

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

In the Matter of Union Electric Company d/b/a Ameren)
Missouri's Tariffs to Increase Its Annual Revenues for) File No. ER-2012-0166
Electric Service.)

AMEREN MISSOURI'S POSITION STATEMENTS

The following are Ameren Missouri's Position Statements on the contested issues which are scheduled to come before the Missouri Public Service Commission ("Commission") for resolution:

1. Overview and Policy

Ameren Missouri has some of the lowest electric rates in the country - approximately 25% below the national average- well below the average for electric utilities located in the Midwest, and the lowest of the four investor-owned electric utilities in the state. Its comparatively low rates are largely attributable to the Company's disciplined management of the costs that are within its control. Since 2008, the Company has reduced its total non-fuel expenditures every year, in spite of inflation. Total non-fuel expenditures in 2011 were a full \$300 million below their level in 2008. In 2011, the Company reduced its employee headcount by offering a voluntary severance that was accepted by 341 of its employees. This reduction in costs will reduce the Company's cost of service for the benefit of customers for years to come. There are many other examples of the Company's successful efforts to tighten its belt and reduce its costs.

But there are some costs that the Company has little or no ability to control; increases in those costs drove the need for the rate increases sought in the past and are driving the need for the rate increase sought in this rate case. In this case, the increase experienced in net fuel costs

since the true-up cutoff date in the last rate case is the single most significant factor underlying the current rate increase request. Capital investments that have been made to the Company's energy generation and delivery systems in order to provide safe and reliable service to our customers and meet environmental requirements are also a significant contributing factor. Finally, costs of the largest energy efficiency program in the state, as approved as part of the Company's Missouri Energy Efficiency Investment Act ("MEEIA") filing, and steady inflationary pressures on operating expenses, such as pensions and medical expenses, are also factors.

The previous rate increases the Company received have allowed it to continue to invest in its system for the benefit of its customers. Specifically the Company invested approximately \$3.2 billion in its system between 2007 and 2011. These investments have led to measurable operational improvements. Reliability (as measured by outages per customer per year) has improved 27% since 2006. Sulfur dioxide emissions have also been reduced by 27% since 2006. And the availability of the Company's four base load coal plants, now an average of 45 years old, is among the industry's best. The Callaway Energy Center continues to be recognized as one of the best in the industry as well.

Having the ability to invest in the Company's infrastructure is especially important now for several reasons. First, because much of the system was built in the 1950's and 1960's, when the Company's customers moved to the suburbs and began using air conditioning, there is a growing need to replace and upgrade this equipment. As a consequence, Ameren Missouri, like other electric utilities across the country, faces a "bow wave" of investment needs just to replace the poles, lines, substations and transformers that are serving current customers. Second, increasingly stringent federal environmental regulations continue to require the Company to

make significant capital investments—like the Company’s recent investment of approximately \$600 million in scrubbers for the Sioux Energy Center. These investments take capital that might otherwise be used for the replacement of aging infrastructure. Third, customers’ service expectations continue to increase. Customers insist on extremely reliable service, particularly since even momentary outages can disrupt digital devices. And they demand prompt restoration of service after every storm that hits the Company’s service territory.

A significant obstacle the Company faces in making the investments needed to meet these challenges is regulatory lag. Regulatory lag is simply the delay a utility experiences in reflecting in rates the costs that it prudently incurs to serve its customers. Under Missouri’s regulatory framework, this delay has become excessive, to the ultimate detriment of utilities and their customers. Specifically, the use of historic costs to set rates applicable in the future, and the statutory prohibition of including capital investment in rates until the plant is “fully operational and used for service” put Missouri utilities behind in recovering ever increasing operating costs and capital investments. Although this framework may have been effective in the past when consistent natural growth in sales or significant cost reductions could offset cost increases, utilities – including the Company—are now operating in an environment where costs as a whole are persistently rising, and growth in sales is expected to be flat or negative for the foreseeable future.

To partially mitigate this problem, Ameren Missouri has proposed two regulatory mechanisms that would reduce regulatory lag associated with specific costs. First, the Company proposes to implement a two-way major storm restoration cost tracker, which would track, dollar-for-dollar, the non-labor costs the Company incurs, and the revenues it receives associated with restoration of service to customers following major storms. Storms are completely outside

of the Company's control and unpredictable; restoration costs can vary wildly from year-to-year. Moreover, the Company's customers and the Commission have made it clear to us that when a storm hits, they want Ameren Missouri to take all steps necessary to promptly restore service. Under these circumstances, it makes no sense to try to set a "normal" level of storm restoration costs in base rates that will inevitably turn out to be either too high or too low in any given year. A two-way storm restoration tracker will be fairest to both customers and Ameren Missouri because it will allow the Commission to ensure that the exact amount of prudently incurred storm restoration costs will be recovered, not a penny more or less. Also, it will mitigate the problem of regulatory lag, at least for this one important category of expenses.

The second regulatory mechanism Ameren Missouri proposes is the adoption of Plant-in-Service Accounting. This mechanism is similar to "construction accounting" which the Commission has previously employed with respect to large capital projects. The goal of Plant-in-Service Accounting, like construction accounting, is to permit the utility to recover the full cost of investing in capital projects, and thereby remove the disincentive to invest that is embedded in the current regulatory framework. As things currently stand, during construction of a capital project, utilities are allowed to accrue an Allowance for Funds Used During Construction ("AFUDC") which represents the cost of the capital deployed during construction. When the project is determined to be "in service" the accrual of the AFUDC stops and depreciation of the cost of the capital item, including the accrued AFUDC, begins. The problem is that the utility is not permitted to reflect the capital cost of the item and the cost of its depreciation until a rate case is concluded many months, or even years, later. During the time between when the project is determined to be "in service" and the time that costs of the project are reflected in rates, the utility is completely uncompensated for the cost of the capital it has

fronted for the project, and it receives no recovery of the depreciation expense that it begins incurring (and that is reducing its earnings) for that project. This provides a significant financial disincentive for utilities to make capital investments. And the more that the utility invests, the greater the financial penalty it bears.

Plant-in-Service Accounting addresses this problem by permitting the utility to defer depreciation and a return on its investment in non-revenue producing plant, up until the time that the investment and related depreciation expense can be reflected in rates. That allows the utility to recover the full cost of its investment in capital items, and it removes the disincentive to invest that currently exists. Moreover, since the additional deferrals would be reflected in rates over the life of the underlying asset (often 30 or 40 years), the rate impact of this proposal would not be significant. For these reasons the Commission should adopt Plant-in-Service Accounting.

That regulatory lag is excessive is convincingly demonstrated by the fact that on a weather-normalized basis – which is how rates are set – the Company has failed to earn the return this Commission found to be fair, just and reasonable even one time since June 2007. And even with instances of extremely hot weather, the Company has failed to earn that return in 53 of those 62 12-month periods – 85% of the time. If the regulatory framework were operating as it should, there should be a roughly equal number of periods when the Company earns above and below its authorized returns, at least until, over time, a rate adjustment becomes necessary. But that has not been the case, and the Company has instead been forced to file five rate cases in just over five years. In this case the Company is asking the Commission to do what it can to mitigate this problem, and to better discharge its duty to set rates that give the Company a reasonable opportunity to earn a fair return.

2. Advertising

A. What amount of advertising expense should be included in Ameren Missouri's revenue requirement?

The Commission should order an additional \$344,000 above the amount included in Missouri Public Service Commission Staff's ("Staff") recommendation (presuming Staff also agrees to include the cost of the banners in their revised recommendation). Staff's classification of the Company's advertising expenses into the 1985 Kansas City Power & Light Case (KCP&L case) classifications was done in a manner that is subjective and based solely upon the opinion of Staff's witness, who has no training or experience in advertising, other than reading previous Commission orders. While Staff relies upon the advertising categories set in a 1985 KCP&L case, Staff ignores the very clear additional direction provided by the Commission in a much more recent Ameren Missouri rate case, where Staff was instructed not to review individual advertisements but to evaluate campaigns as a whole. Additionally, the advertisements left at issue in this case contain statements that even Staff will admit are accurate and appropriate to be conveyed to the Company's customers. Staff's contention that the "primary message" is, in this one Staff witness' subjective opinion, unacceptable (even while admitting the advertisements are truthful), is not based upon facts and provides no basis for disallowing the costs of the advertisement. The Commission should allow the costs of the four advertising issues listed below.

B. What amount, if any, of the costs incurred by Ameren Missouri for its Clean Air Advertising campaign should be included in revenue requirement?

Staff classified this advertisement as "institutional" and thus recommends a disallowance of \$302,806. Staff's reasoning is that the "primary message" of this

advertisement is to improve the public image of the Company. Staff cannot explain how it determined the primary message or how it reaches this conclusion despite acknowledging it is appropriate to discuss with customers the installation of the Sioux scrubbers, the reduction in emissions from the scrubbers and the fact that the Company is exploring renewable energy. Staff's recommendation should be rejected.

C. What amount, if any, of the costs incurred by Ameren Missouri for Taum Sauk Open House inserts should be included in revenue requirement?

Staff classified these newspaper advertisements as "institutional" and thus recommended disallowance of \$1,536. The basis for this recommendation is that if the breach had not occurred, the Company would not have had an open house. This ignores the fact that the advertisements contained factual information about how the facility was constructed and how improvements were made and, in fact, contained almost identical information as the brochures handed out at the open house, the costs of which Staff recommends allowing recovery.

D. What amount, if any, of the costs incurred by Ameren Missouri for its Mr. Efficiency radio advertisement should be included in revenue requirement?

Staff proposes disallowance of the costs of this advertisement because Staff claims that it is promotional in that it promotes customers using "a new service or service the Company provides." This advertisement was run over the radio during Rams football games and cost \$48,000. Staff's reasoning does not make sense, especially given the Staff's witness' admission that budget billing is an appropriate topic for the Company to communicate to its customers and her acknowledgment that she doesn't know the reach of this radio broadcast. The Commission should ignore Staff's recommendation.

E. What amount, if any, of the costs incurred by Ameren Missouri for its Louie the Lightning Bug balloon should be included in revenue requirement?

Louie the Lightning Bug is the Company's symbol for communicating the safety message of the risks of electricity. This expense is for gloves and storage fees related to the balloon and total \$18,600. Staff's witness ignores the purpose of the balloon and classifies the costs as "institutional." Again, this classification is undertaken without regard to the effectiveness of the balloon in conveying the importance of safety when it comes to electricity, or the fact that the costs have been allowed in the past. The Commission should reject Staff's recommendation.

3. Dues, including EEI Dues - What amount should be included in Ameren Missouri's revenue requirement for dues, including EEI dues?

Test period dues and donations expense totaling \$801,232 should be included in the revenue requirement used to set rates in this case. Included within that total is \$420,970, which is the amount Ameren Missouri paid during the test year, net of amounts attributable to lobbying activities, for its membership in the Edison Electric Institute ("EEI"). Ameren Missouri's membership in EEI allows the Company to gain valuable information and keep abreast of developments regarding issues affecting electric utilities, and to then use this information to take action and adopt or change policies that ultimately benefit both Ameren Missouri and its customers. EEI's committees also allow the Company to learn from other utilities that are members of the organization, and to use the information gained through the activities of these committees to improve Ameren Missouri's own operations. EEI also provides a forum for utilities to undertake mutually beneficial projects, such as the Spare Transformer Equipment Program ("STEP"), through which utilities share the cost of maintaining spare transformers. Although the value of the numerous benefits customers receive from the Company's membership

in EEI greatly exceed the annual dues amount that is at issue in this case, it is impossible to precisely quantify either the overall value of EEI membership or the value of its specific activities. Consequently, it is unreasonable for Staff to insist on such quantification as a condition for allowing EEI dues to be included in rates.

4. Cash Working Capital

A. Should the collection lag be calculated using the CURST 246 Report for the 12-month period ending October 31 2010 or the Accounts Receivable Breakdown Report?

The Commission should adopt the collection lag calculated by Company witness Michael Adams, which relies upon the Accounts Receivable Breakdown Report. Mr. Adams uses data from the test year to calculate a 28.75-day collection lag, while both Staff and Missouri Industrial Energy Consumers' ("MIEC") witness Greg Meyer rely on data outside the test year (the 12-months ending October, 2010) and contained in a report no longer produced by the Company because of its unreliability to calculate collection lags of 21.11 and 21.01 days, respectively.

Although they both contend that the now-defunct CURST 246 Report should be relied upon because it produced reasonable results, neither Staff nor MIEC witness Meyer performed any calculations to independently verify the accuracy of the CURST 246 Report (or to demonstrate that its stale data has any relevance to test year conditions) or any calculations demonstrating why the Accounts Receivable Breakdown Report is unreliable. Furthermore, neither witness has performed any calculation which demonstrates the degree of inaccuracy arising from Mr. Adams' inclusion of certain accounts receivables in his calculations. Mr. Adams, on the other hand, has performed customer sampling for a 5-month period and also performed an accounts receivable turnover analysis using test year data to demonstrate both the unreliability of the CURST

246 Report and the reasonableness in relying on the Accounts Receivable Breakdown Report.

B. Should the income tax calculation be removed from Ameren Missouri's cash working capital requirement?

No. While MIEC witness Meyer acknowledges that Ameren Missouri uses statutory tax rates and payment dates when calculating its income tax expenses for purposes of developing its revenue requirement, Mr. Meyer alone recommends that there should be no income tax component in the Company's calculation of its cash working capital. Mr. Meyer's recommendation is based upon his assumption that Ameren Missouri will not have future tax liabilities. Because standard ratemaking principles require that the estimate of Ameren Missouri's future cash working capital needs be based upon the various components of its revenue requirement as determined by historical test year data, the Commission should reject Mr. Meyer's proposal.

C. What is the proper calculation of the expense lag for Gross Receipts tax?

Ameren Missouri's calculation of the expense lag for the Gross Receipts Tax was properly calculated by witness Michael Adams to be 29.74 days. Staff's calculation inappropriately added back in a service lead and should be rejected.

5. Income Tax & ADIT & NOL

A. Should a portion of the \$2.8 Million income tax benefit realized on dividends paid on Ameren Corporation shares held in Employee Stock Ownership Plan ("ESOP") accounts be a reduction to Ameren Missouri's revenue requirement?

No. MIEC witness Brosch argues that Ameren Missouri's cost of service should be credited for the tax benefits Ameren Corporation realizes as a result of paying dividends on stock held by Ameren Missouri employees in an employee stock ownership plan. As Ameren Missouri witness James Warren testifies, customers have absolutely no

entitlement to this tax benefit, and this adjustment should be rejected. Ameren Corporation dividends are not included in Ameren Missouri's cost of service, and so the tax benefits of making such payments should also not be credited to Ameren Missouri customers. Ameren Corporation has numerous potential sources for cash to pay dividends, including income from other subsidiaries, or even borrowing cash to pay dividends. Even to the extent that some portion of Ameren Corporation's dividend could be attributed to earnings of Ameren Missouri, customers have no entitlement to a tax benefit stemming from a use of funds after they have been earned by the Company. Those funds, and any tax benefits or other benefits that may be derived from their use after they have been earned belong to Ameren Missouri's shareholder, Ameren Corporation, and ultimately to Ameren Corporation's shareholders. The tax benefit at issue should be excluded from consideration in calculating Ameren Missouri's cost of service.

B. Should CWIP-related ADIT balances be included as an offset to rate base?

MIEC witness Brosch also argues that Accumulated Deferred Income Taxes (ADIT) associated with Construction Work in Progress (CWIP) should be accounted for in this case as an offset to rate base. Ameren Missouri believes it is not appropriate to include the tax impact of a capital project in the calculation of rates until the cost of the project itself is included in rates. Current customers, who are not paying any amount in their rates to cover the cost of CWIP, should not get the benefits of ADIT associated with those investments. Once the CWIP is included in rate base, in a future rate case, it will be appropriate to account for the associated ADIT as an offset to rate base.

6. Plant-in-Service Accounting ("PISA") - Should the Commission grant Ameren Missouri accounting authority to accrue a return on invested capital and to defer depreciation for non-revenue-producing plant additions in a regulatory asset during the period between the date when those plant additions begin serving customers until the date they are reflected in rate base in a later rate case?

Yes. One of the principal reasons the Company has found it necessary to file five rate cases in just over five years is to reflect in rate base the billions of dollars of capital investments it has made in its energy generation and delivery systems for the benefit of its customers. The Company continues to face substantial capital investment needs to replace its aging infrastructure, to comply with reliability mandates from organizations like the North American Electrical Reliability Council, and to comply with other mandates, including environmental requirements under federal environmental laws and regulations. Because of the historic regulatory framework in Missouri, making those investments means that the Company suffers a permanent loss of the cost of the capital it fronts when those investments are made, and associated depreciation, from the time those investments go into service until they can eventually be included in rate base in a rate case. That permanent loss is one of the key reasons the Company has not earned its authorized return on a weather-normalized basis even one time since June 2007, despite four rate increases. This creates a significant disincentive to invest in the Company's system, and impairs the Company's ability to attract capital from its shareholder.

Plant-in-Service Accounting is a mechanism that can mitigate this problem and the disincentive it creates, and it can do so without impacting rates in this case at all, and without impacting rates in a material way in future cases. Applied to the approximately \$700 million of investments that will be put into service between the true-up cutoff date in the Company's last case and the effective date of new rates in this case, the additional rate base that would be reflected in the next rate case would be just approximately \$37 million. That sum will be

depreciated over the same long lives of the assets it is associated with (e.g., 20, 30, 40 years) and would have a rate impact on the average residential customer of just 21 cents per month, or \$2.48 per year.

For these reasons, the Commission should adopt the Company's Plant-in-Service proposal.

7. Rate Case Expense - What is the appropriate amount to include in Ameren Missouri's revenue requirement for Rate Case Expense?

Although Ameren Missouri's rate case expense has been relatively stable the last two rate cases and its current request for rate case expense is in line with these last two rate cases, both Staff and the Office of the Public Counsel ("OPC") believe that rate case expense should be drastically reduced—despite the fact that both witnesses supporting these reductions purport to affirm the general notion that rate case expense is a necessary expense of the utility that is recoverable from the ratepayer.

In Staff's Cost of Service Report, Staff witness Lisa Hanneken "examined *what other large utilities in Missouri have spent* in order to process rate cases" and recommends that only about two-thirds of Ameren Missouri's proposed rate case expense be included in Ameren Missouri's revenue requirement. Staff has refused to provide the calculations in which it compared Ameren Missouri's rate case expense to arrive at this conclusion but instead asserted in surrebuttal testimony that it only checked to determine that other utilities actually had incurred rate case expenses. Because Staff's proposal of a rate case expense cap is arbitrary and unsupported by any evidence, Staff's recommendation should be dismissed out-of-hand.

OPC witness Ted Robertson takes a much more drastic approach to rate case expense by recommending that the Company only recover the minimal internal costs from processing a rate case and not recover any costs associated with retaining outside consultants or outside legal

counsel. Mr. Robertson's justification for automatically disallowing nearly all of Ameren Missouri's rate case expense is his assertion that even though Ameren Missouri bears the burden of proof against Staff, OPC and numerous intervenors (all of whom, from time to time, retain outside consultants and some of whom hire outside legal counsel), the Company should restrict its freedom to direct the litigation of its rate case by using only internal personnel regardless of their other employment duties. Mr. Robertson, who believes that OPC's use of outside consultants is appropriate when OPC staff is too busy to prosecute the issues in a rate case, rejects the Company's explanation that it is prudent to use outside consultants and outside counsel to assist its internal personnel in prosecuting rate cases because its employees are also busy. After all, Mr. Robertson opines prosecution of rate cases is not "brain surgery."

Ameren Missouri's request that it be allowed to recover an annual amount of \$1.538 million for rate case expense should be adopted by the Commission. Ameren Missouri's rate case expense is not "out of control." Ameren Missouri has held its rate case expense costs stable and, as Staff witness Hanneken admitted in her deposition, Ameren Missouri's rate case expense cost per customer in each of its three last rate cases has been less than the average cost per customer for large utilities in Missouri as calculated by Staff member Oligschlaeger. The outside consultants utilized by the Company in this rate case provide an expertise the Company does not otherwise have and offer testimony in areas which are not redundant to that of Company witnesses; moreover, the rates of outside counsel used by the Company to assist in this rate case are comparable to the rates charged by attorneys in central Missouri.

Rate case expense is a necessary cost of doing business as a regulated utility in Missouri in that the utility has an obligation to provide safe, adequate and reliable service to ratepayers, and that obligation can only be achieved through the ratemaking process—a process that benefits

both the ratepayer and the shareholder. The use of outside consultants and outside legal counsel is common in ratemaking proceedings—both in Missouri and across the United States. There has been no substantial evidence offered by any witness in this proceeding that any particular rate case expense incurred by Ameren Missouri was somehow imprudent. As such, the Commission should adopt Ameren Missouri’s rate case expense request for an annual amount of \$1.538 million as part of its revenue requirement.

8. Property Tax Refund - What portion of the \$2.9 Million property tax refund for Tax Year 2010 received by Ameren Missouri should be credited to ratepayers. If an amount should be credited, over what period should the credit be amortized?

It would be unjust and inappropriate for the Commission to order the Company to credit to ratepayers any portion of the \$2.9 million property tax refund it received for Tax Year 2010. The rates customers pay are for electric service provided by Ameren Missouri, and portions of those rates cannot – and should not – be earmarked as tied or related to any specific item of the Company’s overall cost of service. Moreover, it is a well-accepted principle of utility regulation that the cost of service used to set rates is merely an estimate, and that during the period when rates are in effect some costs will exceed the levels assumed for ratemaking while others will be less. Unless the Commission is prepared to also allow Ameren Missouri to recover expenses that exceeded the estimates used to set rates in Case No. ER-2011-0028, the Company should not be required to return to customers any expense whose incurred amount was less than the amount assumed for ratemaking purposes.

Further, in Case No. ER-2011-0028 the Commission did not establish a formal “tracker” for property tax expense that would allow that expense item to be treated any differently than any of the other expenses used to set rates in that case insofar as any future rate adjustment for differences between assumed and incurred levels of expense is concerned.

9. Property Taxes - What property tax rates should be used in calculating the allowance for property tax expense to include in Ameren Missouri's revenue requirement?

Ameren Missouri contends that for purposes of setting rates in this case the Commission should use a reasonable estimate of the Company's actual property taxes for Tax Year 2012. It is well established that test period expenses used to set utility rates should reflect as closely as possible the operating conditions the utility will experience during the period when those rates will be in effect. Ameren Missouri will pay its property taxes for Tax Year 2012 before the operation of law date in this case. Consequently, it is that level of property tax expense – and not the taxes paid for Tax Year 2011 – that most closely will reflect Ameren Missouri's operating conditions during the period rates set in this case will be in effect.

The assessed value of Ameren Missouri's property that will be used to determine the Company's property tax expense for Tax Year 2012 – which exceeds the assessed valuation used for Tax Year 2011 – already has been determined by the state Tax Commission and, therefore, is both known and measurable. What is unknown at this point are the property tax rates for Tax Year 2012, which will not be set by the various taxing authorities until sometime during the September – December 2012 timeframe. But those tax rates can be reasonably estimated based on past tax rates.

In the portion of its Report and Order in Case No. ER-2011-0028 that dealt with property tax expense, the Commission stated that the “known and measurable” principle “does not mean an expense must be known precisely to be included in rates.” Reasonable estimates of future expenses also satisfy applicable accounting rules, which have required Ameren Missouri to accrue on its books since the beginning of 2012 the Company's estimate of the property taxes it will be required to pay for Tax Year 2012. Applying those principles to this case, the

Commission should include in the revenue requirement used to set rates Ameren Missouri's reasonable estimate of its actual property tax expense for Tax Year 2012, which is based on the known and measurable assessed value of the Company's property and reasonable estimates of the 2012 tax rates.

10. Renewable Energy Standard ("RES") Costs

- A. Should the Commission order Ameren Missouri to include a base level of RES costs in permanent rates? If so, what is the base amount to include in permanent rates and should the level included in permanent rates in this case be netted against any future deferred expenditures that occur beyond the July 31, 2012, true-up date?**

Yes, the Commission should include a base level of RES costs in the Company's revenue requirement. This is the approach followed by the Commission in the Company's last rate case and is consistent with the Commission's own regulations on the issue. The Company requests \$3 million be included as the base amount, which is approximately \$1 million less than the Company spent in the 12 months ending July 31, 2012. Additionally, any future expenditure above that amount should be held in a regulatory asset to be recovered at a later date, just as the Commission's regulations anticipate.

- B. Over what period of years should the Commission order Ameren Missouri to amortize the deferred RES costs incurred from January 1, 2010, through July 31, 2012?**

The Company requests these expenditures be amortized over two years.

- C. Should the Commission order Ameren Missouri to include the unamortized RES deferred regulatory asset balance from January 1, 2010, through July 31, 2012, in rate base?**

Yes. The Company must incur certain costs in order to comply with Missouri law and, to the extent that compliance cost more than was used to set rates, the Commission's

own regulations allow for collection of those costs in a regulatory asset for collection in a later rate case.

11. Miscellaneous Expenses - What amount of the costs incurred for a right-of-way assessment and nest box study should be included in Ameren Missouri's revenue requirement?

This issue may be the smallest dollar amount in the case, as it cost the Company \$35,000 to participate in a study with the World Bird Sanctuary to find environmentally friendly ways to maintain the transmission right-of-ways and incorporate nest boxes for birds, which improves the environment for customers and the public as a whole. Staff's only explanation of its recommendation to disallow this cost is that the Company has "not provided sufficient evidence to warrant inclusion of the cost." This statement reflects a fundamental misunderstanding of how the burden of proof operates in a rate case. As the Western District Court of Appeals recently affirmed:

A utility's costs are presumed to be prudently incurred. The presumption does not, however, survive a showing of inefficiency or improvidence. If some other participant in the proceeding alleges that the utility has been imprudent in some manner, that participant has the burden of creating a serious doubt as to the prudence of an expenditure. If that is accomplished, the utility then has the burden of dispelling those doubts and proving the questioned expenditure was in fact prudent. The prudence test should not be based upon hindsight but upon reasonableness. (internal quotes and citations omitted).¹

In this case, Staff has not even made an attempt to argue that this expenditure is imprudent in some manner; it has only argued that the Company has not satisfied an amorphous "cost/benefit test" analysis. Staff's recommendation should be rejected on this basis alone. Of course, the

¹ 2012 WL 4069548

Company believes that working with outside groups to determine methods of maintaining its right-of-way so that it lessens the negative impact upon wildlife is prudent and should be considered a recoverable cost.

12. Entergy Refund

- A. What amount of the \$30.6 Million Entergy equalization cost refund should be credited to ratepayers?**
- B. If the Commission orders an amount to be credited to ratepayers would a three-year amortization period be appropriate?**
- C. Should all or part of the amount credited to ratepayers be credited through the FAC adjustment mechanism?**

Staff proposes that a payment received by Ameren Missouri from Entergy Arkansas, Inc. (“Entergy”) on June 6, 2012 in the amount of \$30.6 million should be credited to customers in the form of a 3-year amortization of \$10.2 million per year. The payment represents a refund of \$26.1 million of “equalization charges” Entergy improperly assessed Ameren Missouri under a purchased power agreement from July 2007 through September, 2009, plus applicable interest.

Except for Entergy charges covered by the fuel adjustment clause (“FAC”), customers have absolutely no right to any portion of this refund in this case. Most of the refund (all but approximately \$1.9 million plus interest) is attributable to the period prior to the implementation of Ameren Missouri’s FAC on March 1, 2009 as part of Case No. ER-2008-0318. Ameren Missouri sought an FAC in its previous rate case—Case No. ER-2007-0002—but its request was denied. In the absence of a fuel adjustment clause, fuel and purchased power costs are not tracked. Customers do not have to pay fuel and purchased power cost increases between rate cases (which regularly occur), and they are not entitled to fuel or purchased power-related revenues between rate cases. Moreover, in this particular case, the Entergy equalization charges which were refunded were *never* accounted for in setting customers’ rates until the FAC was

implemented on March 1, 2009. Specifically, the first bill for the equalization charges was received by Ameren Missouri on July 5, 2007, more than a month after rates set in Case No. ER-2007-0002 took effect. The Entergy equalization charges were never accounted for in setting the rates in that case.

In the Company's next rate case, Case No. ER-2008-0318, Entergy equalization charges were included as purchased power costs, but since the FAC was implemented in that case, customers ultimately only paid the portion of the equalization charges applicable to the period after March 1, 2009 (the customers' share is about \$1.9 million). Customers are entitled to be credited through the FAC for this portion of the Entergy refund, attributable to the portion of the equalization charges that they actually paid under the FAC (plus applicable interest), but they are not entitled to a refund of the remainder of the equalization charges, which never were considered in developing the rates that they paid, and which occurred in the period prior to the adoption of the FAC. Put another way, there was no "purchased power tracker" in place when the balance of the Entergy charges were paid *by the Company* between rate cases from July 2007 to January 2009. Customers have no entitlement, as a matter of law or equity, to these funds.

13. Coal Inventory, including Coal in Transit - Should the value of Ameren Missouri's coal inventory include the value of coal in transit?

Coal in Transit costs should be included in Ameren Missouri's coal inventory. Like coal in the coal pile at each plant, coal in transit is owned by Ameren Missouri and is necessary to ensure the coal supplies at the power plants remain at a level that ensures reliable operation. Staff and MIEC focus on the coal inventory that is sitting on the ground and argue that level is sufficient. However, this argument overlooks the fact that coal must be continually brought to Ameren Missouri by rail or those coal piles would not remain at the optimal level. There is no allegation of imprudence and this cost should be allowed to be included when setting rates in this

case. Finally, prior to the Company's last rate case when it inadvertently did not include these costs in rates, coal in transit has traditionally been included in rate base by the Commission.

14. Low Income Weatherization, including MDNR Program Administration Costs

A. Should the next evaluation of Ameren Missouri's low income weatherization program consider the effect on natural gas usage as well as electric usage by customers receiving weatherization?

Ameren Missouri does not oppose this suggestion but cautions that it would require obtaining information from other natural gas utilities, as Ameren Missouri does not provide gas service to most of its electric utility customers. Accordingly, there may be practical constraints which hinder this additional evaluation.

B. How often should Ameren Missouri conduct evaluations of its low income weatherization program?

As was ordered by the Commission in the Company's last rate case, an evaluation should be done every two years. The Company is only now receiving its initial evaluation post that order, it is too early to make a finding that performing an evaluation every two years is too often.

C. Can the Commission order Ameren Missouri to direct ratepayer funds to MDNR to cover costs of administering the Low Income Weatherization Program?

Ameren Missouri has concerns about the legality of directly funding the Missouri Department of Natural Resources ("MDNR") personnel costs when MDNR has oversight of some aspects of the Company's business. For example, MDNR is responsible for certifying that Ameren Missouri's renewable generating facilities for purposes of compliance with the Renewable Energy Standard statute.

- D. If so, should Ameren Missouri's low-income weatherization funding level be increased by \$120,000, with that amount to be authorized for reimbursement of MDNR's costs of providing weatherization program administration?**

N/A.

- 15. Sioux Construction Accounting - Should Ameren Missouri be authorized to continue construction accounting for the Sioux Scrubbers in order to recover a return on the \$13.5 Million cost not included in rate base in Ameren Missouri's last rate case and to defer associated depreciation expense?**

Yes. In Case No. ER-2010-0036, the Commission approved a Stipulation and Agreement, the intent of which was to ensure that if the Company filed a rate case by January 1, 2011, it would be compensated for the cost of the prudently invested capital it was fronting for the scrubbers being installed at the Sioux Energy Center and would not suffer the negative impact of depreciation expense not accounted for in rates between the time the scrubbers went into service and when the investment in the scrubbers was reflected in rate base. In Case No. ER-2011-0028, the Commission determined that all of the Company's investment in the scrubbers was prudent, rejecting a proposed rate base disallowance of approximately \$30 million that had been recommended by the Staff based upon the Staff's claim that the 2008 financial crisis was not severe enough to warrant slowing down the project to conserve cash. As part of that case the Company agreed that instead of seeking to rate base all of its investment through the true-up period (March 31, 2011) it would agree to defer seeking to rate base expenditures paid after December 31, 2010 in order to better facilitate the Staff's ability to audit all of the costs. While the entire project cost approximately \$584 million, there were approximately \$13.5 million of costs (through the end of the test year) paid after December 31, 2010 which were not included in rate base in Case No. ER-2011-0028. It is that investment that is at issue now.

One of the reasons a part of the investment in this project was not included in rate base in the prior case was the Company's agreement to accommodate the Staff and to, in effect, not true-

up the rate base associated with the scrubbers through the true-up cutoff date, as was done for all other rate base items. Failing to compensate the Company for the capital cost of that \$13.5 million and to cover the depreciation expense it has been incurring, violates the spirit and intent of the Stipulation and Agreement and is fundamentally unfair. The Commission has the power – both in its interpretation of the Stipulation and Agreement and apart from it – to apply construction accounting to this \$13.5 million prudent investment in the scrubbers, and should do so in this case. The revenue requirement at issue is approximately \$321,000.

16. Severance Costs and VS 11 - Should Ameren Missouri be authorized to amortize to rates over three years the approximately \$25.8 Million in costs incurred in its VS 11 voluntary employee separation program?

Yes. As part of its ongoing efforts to tighten its belt to mitigate the constant upward pressure on its costs, the Company prudently initiated a voluntary severance program for certain of its management and union workers in late 2011. To induce those workers to accept the severance package – which is producing and will produce for years to come approximately \$22.8 million in annual wage and benefit savings which will inure to the benefit of customers once rates are reset in this case – the Company incurred one-time severance costs of approximately \$25.8 million. In this case the Company seeks to amortize those severance costs over a three-year period, producing a revenue requirement impact of \$8.6 million.

The effect of the Staff's and the MIEC's position on this issue – to completely deny the Company recovery of these extraordinary and prudently incurred severance costs – is to not only take away from the Company the entire benefit of reducing its workforce, but to in fact impose a net cost on the Company for doing so. And, at the same time, customers will get the benefit year-after-year. As the Staff and the MIEC have stated in various contexts, they want regulatory lag to incentivize the Company to reduce costs when appropriate between rate cases. The theory

behind this is that the Company can benefit between rate cases. For a program like VS 11, where there is a cost associated with achieving the savings, that theory only holds if the Company is able to recover that cost. Consequently, it would be poor policy indeed to refuse to allow the Company to recover the severance costs through a three-year amortization of \$8.6 million per year (when in each year customers would, in effect, by benefitting from \$22.8 million of savings – net gain for customers of \$14.2 million per year). It would be even poorer policy to impose a net loss of \$3 million (\$25.8 million – the \$22.8 million of savings in 2012) on the Company, which would also be the result of adopting the Staff's and the MIEC's position.

To the contrary, the Commission should reflect the full \$25.8 million of extraordinary severance costs that will provide the \$22.8 million of annual benefits to customers through a 3-year amortization in the revenue requirement in this case.

17. Return on Common Equity ("ROE") - In consideration of all relevant factors, what is the appropriate value for Return on Equity ("ROE") that the Commission should use in setting Ameren Missouri's Rate of Return?

Ameren Missouri proposes a 10.5% return on equity (ROE), as recommended in the testimony of Robert B. Hevert. Mr. Hevert's recommendation is based on the results of his constant growth and multi-stage discounted cash flow analyses, his risk premium analysis and his capital asset pricing model analyses, which he applied to a proxy group of regulated electric utilities similar to Ameren Missouri. Mr. Hevert's recommendation satisfies the widely-cited legal requirements for returns on equity for regulated companies developed by the United States Supreme Court decisions in the *Bluefield* and *Hope*² cases. In particular, Mr. Hevert's recommended ROE is: (1) adequate to attract capital at reasonable terms, thereby enabling Ameren Missouri to provide safe and reliable electric service; (2) sufficient to ensure Ameren

² *Bluefield Waterworks and Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923); *Federal Power Commission v. Hope Natural Gas Company*, 320 U.S. 591 (1944).

Missouri's financial integrity; and (3) commensurate with returns on investments in enterprises having corresponding risks.

Importantly, Mr. Hevert's recommendation is also in line with returns authorized in recent cases by other state regulatory commissions for integrated electric utilities,³ a factor that this Commission has taken into account in every recent case where ROE was decided. Although Mr. Hevert's recommended return of 10.5% is slightly higher than the 10.27% average ROE approved for integrated electric utilities in 2011, a slightly higher ROE is justified because the regulatory environment in Missouri is less credit supportive than the regulatory environment prevailing in most other states. In particular, Standard and Poor's rates Ameren Missouri's regulatory environment as less credit supportive than the average regulatory jurisdiction represented by Mr. Hevert's proxy group (2.00 vs. 2.93 on a scale from 1 through 5). Regulatory mechanisms such as more trackers and riders, 100% (vs. 95%) recovery of fuel costs through a fuel adjustment clause, the ability to include Construction Work in Progress (CWIP) in rate base, the use of projected test years, and the more common use of interim rates are used to mitigate regulatory lag in other jurisdictions, but are not used in Missouri. Consequently, Mr. Hevert's 10.5% is commensurate with the authorized returns of other similar electric utilities, on a risk adjusted basis.

In contrast, Staff witness David Murray argues that Ameren Missouri's actual cost of equity is in the 7%-8% range, based on his unusual and out-of-the-mainstream analyses, some of which the Commission has explicitly rejected in past cases. In particular, Mr. Murray's consideration of investment analysts' valuations of common stock, his reliance on his "rule of thumb" and his use of unsupportably low growth rates in his analyses render his conclusions

³ Integrated electric utilities are those like Ameren Missouri that own their own generation facilities. Distribution only electric utilities, which do not own generation facilities, have different risk profiles.

about Ameren Missouri's ROE completely meaningless. Moreover, Mr. Murray's recommended ROE of 9% is not even based on any of his analyses—it is simply an arbitrary upward adjustment reflecting the lowest ROE Mr. Murray believes that this Commission might conceivably approve. Mr. Murray's extremely flawed analysis, and his very low recommended ROE should be given no weight whatsoever.

MIEC witness Michael Gorman conducts a more conventional analysis than Mr. Murray, but his recommended ROE of 9.3% is almost 100 basis points below the national average ROE for integrated electric utilities, and as such does not satisfy the requirement of *Hope* and *Bluefield* that Ameren Missouri be afforded a commensurate return with enterprises having corresponding risks. Mr. Gorman reaches his result by arbitrarily selecting inputs for his standard analyses that produce low results. If simple adjustments are made to the inputs selected by Mr. Gorman, his models would produce results at or near the national average ROE. Mr. Gorman's recommendation, adjusted to reflect more reasonable input assumptions, could provide a reasonable guideline for the Commission to consider in selecting an ROE for Ameren Missouri, along with Mr. Hevert's recommendation. However, the Company believes that Mr. Hevert's recommended ROE of 10.5% is the most appropriate for Ameren Missouri.

18. Net Base Fuel Costs

- A. Should Ameren Missouri's Net Base Fuel Costs include an increase in the cost of delivered coal expected to take effect on January 1, 2013?**

This issue has been resolved

- B. Should a positive adjustment be made to account for the margin realized on bilateral transactions and financial swaps?**

This issue has been resolved

C. Should an adjustment be made to account for load and generation forecast deviations?

This issue has been resolved

D. What is the amount of fuel expense, purchased power expense, and off-system sales to be used in setting Ameren Missouri's Net Base Fuel Costs?

This issue has been resolved

19. Fuel Adjustment Clause ("FAC") - Should the sharing percentage in Ameren Missouri's fuel adjustment clause be changed to 85%/15%?

No. For the same reasons that the Commission has previously rejected proposals to change the sharing percentage in Ameren Missouri's FAC in the past, the Commission should reject Staff witness Lena Mantle's unsupported experiment in this case as well. There is absolutely no evidence that the incentives included in the existing FAC; that is, the incentive provided by the Commission's prudence review authority, the incentive provided by the fact that having a FAC is a privilege and not a right, and the current 95%/5% sharing mechanism are insufficient to ensure that the Company prudently manages each and every component of its net fuel costs that are tracked in the FAC. Indeed, Ms. Mantle admits that there have been no allegations whatsoever with respect to the prudence of the Company's management of those components. Moreover, Ms. Mantle admits that she does not know whether a change in the sharing percentage is needed, or would have any impact whatsoever on the Company's actions or operations respecting its net fuel costs. Finally, had the higher sharing percentage Ms. Mantle seeks been in place during the FAC's operation it would served to do nothing more than force the Company to bear an additional \$30 million of prudently incurred fuel cost increases. The Commission found, just over one year ago, that exposing the Company an additional \$22 million of prudently incurred net fuel costs would be a "heavy burden" and that there was no justification to do so. Exposing the Company to bearing even more prudently incurred fuel costs -- \$30

million based upon more up-to-date data in this case – would be an even heavier burden, and there continues to be no justification to do so.

20. FAC Tariff

A. Should the MISO schedule costs that are allowed to flow through the FAC be listed on the FAC tariff sheets?

No. The FAC tariff should be written to track a particular class of costs and revenues, and should not be written in such a way that the Midwest ISO (“MISO”), over which the Company has no control, could add or change schedules in a manner where a cost or revenue that should be tracked in the FAC could not be simply because the MISO changed or added a schedule.

B. Should the definition of Factor PP in Ameren Missouri's FAC tariff be modified to state, “Only transmission costs incurred for the purchase or sale of electricity shall be included”?

No. As a participant in MISO, the Company gains access to (primarily for its customers’ benefit) transparent, wholesale energy markets that provide a better market for buying power when needed to serve those same customers, and for selling power off-system primarily for the benefit of those customers. The Company also takes the power that serves its customers’ loads from the MISO. With access to those markets come certain costs, including the MISO transmission charges at issue in this case. MISO transmission charges have existed since the inception of the FAC for Ameren Missouri, and they have been included in the FAC from its inception. MISO transmission charges are an unavoidable consequence of the Company’s MISO participation, and are essentially beyond the Company’s control. There is simply no justification for changing the ratemaking treatment of these costs that has been in place since the inception of the FAC.

- C. Apart from transmission costs addressed in Item B, should Ameren Missouri be permitted to flow through the FAC MISO transmission charges and associated transmission revenues?**

Yes, for the reasons discussed above. The Company agrees that revenues that it receives associated with the transmission on which the MISO transmission charges are based should also be included in the FAC.

- D. Should Ameren Missouri be permitted to flow through the FAC transmission charges associated with transmission service in a term in excess of one year?**

Yes, for the reasons discussed above. Regardless of the period over which Ameren Missouri has access to the MISO transmission system in order to serve its load, it must pay these transmission charges as a consequence of its MISO participation. These costs are not capacity charges as contemplated by the Company's FAC tariff.

- E. If the Commission determines that the MISO transmission charges and revenues addressed in Item C should not be flowed through the FAC should they be deferred in a transmission cost and revenue tracker using the trued-up test year sum for those charges and revenues as the base against which changes will be tracked, with sums above the base to be booked to a regulatory asset and sums below the base to be booked to a regulatory liability? If so, how should the amortization of the regulatory asset or regulatory liability be handled?**

Yes. As discussed above, MISO transmission charges are unavoidable costs associated with the power the Company takes from the MISO to serve its load and with the power it sells off-system for the (almost entirely) benefit of its customers. These same charges are essentially beyond the Company's control, have been rising, and are expected to rise substantially in the coming years. Without inclusion in the FAC, and without a tracker, the Company will unfairly be forced to bear significant cost increases in these unavoidable and uncontrollable charges while customers continue to reap the benefits of the Company's MISO participation. For those reasons, which are the same reasons the Staff itself recommended adoption of a very similar tracker in KCP&L-

GMO's 2010 rate case, a transmission cost and revenue tracker should be adopted by the Commission if the Commission were to determine that the current inclusion of the transmission costs in the FAC should be changed. If the treatment of these costs in the FAC did change, and in the absence of a tracker, the Company would be given no reasonable choice but to attempt to cut other investments or expenses in items that support its ability to deliver the high level of service its customers have come to expect in order to eliminate the negative impact of these higher costs between rate cases.

F. Should hedging gains and losses be excluded from Ameren Missouri's FAC except for hedging gains and losses associated with mitigating volatility in its fuel costs and allowances for SO₂ and NO_x emissions?

No. Hedging gains and losses associated with making off-system sales (95% of the benefit of which flow to customers in the FAC) have been included in the FAC since its inception. As the Staff admits, prudent hedging of off-system sales is an appropriate price volatility mitigation strategy that benefits customers. Moreover, while the Company has not generally hedged its purchased power costs, there could be circumstances (e.g., loss of a large baseload generating unit) where it would be necessary to buy a large quantity of power and where hedging the price volatility of that power would be prudent. There is no sound reason not to include those hedging gains and losses (and costs) in the FAC as such hedging would be for the primary benefit of customers. If the Company were to act imprudently in its hedging activities, then the Commission would have the ability to address the impact of any such imprudence in the periodic prudence reviews regarding the FAC.

G. What other changes should be made to Ameren Missouri's FAC tariff?

The changes recommended (many of which were recommended by the Staff) in the exemplar tariff sheet attached to the rebuttal testimony of Company witness Wilbon

L. Cooper should be adopted, except there is no need to add the word “net” to Factors PP, FC, OSSR, and E. In addition, the definition of Factor PP should include language that more specifically covers the hedging of purchased power costs using financial swaps if the Company finds itself in the position of not having sufficient energy to serve its load (for up to the duration and quantity of the shortfall) and should also include language to include the transmission revenues associated with the transmission that generates the MISO transmission charges discussed earlier. The Company also agrees that the paragraph set forth at page 11, lines 11-14 of Staff witness Lena Mantle’s surrebuttal testimony should be added, as should the quoted language at page 12, lines 22-23 of Ms. Mantle’s surrebuttal testimony. Similar language should also be included in the definition of S_{RP} . Finally, the definition of “hedging” recommended by Mr. Cooper should not cover purchased power (which will be addressed in Factor PP, as noted above), but should cover off-system sales (Factor OSSR).

- 21. Storm Costs Tracker - Should the Commission establish a two-way storm restoration cost tracker whereby storm-related non-labor operations and maintenance (“O&M”) expenses for major storms would be tracked against the base amount with expenditures below the base creating a regulatory liability and expenditures above the base creating a regulatory asset, in each case along with interest at the Company’s AFUDC rate?**

Yes, the Commission should establish a two-way storm restoration tracker. The Company is unable to control either the timing or the amount it spends on storm restoration costs; that is left to the whims of Mother Nature. Despite this limitation, the Company has developed a very robust process for restoring service after major storms and is proud of its accomplishments. There are years when the Company’s system does not experience a major storm and years where it experiences multiple storms. For this reason, a two-way storm tracker benefits customers as much as it does the utility and the Commission should order the creation of

this tracker. The Commission should adopt the definition of major storm that is set forth in the direct testimony of David Wakeman.

22. Storm Costs

- A. If the Commission does not establish a two-way storm restoration costs tracker, then what is the appropriate amount to include in revenue requirement for major storm restoration costs?**

The Commission should include \$7 million in the Company's revenue requirement.

- B. If the Commission does establish a two-way storm restoration costs tracker, then what is the appropriate base level of major storm restoration Operations and Maintenance ("O&M") costs to include in Ameren Missouri's revenue requirement?**

The Commission should include \$7 million in the Company's revenue requirement as the base of a two-way storm restoration tracker.

