

Exhibit No.:

Issues: Approval of revised Tax Qualified Decommissioning Trust Agreement, revised Investment Guidelines, and notification of change in equity investment managers

Witness: Kevin L. Redhage

Type of Exhibit: Direct

Sponsoring Party: Union Electric Co. (d/b/a AmerenUE)

Case No.:

**UNION ELECTRIC COMPANY
(d/b/a AmerenUE)**

MISSOURI PUBLIC SERVICE COMMISSION CASE NO. _____

DIRECT TESTIMONY OF KEVIN L. REDHAGE

**ST. LOUIS, MISSOURI
September 18, 2003**

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A. My name is Kevin L. Redhage, and I reside in Chesterfield, Missouri. I am a Finance Professional in the Financial Planning and Investments Department at Ameren Services.

A. I have held this position since February 1992.

A. My principal duties include the following: monitoring investment activity and coordination of trust and regulatory issues concerning the Company's Nuclear Decommissioning Trust Fund; reviewing capital expenditure justifications to assure that they are conducted in accordance with Company policies; and developing economic models for the performance of financial analyses. I also perform other projects as assigned, relative to the area of financial planning, on a case-by-case basis.

A. I graduated with a Bachelor of Science degree in Civil Engineering from the University of Missouri - Rolla in 1979. In 1991, I received a Masters degree in Business Administration (MBA) from Webster University in St. Louis, Missouri, with an emphasis in Finance.

A. I was employed by Union Electric Company in May 1981 as an Assistant Engineer in the Nuclear

1 Construction Department at the Company's Callaway Plant. While serving in this department, I
2 was promoted from Assistant Engineer to Engineer. In these positions, I performed various
3 construction management activities, both technical and administrative in nature.

4 In April 1986, following the completion of Callaway construction, I transferred to the newly
5 formed Quality Services Department, located in the Company's St. Louis headquarters. My
6 principal responsibility in this position was the review of Company suppliers' quality assurance
7 (QA) programs, and the on-site verification of the implementation of the QA programs at the
8 suppliers' facilities. In this position, I also was involved in the development of internal Company
9 QA programs.

10 After I attained my MBA in Finance, I was assigned to the Financial Planning and
11 Investments Department as a Financial Specialist. This title was later modified to "Finance
12 Professional". This is the position I currently hold with the principal duties as described earlier.

13 **Q. Are you familiar with the subject matter of this proceeding?**

14 A. Yes. The Company is requesting the following approvals from and providing the following
15 notification to the Missouri Public Service Commission (MPSC):

16 1) Request for approval of the "Third Amended and Restated Tax Qualified Decommissioning
17 Trust" agreement;

18 2) Request for approval of changes to the "Investment Guidelines for the Callaway Plant Tax
19 Qualified and Non-Tax Qualified Nuclear Decommissioning Trust Funds – Effective
20 _____"; and,

21 3) Notification of a change in the trust fund's equity investment manager as a result of recent

1 mergers in the banking industry.

2 **Q. Are you sponsoring any schedules?**

3 A. Yes. I am sponsoring Schedule Numbers 1 through 7.

4

5 **REQUEST FOR APPROVAL OF THE**
6 **“THIRD AMENDED AND RESTATED TAX QUALIFIED**
7 **DECOMMISSIONING TRUST” AGREEMENT**
8

9 **Q. What document currently governs the tax qualified decommissioning trust?**

10 A. The “Second Amended and Restated Tax Qualified Decommissioning Trust” agreement, as
11 amended, is presently in effect. A copy of this document, with its associated amendments, is
12 included in Schedule 1.

13 **Q. Has the Company previously sought MPSC approval of a “Third Amended and**
14 **Restated Tax Qualified Decommissioning Trust” agreement?**

15 A. Yes. On October 13, 2000, the Company filed an application with the MPSC (please refer to
16 Case No. EO-2001-245) seeking, among other things, approval to replace Bankers Trust
17 Company with The Bank of New York (BNY) as trustee of its tax qualified nuclear
18 decommissioning trust fund (the “trust fund”), approval of a “Third Amended and Restated Tax
19 Qualified Decommissioning Trust” agreement (which made certain revisions to the “Second
20 Amended and Restated Tax Qualified Decommissioning Trust” agreement and incorporated its
21 amendments), approval to replace Banc of America Capital Management, Inc. with BNY as fixed
22 income investment manager for the trust fund and approval of changes to the “Investment Guidelines
23 for the Callaway Plant Tax Qualified and Non-Tax Qualified Nuclear Decommissioning Trust

1 Funds – Effective January 1, 1998”. The Company concurrently filed a similar application with the
2 Illinois Commerce Commission (ICC) requesting approval of the foregoing items required under
3 their jurisdiction (please refer to ICC Docket No. 00-0664).

