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May 31, 2007

Ms. Cully Dale
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
Governor Office Building
200 Madison Street
Jefferson City, Missouri 65101

Re: Case No. ER-2007-0002

Dear Ms. Dale:

Enclosed for filing in the above-referenced case is The Missouri Industrial Energy Consumers' Application for Rehearing or Reconsideration.

Thank you for your assistance in bringing this filing to the attention of the Commission, and please call me if you have any questions.

Very truly yours,

Diana M. Vuylsteke
DMV:rms
Enclosure
cc: All parties

FILED³
MAY 31 2007
Missouri Public
Service Commission

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MAY 31 2007

Missouri Public
Service Commission

Case No. ER-2007-0002

REHEARING OR RECONSIDERATION

for the reasons discussed below.

RETIREMENT OF GENERATING PLANTS

for terminal net salvage because they are applied to 100% of the investment in these accounts.

component for terminal net salvage, contrary to the Commission's stated intent.

B. HISTORIC OR FUTURE INFLATION RATES WHEN ESTIMATING NET SALVAGE

In the Order on page 93, the Commission concluded that past history is a better predictor of future inflation for ratemaking purposes. The Commission rejected any adjustment to the net salvage rates for the Transmission, Distribution and General plant for future inflation. MIEC contends that the Commission should have adjusted the proposed book depreciation rates for Transmission, Distribution and General plant accounts to reflect estimates of future inflation, rather than rely on historical trends or inflation rates to develop net salvage percentages to be included in depreciation rates.

As shown in the prefiled testimony of Mr. Selecky on behalf of MIEC and Mr. William Dunkel on behalf of the Office of Public Council, over the last 40 plus years, the rate of inflation has averaged over 4% per year. However, annual future inflation projections provided by the Survey of Professional Forecasters and the Annual Energy Outlook indicate that projections for future inflation are expected to be approximately 2.5% per year. Relying on past inflation to develop depreciation rates will overstate the net salvage component of the depreciation expense for the Transmission, Distribution and General plant accounts. MIEC recommends that that Commission utilize a rate of inflation of approximately 2.5% to develop the TDG net salvage percentages.

It should be noted that AmerenUE utilized an inflation rate of approximately 2% to escalate the costs associated with dismantling its steam production plant. These cost estimates were used for the period 2005 through 2026. Therefore, the Commission should reduce the escalation included in the depreciation rates from approximately 4% to approximately 2.5%. This would reduce the net salvage percentages by 45%.

C. RETURN ON COMMON EQUITY

The Order finds a fair return on equity for AmerenUE to be 10.2%. The return is based largely on the Commission's finding that IIEC witness Gorman's recommend return of 9.8% is

reasonable. However, the Commission found that this equity return should be "pushed up a bit" to reflect the denial of a fuel adjustment mechanism (Order at 42 and 43). The Order also specifically found that the Commission was not persuaded by the other witnesses in the rate proceeding (Order at 43).


The Commission's award of a return on equity of 10.2% should be reconsidered, and the Commission should award AmerenUE a return of 9.8%. Mr. Gorman's return on equity of 9.8% was based on AmerenUE's current investment risk, which is without a fuel adjustment mechanism. Therefore, it is not appropriate for the Commission to "push up" Mr. Gorman's estimated return of equity of 9.8% to reflect its rejection of AmerenUE's request for a fuel adjustment mechanism.

Had the Commission approved a fuel adjustment mechanism for AmerenUE, AmerenUE's risk would have been lowered, and would have justified a reduction to Mr. Gorman's recommended return of 9.8%. However, since the Commission did not approve a fuel adjustment mechanism, AmerenUE's risk was not altered, and Mr. Gorman's finding of a 9.8% return on equity based on AmerenUE's current risk should be approved in this proceeding.

WHEREFORE, for the reasons stated above, the MIEC respectfully requests the Commission grant its Application for Rehearing or Reconsideration.

Respectfully submitted,

BRYAN CAVE, LLP

By: 
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Attorney for The Missouri Industrial
Energy Consumers

CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been e-mailed this 31st day of May, 2007 to all parties on the Commission's service list in this case.

Diana Vuylsteke