23. Storm Assistance Revenues

- A. If the Commission authorizes a two-way storm restoration cost tracker for Ameren Missouri, should storm assistance revenues received from other utilities be included in the tracker or annualized and normalized and included as an offset in revenue requirement?**

Ameren Missouri agrees that storm assistance revenues, that is, revenues it receives as a result of providing storm assistance to other utilities, should be flowed through the two-way storm tracker. The suggestion to include some annualized level of revenues for this would place the Company in a position where it may not be able to earn the revenues imputed. Just as happens with storm restoration costs for its own distribution system, there may be years where the Company receives no storm assistance revenue. The Company does not desire to profit from these revenues but does not believe it would be fair to impute a level that it may have no opportunity to earn. Crediting these

revenues against storm restoration costs in a tracker is the sensible solution and should be adopted by the Commission.

B. What amount of storm assistance revenue should be included in the cost of service?

The Commission should not include any amount of storm assistance revenue in the base of the storm restoration cost tracker. If the Company receives any storm assistance revenues, it should credit those revenues against the amounts it spends on major storm restoration.

24. Vegetation Management and Infrastructure Inspection Tracker

A. Should the unamortized balance for the regulatory asset associated with the Vegetation Management and Infrastructure Inspection Tracker be adjusted for all amortization through December 31, 2012, and amortized over two years?

Ameren Missouri believes the trackers should be updated through July 31, 2012, and amortized over two years.

B. Should the vegetation management and infrastructure inspection trackers be continued?

Yes, the trackers should be continued. Ameren Missouri is required by Commission regulation to undertake certain vegetation management and infrastructure inspection activities and so has no ability to control costs by varying the schedule of this work. While the Company has completed one urban cycle, it has not yet completed a rural cycle. MIEC states that the Company has enough experience to know what compliance will cost, but this opinion assumes compliance costs don't change. Operationally, that is not true. After an extremely hot and dry summer, such as this past summer, the Company may encounter significantly more trees with dead or damaged limbs, which will require more trimming. After a wet summer, the Company may

encounter more growth, which can also require more trimming. The costs for each cycle will be unique and cannot be known ahead of time. The trackers prevent a situation where the Company over- or under-collects the amounts necessary to comply with the Commission regulations and should be continued by the Commission.

25. Class Cost of Service, Revenue Allocation and Rate Design

A. What methodology should the Commission use to allocate generation fixed costs among customer classes?

Ameren Missouri's testimony supports the use of a four non-coincident peak version of the Average and Excess Demand Allocation methodology to allocate fixed production plant costs among the Company's rate classes. The Commission has adopted this methodology, which gives weight to both class peak demands and class energy consumption, in each of Ameren Missouri's last two general electric rate cases.

B. How should the non-fuel, non-labor components of production, operation and maintenance expense be classified and allocated?

To properly allocate the non-fuel and non-labor components of production and operation and maintenance expenses among the various rate classes, Ameren Missouri contends that the Commission must divide those expenses between fixed and variable components. That approach, which is prescribed in the National Association of Regulatory Utility Commissioners' Electric Utility Cost Allocation Manual, strikes a balance between costs that are fixed (those that do not vary with the amount of electricity produced) and those that are variable (those that vary with the amount of electricity generated) that most closely follows the functions of the generating plants that gave rise to those costs. This is the same method that Ameren Missouri employed in Case No. ER-2011-0028, except that, in accordance with a Stipulation and Agreement adopted in that

case, for purposes of its Class Cost of Service Study (“CCOSS”) in the current case the Company did not split its total Missouri revenue requirement between jurisdictional and non-jurisdictional components.

C. How should any rate increase be collected from the several customer classes?

Although the Company believes the cost-based results of its CCOSS are the appropriate starting point for designing electric utility rates, other factors also influence rate setting decisions. Therefore, even with the adjustments for (1) proposed increases in the monthly customer charges for the Residential and Small General Services Classes, and (2) energy efficiency charges assigned to the Residential, Small General Services, Large General Services and Small Primary Services, and Large Primary Services total remaining revenue requirement increase determined in this case be allocated to all rate classes on the basis of an equal percentage, across-the-board increase based on current revenue levels.

D. What should the Residential Class customer charge be?

Ameren Missouri proposes to increase the monthly customer charge for the Residential Class from \$8 to \$12, which would slightly increase the portion of total revenues from that class that are derived from the customer charge from 9% to 11%. If approved by the Commission, the proposed increase in the monthly customer charge will result in a corresponding reduction in the allocation of volumetric charges to the Residential Class. This proposed increase reflects cost causation principles by moving the customer charge closer to the amount suggested by the results of the Company’s CCOSS. In addition, the proposed increase will not have a material impact on the economics of energy efficiency for the Company's customers and will not create disincentives for customers to invest in energy efficiency measures. Lastly, the proposed

increase in the customer charge will not likely create an undue financial burden for any of the Company's residential customers. Indeed, Ameren Missouri projects that annual energy costs for approximately half of its residential customers will be less with the proposed increase in the monthly customer charge than they would be without the increase. The Company's proposal is most advantageous for the customers who allocate the highest percentage of their income towards their electricity bill; that is, low income customers with higher than average usage.

E. What should the Small General Service Class customer charge be (single-phase and three-phase)?

For many of the reasons stated in subsection 26(C) above, Ameren Missouri also proposes to increase the monthly customer charges for customers in the Small General Services Class, which would only slightly increase the portion of total revenues from that class that are currently derived from customer charges. Under the Company's proposal, the monthly customer charge for single customers will increase from \$9.74 to \$14.61, and the monthly charge for three phase customers will increase from \$19.49 to \$29.24. If approved by the Commission, the proposed increases in these monthly customer charges also will result in a corresponding reduction in the allocation of volumetric charges to the Small General Services Class.

F. Should the Commission address declining block rate design either by opening a separate docket on rate design or by ordering Ameren to address the rate design in its next general rate case?

If the Commission believes the propriety of the winter, declining block rate design for the Residential Class needs to be reconsidered, Ameren Missouri proposes that such reconsideration take place in a generic workshop or rulemaking proceeding where all interested parties – not just those that may be parties to the Company's next general

rate case – can participate. Declining block rates have been a fixture of all of Missouri’s investor-owned utilities for decades, and any move away from that structure should be considered in a forum where all interested parties have an opportunity to fully participate and have their views considered. Ameren Missouri’s next general rate case would not be the most efficient or effective forum for these parties to participate.

26. Keeping Current Customer Assistance Program

- A. Should Ameren Missouri's Keeping Current customer assistance program be continued until Ameren Missouri's next general rate case, by which time the working group will have reviewed the third party evaluation of the program?**
- B. If Ameren Missouri's Keeping Current customer assistance program is continued, should the customer contribution remain the same?**

A Stipulation and Agreement has been reached on this issue. The agreement would reinstate the funding from customers and the monthly donation from the Company. This funding will continue until the effective dates of rates in the Company’s next rate case. Changes to the program itself will be determined by the collaborative working on this program and will be filed in a case separate from this rate case. Ameren Missouri is a signatory to this Stipulation and Agreement and believes it should be approved.

Respectfully submitted,

/s/ **Wendy K. Tatro**

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing document was served on all parties of record via electronic mail (e-mail) on this 24th day of September, 2012.

/s/ Wendy K. Tatro
Wendy K. Tatro