4 **Q. What was the outcome of these requests?**

5 A. On December 6, 2000, the ICC issued its “Order” approving the changes requested by the
6 Company.

7 On December 14, 2000, the MPSC issued its “Order” which partially approved the
8 changes requested by the Company. Specifically, the MPSC Order approved the Company’s
9 request for the changes in trustee and investment manager, and approved the proposed “Third
10 Amended and Restated Tax Qualified Decommissioning Trust” agreement and its associated fee
11 schedule (with certain exceptions) and the proposed “Investment Guidelines for the Callaway Plant
12 Tax Qualified and Non-Tax Qualified Nuclear Decommissioning Trust Funds – Effective January
13 1, 2001” (with one exception). In addition, the MPSC Order indicated that the foregoing
14 exceptions would be “taken under advisement” until the resolution of the Company’s Illinois
15 property transfer case (MPSC Case No. EM-2001-233) was resolved.

16 For the Company and BNY to execute the “Third Amended and Restated Tax Qualified
17 Decommissioning Trust” agreement, approval by both the MPSC and by the ICC was required.
18 Since the ICC approved the document as-filed but the MPSC approved it with exceptions, the
19 Company and BNY were unable to execute the document. In order to proceed with the change
20 in trustee, BNY agreed to be appointed as “successor trustee” under the existing “Second
21 Amended and Restated Tax Qualified Decommissioning Trust” agreement provided the Company

1 agreed to pursue changes to the agreement that were addressed in its earlier filing. As both the
2 ICC and MPSC had approved the change in trustee and the trustee's fee schedule, and as the
3 existing "Second Amended and Restated Tax Qualified Decommissioning Trust" agreement had
4 been previously approved by both Commissions (MPSC Case No. EO-93-308 and ICC Docket
5 No. 93-0300), the appointment of BNY as successor trustee under the terms of that trust
6 agreement was possible. Since the investment guidelines are written in a manner so as to be
7 segregated on a jurisdictional basis and as the exception contained in the MPSC Order only applied
8 to the Missouri jurisdiction, the Company was able to implement the "Investment Guidelines for the
9 Callaway Plant Tax Qualified and Non-Tax Qualified Nuclear Decommissioning Trust Funds –
10 Effective January 1, 2001" with the one area noted as an "exception" by the MPSC Order
11 removed for the Missouri jurisdictional section.

12 The appointment of BNY as successor trustee and fixed income investment manager was
13 made and subsequently accepted, effective as of January 1, 2001. As a condition of the
14 appointment, the Company committed to BNY that it would pursue a resolution to the sections of
15 the proposed "Third Amended and Restated Tax Qualified Decommissioning Trust" agreement that
16 were rejected by the MPSC such that this document could be implemented.

17 **Q. What action has the Company taken to resolve the MPSC's concerns with the originally**
18 **proposed "Third Amended and Restated Tax Qualified Decommissioning Trust"**
19 **agreement?**

20 A. The Company met with the MPSC Staff and Office of Public Counsel (OPC) and discussed the
21 basis and reasoning behind the changes that had been proposed to the "Second Amended and

1 Restated Tax Qualified Decommissioning Trust” agreement. Based on these discussions, revised
2 wording was developed to address the areas which had caused concerns.

3 **Q. Have any other events occurred since the issuance of the MPSC “Order” in Case No.**
4 **EO-2001-245 that necessitate changes to the “Second Amended and Restated Tax**
5 **Qualified Decommissioning Trust” agreement?**

6 A. Yes. On August 10, 1999, the U. S. Nuclear Regulatory Commission (NRC) directed the NRC
7 staff to initiate a rulemaking to require that decommissioning trust agreements be in a form
8 acceptable to the NRC in order to increase assurance that an adequate amount of decommissioning
9 funds would be available for their intended purpose. As a result of this effort, the NRC published
10 a proposed rule for Decommissioning Trust Provisions in the Federal Register on May 30, 2001
11 (66 FR 29244). Following the receipt and incorporation of comments, the final rule for
12 Decommissioning Trust Provisions was published in the Federal Register on December 24, 2002
13 (67 FR 78332). The final rule modified the Code of Federal Regulations (CFR) by revising
14 paragraphs 10 CFR 50.75(e)(1)(i) and (ii) and adding a new paragraph, 10 CFR 50.75(h). For
15 licensees that are “electric utilities” (such as the Company), as defined by 10 CFR 50.2, the CFR
16 revision basically requires the trust agreement to contain provisions for notification to the NRC prior
17 to disbursements being made from the decommissioning trust fund.

18 A copy of the Federal Register section (67 FR 78332) containing the final rule for
19 Decommissioning Trust Provisions and the CFR revisions is included as Schedule 2.

20 **Q. Has the Company prepared a new “Third Amended and Restated Tax Qualified**
21 **Decommissioning Trust” agreement incorporating revised language as a result of the**

1 **foregoing discussions with the MPSC and OPC Staff and as a result of the above “final**
2 **rule” for Decommissioning Trust Provisions?**

3 A. