Exhibit No.:	________________
Issue(s):	Fuel Adjustment Clause/ Callaway 2 COLA Costs/ DSM Cost Recovery/ Value of Capacity Sales
Witness/Type of Exhibit:	Kind/Rebuttal
Sponsoring Party:	Public Counsel
Case No.:	ER-2008-0318

REBUTTAL TESTIMONY

OF

RYAN KIND

Submitted on Behalf of
the Office of the Public Counsel

UNION ELECTRIC COMPANY D/B/A AMERENUE

Case No. ER-2008-0318

October 14, 2008

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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**

AFFIDAVIT OF RYAN KIND

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Ryan Kind, of lawful age and being first duly sworn, deposes and states:

1. My name is Ryan Kind. I am a Chief Utility Economist for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.

3. I hereby swear and affirm that my statements contained in the attached affidavit are true and correct to the best of my knowledge and belief.

Ryan Kind

Ryan Kind

Subscribed and sworn to me this 14th day of October 2008.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

JERENE A. BUCKMAN
My Commission Expires
August 10, 2009
Cole County
Commission #05754036

Jerene A. Buckman

Jerene A. Buckman
Notary Public

My commission expires August 10, 2009.

REBUTTAL TESTIMONY

OF

RYAN KIND

UNION ELECTRIC COMPANY

CASE NO. ER-2008-0318

Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.

A. Ryan Kind, Chief Public Utility Economist, Office of the Public Counsel, P.O. Box 2230, Jefferson City, Missouri 65102.

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND.

A. I have a B.S.B.A. in Economics and a M.A. in Economics from the University of Missouri-Columbia (UMC). While I was a graduate student at UMC, I was employed as a Teaching Assistant with the Department of Economics, and taught classes in Introductory Economics, and Money and Banking, in which I served as a Lab Instructor for Discussion Sections.

My previous work experience includes three and one-half years of employment with the Missouri Division of Transportation as a Financial Analyst. My responsibilities at the Division of Transportation included preparing transportation rate proposals and testimony for rate cases involving various segments of the trucking industry. I have been employed as an economist at the Office of the Public Counsel (Public Counsel or OPC) since April 1991.

Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THIS COMMISSION?

A. Yes, prior to this case I submitted written testimony in numerous electric, gas, and water rate cases as well as other miscellaneous gas, electric, and telephone cases.

Q. ARE YOU THE SAME RYAN KIND THAT HAS PREVIOUSLY FILED DIRECT TESTIMONY IN THIS CASE REGARDING REVENUE REQUIREMENT ISSUES AND DIRECT TESTIMONY REGARDING CLASS COST OF SERVICE AND RATE DESIGN ISSUES?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of this testimony is to address the direct testimony of various witnesses regarding the Fuel Adjustment Clause issue in the direct testimony filed by Missouri PSC Staff (Staff) witness Lena Mantle (see Staff Report, Cost of Service), MIEC witness Maurice Brubaker, Noranda Aluminum witness Donald Johnstone, State of Missouri witness Martin Cohen, and Union Electric Company (UE) witnesses Martin Lyons, Ajay Arora, and Thomas Voss. This testimony also responds to (1) the Callaway 2 cost issue direct testimony filed by UE witness Gary Weiss and Staff witness Steven Rackers (see Staff Report, Cost of Service) and (2) the DSM cost recovery issue raised in the direct testimony of Henry Warren (see Staff Report, Cost of Service). In addition, I have updated OPC's proposed amounts for capacity sales revenues that should be reflected in UE's revenue requirement to reflect the $3.5 million in 2008 ancillary services revenues that is identified in Mr. Schukar's direct testimony.

I. Fuel Adjustment Clause (FAC)

Q. IS THE FIRST CASE IN WHICH UE HAS REQUESTED APPROVAL OF AN FAC?

A. No. UE requested Commission approval of an FAC in its last rate case, ER-2007-0002, and that request was denied by the Commission.

Q. HAS THERE BEEN A SIGNIFICANT CHANGE IN UE'S OPERATIONS SINCE THE COMMISSION DENIED ITS REQUEST FOR AN FAC IN CASE NO. ER-2007-0002?

A. No. Table LM1 on page 61 of the Staff Report (Cost of Service) illustrates how some of the most important aspects of UE's operations which the Commission considers when it evaluates the merits of FAC requests have not changed significantly for UE since its last rate case. Table LM1 also illustrates some of the important differences between UE and the utilities for which the Commission has approved FAC requests, Aquila and Empire District Electric Company (Empire).

Q. WHAT CRITERIA HAS THE COMMISSION USED IN PREVIOUS CASES WHERE AN ELECTRIC UTILITY HAS REQUESTED APPROVAL FOR AN FAC?

A. The Commission has developed a "three-pronged test" that it has applied in all three cases where an electric utility has requested approval for an FAC. This test was re-stated in the Commission's Report and Order in Case No. ER-2008-0093 where the Commission last addressed a request for an FAC. On page 37 of this order the Commission states that an FAC should be used to recover changes in costs or revenues that are:

> 1. Substantial enough to have a material impact upon revenue requirements and the financial performance of the business between rate cases;
>
> 2. Beyond the control of management, where utility management has little influence over experienced revenue or cost levels; and

> 3. Volatile in amount, causing significant swings in income and cash flows if not tracked.

In Case No. ER-2007-0002, the Commission's Report and Order states:

> After carefully considering the evidence and arguments of the parties, and balancing the interests of ratepayers and shareholders, the Commission concludes that AmerenUE's fuel and purchased power costs are not volatile enough justify the implementation of a fuel adjustment clause at this time. (Report and Order, page 60)

Public Counsel does not believes there has been a substantial change in the volatility of UE's fuel and purchased power costs since the time that the Commission last considered this issue in Case No. ER-2007-0002.

Q. Is UE likely to have another rate case soon where any increases in its fuel and purchased power costs can be considered along with other changes in its costs and revenues?

A. Yes. In UE President Thomas Voss's direct testimony at lines 19 – 22 on page 20, he states that:

> The Sioux Plant scrubber is scheduled to come on line near the end of 2009. However, by that time the rising costs we are facing will very likely necessitate another rate case. We plan to include the Sioux scrubber in that case, provided it is in service. In that case we will also consider asking for an ECRM.

Q. DID MR. VOSS EXPECT TO FILE ANOTHER RATE CASE SO SOON PARTLY BECAUSE UE WAS ANTICIPATING THAT THE COMMISSION WOULD AGAIN REGJECT ITS REQUEST FOR APPROVAL OF AN FAC IN THIS CASE?

A. Apparently not. Just a few months before UE filed this rate case, on January 17, 2008, UE Chief Financial Officer Warner Baxter told investment analysts that "regulated [fuel] costs are assumed to be recoverable through a cost recovery mechanism beginning in 2009." I haven't seen any documents that indicate UE's expectations about the

Commission approving an FAC had changed before the time when Mr. Voss filed the testimony quoted above on April 4, 2008.

Q. HAS THE COMMISSION EXPRESSED CONCERNS ABOUT THE SHIFT IN INCENTIVES THAT OCCURS WHEN AN FAC IS USED TO RECOVER A PORTION OF A UTILITY'S COSTS?

A. Yes. At page 18 of the Commission's Report and Order in Case No. ER-2007-0002, the Commission states:

> The good effect of regulatory lag is that it provides the utility with a strong incentive to maximize its income and minimize its costs. If, however, a fuel adjustment clause is in place, **the utility has less financial incentive to minimize its fuel costs** because those costs will be automatically recovered from ratepayers. [Emphasis added]

Q. HAVE YOU REVIEWED ANY DOCUMENTS INDICATING THAT AMEREN SHARES THIS VIEW OF THE REDUCED INCENTIVE FOR MANAGING FUEL COSTS WHEN A UTILITY USES AN FAC TO RECOVER ITS FUEL COSTS?

A. Yes. The change in incentives that occurs when a utility uses a fuel adjustment clause has been acknowledged by Charles Mueller, the former President and CEO of UE. In Mr. Mueller's "Chairman's Letter" that was part of Ameren's 1998 Annual Report to Shareholder's, Mr. Mueller stated:

> We continue to reduce costs by increasing operating efficiency through the effective use of technology. These initiatives range from installation of remote sensing devices on our distribution lines to expansion of our automated meter system — now the world's largest. **We are also focused on lowering fuel costs. In 1998 in Illinois, we chose to eliminate the fuel adjustment clauses, which called for offering credits if certain fuel costs dropped or increasing customer bills if they rose. That decision, coupled with the fact that we have operated for several years without a fuel adjustment clause in Missouri, has given us <u>additional incentive</u> to continue to manage our fuel costs effectively.** Our four AmerenUE coal-fired power plants continue to use substantial quantities of lower cost, low-sulfur Western coal, reducing production costs and emissions. In 1998, AmerenCIPS' Newton Plant

> began using Western coal. We will continue to aggressively explore these and other options to reduce our fuel costs. (Emphasis added)

Mr. Mueller's statement about the "additional incentive" for Ameren to manage its fuel costs that occurred when the Company eliminated its fuel clause in 1998 for Ameren's regulated utility operations in Illinois demonstrates that Ameren has acknowledged the increased incentive to reduce fuel costs that is present when a utility operates without an FAC when this disclosure serves the utility's interest. In the 1998 annual report, Mr. Mueller had an interest in highlighting Ameren's incentives and efforts to reduce fuel costs in order to assure investors that it was and would remain vigilant in its efforts to manage fuel costs. The paragraph that is quoted above starts at the bottom of the first page of the "Chairman's Letter" (see page 2 of Attachment 1).

Q. IF THE COMMISSION DECIDES TO APPROVE AN FAC FOR UE DESPITE OPC'S RECOMMENDATION TO THE CONTRARY, ARE THERE SOME ASPECTS OF THE UE FAC PROPOSAL THAT SHOULD BE CHANGED?

A. Yes, there are several details of the UE FAC proposal that should be modified by the Commission if it decides to approve an FAC for UE, despite OPC's recommendation to the contrary. These details include (1) the 95%/5% pass-through ratio, (2) the Taum Sauk hold harmless adjustment (TS) factor, and (3) the definition of the off-system sales revenues factor (OSSR).

Q. WHY AND HOW SHOULD THE 95%/5% SHARING RATIO BE MODIFIED?

A. Public Counsel believes that if an FAC is approved for UE, only 50% of the variation in UE's fuel costs from the baseline cost level established in this rate case should be passed on to ratepayers through periodic adjustments. This lower pass through would recognize (1) the lower dependence of UE on volatile purchased power and volatile fuels like natural gas relative to other Missouri utilities and (2) the extent to which UE has been able to hedge the prices of the coal and nuclear fuel that is used in its baseload units.

Q. PLEASE EXPLAIN THE "TS" FACTOR THAT MR. LYONS PROPOSES ON PAGE 7 OF HIS DIRECT TESTIMONY FOR HOLDING CUSTOMERS HARMLESS FROM THE IMPACTS OF TAUM SAUK NOT BEING AVAILABLE FOR DISPATCH TO SERVE UE'S LOAD.

A. Mr. Lyons states that the "TS" factor defined in his Schedule MLJ-E1 is needed so that "customer's base rates are as low as they would be if Taum Sauk was still in operation." He states in his testimony that the $19.4 million dollar value represents UE's estimate of the energy and capacity value per year of the Taum Sauk plant.

Q. WILL PUTTING UE'S PROPOSED "TS" ADJUSTMENT FACTOR IN THE FAC ACTUALLY CAUSE CUSTOMER'S BASE RATES TO BE AS LOW AS THEY WOULD BE IF TAUM SAUK WAS STILL IN OPERATION?

A. No. UE's proposed "TS" adjustment factor does not accomplish its intended purpose because the forgone value of the capacity and energy from Taum Sauk being unavailable is not static over time. UE's proposal to lock in $19.4 million as the annual value of Taum Sauk not being in service will understate the value as soon as periodic adjustments start occurring in 2009 because it reflects UE's current valuation of capacity sales instead of the higher value that Ameren expects capacity sales to have beyond 2008. This would create a one-sided FAC that allows the FAC periodic adjustments to reflect any higher fuel costs that may occur in 2009 while failing to reflect the higher value of forgone capacity sales due to increased capacity prices if those prices increase in 2009 as UE expects.

Q. HOW DID YOU LEARN THAT AMEREN EXPECTS CAPACITY SALES TO HAVE A HIGHER VALUE BEYOND 2008?

A. In its January 17, 2008 presentation to investment analysts (see http://library.corporate-ir.net/library/91/918/91845/items/275881/Ameren%20Investor%20Rehearsal%20Final%20[Read-Only].pdf), Ameren stated on page 63 that "fundamentals support capacity prices strengthening from current levels because of improving liquidity and decreasing reserve margins" and that "projected regional reserve margin was 21% for the summer of 2007 and is expected to decline gradually to approximately 10% through 2016." If customers are to be truly held harmless from UE's Taum Sauk disaster, then the value of forgone capacity sales from Taum Sauk being out of service will need to be assessed at the time periodic adjustments are made rather than using a number that assumes that the value of forgone capacity sales will remain constant, even as the capacity market tightens.

Q. ARE THERE ADDITIONAL PROBLEMS WITH THE "TS" FACTOR PROPOSED BY UE?

A. Yes. UE's attempt to fashion a method that it claims will hold customers harmless from its Taum Sauk disaster is not consistent with the requirement in sub-section (2)(F) of 4 CSR 240-20.090 states:

> (2)(F) The RAM and periodic adjustments thereto shall be based on historical fuel and purchased power costs

The "TS" factor proposed by UE uses $19.4 million dollars as an **estimate** of what UE's actual historical fuel and purchased power costs would be if Taum Sauk was still in service. The Commission's 4 CSR 240-20.090 Electric Utility Fuel and Purchased Power Cost Recovery Mechanisms Rule 4 CSR 240-20.090 clearly prohibits the use of estimated fuel cost as part of a RAM and the periodic adjustments thereto.

Q. PLEASE EXPLAIN WHY PUBLIC COUNSEL DOES NOT AGREE WITH THE DEFINITION OF OSSR PROPOSED BY UE.

A. I will start with a little background. Ameren has taken steps to separate its Missouri regulated operations from its regulated and non-regulated Illinois operations through various structural and contractual changes that have taken place over the last several years. These changes included: the termination of the joint dispatch agreement between UE and Ameren's non-regulated genco, transferring UE's metro east operations to one of Ameren's Illinois subsidiaries, and the transfer of UE's 40% ownership share in Electric Energy, Inc. (which owns the Joppa coal plant) to Ameren's non-regulated genco.

The structural re-organization at UE and Ameren was summarized by Ameren President Gary Rainwater in his letter to shareholders in the 2006 Ameren Annual Report where he stated:

> Finally, at year-end 2006 we announced a new management structure that will align our company's organization and financial reporting more closely with **our three distinct areas of business – Missouri regulated operations, Illinois regulated operations, and non-rate regulated generation operations.** [Emphasis added]

This structural reorganization that separated UE's regulated operations was also referenced in a December 20, 2006 Ameren press release that stated:

> Ameren Executive Vice President and Chief Operating Officer Thomas R. Voss is elected to the additional position of president and chief executive officer of **AmerenUE (Ameren's Missouri rate-regulated operations).** [Emphasis added]

With all of these changes described above and Ameren's assertions that is has created "three distinct areas of business" where the activities and financial reporting of Ameren's regulated operating subsidiaries are kept separate from the activities on non-regulated affiliates, one would think UE's remaining operations consisted of entirely regulated activities and that the prudently incurred costs and the revenues associated with these activities would be reflected in UE's revenue requirement. However, the wording of the OSSR term in UE's proposed FAC reveals that this may not be the case. UE's response to OPC DR No. 67, which inquired about this subject stated:

> UE's FAC does not address the costs and revenues associated with speculative trading. UE believes these revenues and costs should not be included in the CPP and OSSR because FERC requires these revenues and costs to be recorded "below the line" for reporting purposes and as a result are viewed as items to be excluded.

UE's proposal to exclude some off-system sales revenues raises a number of questions:

- Will the personnel that work at UE's power marketing division, AmerenUE Asset Management & Trading (AM&T), be distracted from maximizing off-system sales margins for the benefit of ratepayers because of this other "non-regulated focus"?;

- What incentive structures are in place at AM&T and how do they differ with respect to regulated versus "non-regulated" revenues and earnings?;

- Has UE properly allocated all of the costs (e.g. personnel, overheads, facilities, software, etc) associated with its "non-regulated" AM&T activities away from the regulated entity?; and

- Why should earnings from wholesale trading activities that would not exist absent the operations of the regulated utility be excluded from the calculation of the revenue requirement for the regulated utility?

II. Callaway 2 COLA Costs

Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF UE WITNESS GARY WEISS SUPPORTING THE INCLUSION OF ABOUT $50 MILLION IN EXPENDITURES FOR A CALLAWAY 2 CONSTRUCTION AND OPERATING LICENSE APPLICATION (ADJUSTMENT 3) IN THIS CASE?

A. This request should be denied by the Commission for a number of reasons. First, the ratemaking treatment requested by UE would violate 393.135 RSMO (also know as Proposition 1). Second, while UE asserts that it was prudent to incur these costs, it also maintains that it has not yet decided to build Callaway 2 and is merely (1) "preserving the option" to build Callaway 2 and (2) preserving the ability to benefit from significant tax savings by filing the COLA with the Nuclear Regulatory Commission (NRC).

Q. PLEASE EXPLAIN WHY YOU BELIEVE THAT UE'S REQUESTED RATEMAKING TREATMENT FOR CALLAWAY 2 COLA COSTS WOULD VIOLATE 393.135 RSMO.

A. 393.135 RSMO which resulted from an initiative petition passed on November 2, 1976 states:

> Any charge made or demanded by an electrical corporation for service, or in connection therewith, which is based on the costs of construction in progress upon any existing or new facility of the electrical corporation, or any other cost associated with owning, operating, maintaining, or financing any property before it is fully operational and used for service, is unjust and unreasonable, and is prohibited.

Counsel informs me that this statute would apply to the Callaway 2 COLA costs that UE is seeking to recover in this case.

Q. APART FROM THE LEGAL ISSUES ASSOCIATED WITH 393.135 RSMO, DOES PUBLIC COUNSEL BELIEVE THAT UE HAS SHOWN IT WAS PRUDENT TO SPEND APPROXIMATELY $50 MILLION FOR A COLA APPLICATION IN ORDER TO "PRESERVE THE OPTION" OF BUILDING CALLAWAY 2 AND TO PRESERVE UE'S ABILITY TO SEEK TAX BENEFITS IN THE EVENT THAT IT DECIDES TO PROCEED WITH CALLAWAY 2?

A. No. UE has not shown that this was a prudent expenditure because UE has not shown that Callaway 2 is a viable option that the Company could act upon in the future. The only statement that I have seen from the Company attempting to justify the prudency of the Callaway 2 COLA expenditures was in UE's response to Staff DR No. 0096. In that response, UE's attorney Tom Byrne states:

> The Company agrees that inclusion of the construction costs of Callaway 2 in rates in this case would not be permissible under Missouri Statutes. However, the Company believes that inclusion of the cost of preparing and filing the Construction and Operating License Application (COLA) is permissible and appropriate. The Operating License has a separate value whether or not the Callaway 2 plant is ever built by AmerenUE. Moreover, due to the availability of significant tax savings that would benefit AmerenUE customers, it is prudent and reasonable for the Company to prepare and submit the COLA in 2008, and recover the associated costs in this case.

Public Counsel does not believe that UE has demonstrated a viable path to move forward with the construction of Callaway 2 even if it decides to pursue this option. The Company has made it very clear that before it would consider moving forward with the construction of Callaway 2, the Missouri Legislature would be required to either repeal or amend Proposition 1. UE has not presented any evidence that such a repeal or amendment is likely and until it is able to make such a showing to the Commission, the Callaway 2 COLA expenditures cannot be found prudent.

