase of natural gas for the calendar year 2006 is hereby approved as reflected in the attached Appendix A.

IT IS FURTHER ORDERED that the proprietary version of AmerenIP Exhibits Nos. 2.0R, 3.0 and 3.1 are afforded proprietary treatment and are exempt from public disclosure and will only be accessible to the Commission and the Commission Staff until November 15, 2012, after which they shall be available to the public.

IT IS FURTHER ORDERED that all motions, petitions, objections, or other matters in this proceeding that remain unresolved are hereby resolved consistent with the conclusion contained herein.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Act and 83 Ill. Adm. Code 200.800, this Order is final; it is not subject to the Administrative Review Law.

By order of the Commission this ____ day of _____, 2008.