Q. HAS UE EXPLICITELY STATED THAT MISSOURI MUST REPEAL OR AMEND PROPOSITION 1 BEFORE IT WOULD DECIDE WHETHER OR NOT TO BUILD CALLAWAY 2?

A. Yes. UE's July 21, 2008 supplemental response to Staff DR No. 0165 states:

> In addition to the times [sic] listed as required prior to making a decision about whether to build Callaway Unit 2 in our original response, AmerenUE would like to add the following item.
>
> • The State of Missouri must repeal or amend Proposition 1 adopted November 2, 1976 and allow for Construction Work In Progress (CWIP) to be placed in the rate base.

Q. ARE THERE OTHER UNCERTAINTIES ASSOCIATED WITH CONSTRUCTIION OF A SECOND UNIT OF CALLAWAY THAT RAISE QUESTIONS AT THIS TIME ABOUT WHETHER IT WOULD BE A VIALBLE OPTION FOR SERVING UE'S LOAD IN THE FUTURE?

A. Yes, such uncertainties include (1) UE's ability to finance the construction of Callaway 2 even if it succeeds in having Proposition 1 either amended or rescinded, (2) the still pending NRC review of the EPR design that UE plans to use, (3) exchange rate risk which could dramatically alter the estimated cost of the project, and (4) whether UE will have the need for a large portion of 1600 MWs of capacity from a second Callaway nuclear unit.

III. DSM Cost Recovery

Q. WHAT IS YOUR RESPONSE TO THE TESTIMONY OF STAFF WITNESS HENRY WARREN (SEE STAFF REPORT, COST OF SERVICE) REGARDING DSM COST RECOVERY?

A. In this testimony, Mr. Warren states at page 9 of the Staff Report that "Staff asks that the Commission clarify the net expenditures to be included in the regulatory asset account." Public Counsel agrees that it is important to reflect only the **net expenditures** of acquiring DSM resources in the regulatory asset account that was agreed upon in the last UE rate case for deferring UE's DSM expenditures.

Q. HOW DOES OPC PROPOSE TO PROTECT CUSTOMERS FROM BEING OVERCHARGED FOR DSM EXPENDITURES BY ENSURING THAT ONLY THE NET EXPENDITURES OF ACQUIRING DSM RESOURCES WILL BE REFLECTED IN THE REGULATORY ASSET ACCOUNT?

A. Public Counsel proposes that the Missouri Commission adopt the same language that has been approved by the Illinois Commerce Commission to protect customers of Ameren's Illinois operating subsidiaries (AmerenCIPS, AmerenIP, and AmerenCILCO) from being overcharged for DSM costs. The language that OPC proposes is derived from RIC factor in the Rider EDR tariff sheets of Ameren's Illinois operating subsidiaries which is as follows:

> Reimbursement of Incremental Costs, in dollars, that are equal to funds from any source other than the application of EDRC that the Company expects to receive that are associated with the applicable twelve (12) month period of an ICC approved energy efficiency and demand response plan, if any, directly related to the implementation of programs and not otherwise credited.

The modified version of the RIC factor that OPC recommends the Commission adopt to protect UE's customers from being overcharged for DSM expenditures is as follows:

> In addition to booking the incremental costs of implementing DSM programs in its regulatory asset account, UE shall book the reimbursement of incremental costs, in dollars, that are equal to funds from any source that the Company receives that are associated with the its implementation of DSM programs and not otherwise credited.

IV. Value of Capacity Sales

Q. DO YOU HAVE ANY CHANGES TO AMOUNTS THAT YOU CALCULATED FOR CAPACITY SALES REVENUES IN YOUR DIRECT TESTIMONY?

A. Yes. After reviewing Mr. Schukar's direct testimony I determined that I understated the amount of capacity sales revenues that should be reflected in UE's revenue requirement prior to the adjustment for forgone current period capacity sales due to the Taum Sauk outage. My figures were understated because I did not reflect the value of ancillary services sales from 2008, $3.5 million. This $3.5 million dollar figure appears at line 10 on page 7 of Mr. Schukar's direct testimony and it should be added to the figures for capacity sales revenues that appear in lines 12 and 16 on page 8 of my direct revenue requirement testimony in this case.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

1998 ANNUAL REPORT

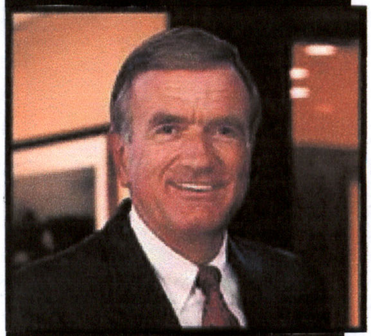
Strong *Fundamentals* EFFECTIVE Solutions

Ameren

Attachment 1
Page 1 of 5

Chairman's Letter

Charles W. Mueller
Chairman, President,
and Chief Executive Officer
Ameren Corporation



Our year was characterized by *efficient use of resources* AND EXPANDED SERVICE OPTIONS for all customers

To Our Owners

Over the past year, we have followed a well-defined strategy to capitalize on our generating assets, grow earnings, reduce costs and effectively manage regulatory and market uncertainties. We have enhanced the performance of our existing assets and made necessary investments to prepare for an increasingly competitive environment. That strategy has proved both durable and successful.

We continue to seek opportunities to maximize our generating assets. Ameren ranks 11th in the nation in generation capacity. 1998 was marked by several initiatives to secure and enhance this position by increasing the availability of our coal-fired plants and sustaining the already strong performance of our nuclear unit. Our Labadie and Rush Island plants set all-time generation records in 1998, while our Callaway Nuclear Plant needed only 31 days to complete its ninth refueling, tying the record set during the plant's last refueling in the fall of 1996. This record was the second shortest of any of the 27 nuclear plant refuelings conducted in the spring of 1998. Callaway continues to rank as one of the nation's best managed nuclear plants, earning recognition for operating efficiency and safety in a period of increased regulatory scrutiny.

These generation resources paid dividends in the summer of 1998 when utilities were paying unprecedented prices for power purchases. We effectively managed power costs in the face of soaring wholesale electricity prices, and these abnormally high prices had little impact on Ameren's financial results, unlike the experience of several other utilities. The year also marked further development of our energy trading and marketing affiliate. AmerenEnergy is now poised to capitalize on Ameren's strong generation assets. Finally, in 1998 we signed contracts that set the stage for the installation of combustion turbines that, by the year 2001, will add more than 700 megawatts to our generating capacity. We continue to grow earnings through core business development and investment in new products and energy-related ventures. We are developing a stream of attractive products and services that will benefit our customers and enhance our company's earnings growth. These include a number of technologically sophisticated products, from an automated bill consolidation service Ameren Ability to an energy management product Ameren Abacus that allows business or institutional customers to track energy use by process, building or facility.

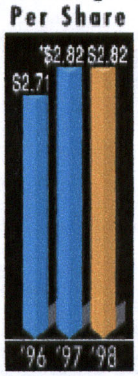
Another of Ameren's major ventures involves partnerships with design and engineering firms. Foremost among these is Gateway Energy Systems, a firm that desugns, builds, finances, owns and operates utility systems for large institutional and industrial customers. In 1998, Gateway Energy sealed a 20-year contract to build a $20 steam facility for a Fortune 500 company.

We continue to reduce costs by increasing operating efficiency through the effective use of technology. These initiatives range from installation of remote sensing devices on our distribution lines to expansion of our automated meter system — now the world's largest. We are also focused on lowering fuel costs. n 1998 in Illinois, we chose to eliminate the fuel adjustment clauses, which called for offering credits if certain fuel costs dropped or increasing customer bills if they rose. That decision, coupled with the fact that we have operated for several years without a fuel adjustment clause in Missouri, has given us additional incentive to continue to manage our fuel costs effectively. Our four AmerenUE coal-fired power plants continue to use substantial quantities of lower cost, low-sulfur Western coal, reducing production costs and emissions. In 1998, AmerenCIPS' Newton Plant began using Western coal. We will continue to aggressively explore these and other options to reduce our fuel costs.

In addition, we realize that increased productivity is critical to controlling operating costs. In 1998 we eliminated more than 400 positions, essentially without layoffs, through a hiring freeze and a targeted separation plan. These reductions will yield savings of approximately $20 million to $25 million annually.

Ameren's entire work force now stands at approximately 7,450 employees — the level of employment for Union Electric alone in 1987. Compared to a decade ago, Ameren companies are serving 8% more customers — with 24% fewer employees. In 1998, Public Utility Fortnightly, a leading industry publication, recognized Ameren as one of the nation's most efficient utilities, ranking our company as the second "most improved" and 11th most efficient.

Earnings Per Share



*Excluding an extraordinary charge of $.38.

We will continue to improve our efficiency as we refine our strategies and determine the skills that are most important in meeting the challenges of a competitive environment.

Finally, we are effectively managing the market and regulatory uncertainties we face by remaining visible and active in the industry restructuring debate and on other issues. We have continually communicated to a range of government officials that we cannot support initiatives aimed at increasing competition in ways that do not adequately protect our shareholders and our customers.

On the environmental front, we are using our resources to propose alternatives to the several stringent, technically flawed regulations that federal environmental officials proposed and established in 1998. We continue to research, investigate and test technologies that offer workable and affordable alternatives.

Going forward, our strategy's operating model will increasingly be based on a business line approach. These business lines include generation; energy transmission and distribution; retail customer service; business and corporate services; and non-regulated operations. Business line teams spent 1998 planning and developing strategies that will yield added revenue and cost savings.

These efforts will keep our management and employees focused on the specific strategies that bring bottom line results in an ever-changing competitive environment. As we mark the completion of our first full year as Ameren Corporation, we can tell you that our strategy has brought results.

1998 Financial Performance In 1998, our company earned $386 million, or $2.82 per share. This compares to 1997 earnings of $335 million, or $2.44 per share, including a 1997 extraordinary charge. That charge of $52 million, net of income taxes, reduced 1997 earnings 38 cents per share. Excluding nonrecurring charges, ongoing earnings for 1998 were $2.93 per share, compared to $2.77 per share for 1997.

Electric revenues were up slightly in 1998 over 1997, despite rate decreases and a $43 million credit to Missouri electric customers. These reduced earnings 6 cents and 18 cents per share, respectively. Kilowatthour sales to retail customers within our service territory were up 4%. Our annual sales growth — in a now-expanded, economically strong service area — stands at better than 2%.

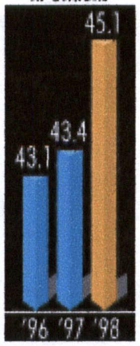
Electric Industry Restructuring in Illinois Ameren continued to develop technology, organize staffs and contribute to working groups the state created to respond to the multiple requirements of 1997 legislation setting the stage for provider choice. Certain large commercial and industrial customers in Illinois can choose their energy providers in late 1999, with all business and residential customers able to choose providers by May 2002. The law also called for a 5% rate reduction that began Aug. 1, 1998, for our Illinois residential customers. That rate decrease is expected to reduce future annual revenues by approximately $14 million ($8 million over 1998).

Electric Industry Restructuring in Missouri Missouri legislators and regulators continue to analyze the issue of provider choice. As members of various restructuring task forces and committees, Ameren's managers continue to be very active in promoting the interests of its investors and customers.

In Summary Ameren Corporation is a stronger and more focused company than ever before. We are confident that our operating performance, growth initiatives and strategic direction will make Ameren a success in any competitive environment.

Service Area Kilowatthour Sales

In Billions



We are investing in the people, technology and facilities that support our core energy business. Through our merger and direct sales initiatives, we are expanding our market area and customer base. We continue to develop products that retain and attract customers, as we selectively pursue non-regulated business opportunities. While we do not underestimate the challenges, we enter the new era committed to returning value to you, our shareholders.

Going forward, we are enthusiastic about the opportunities that are open to a financially strong company, like ours. We realize that you will be best served by a company that can maintain its low-cost advantage, meet customers' total energy needs and deliver superior earnings growth.

Our thanks go to our employees and to our dedicated directors who have been actively involved in charting our course.

Sincerely,

Charles W. Mueller

Chairman, President and Chief Executive Officer

February 10, 1999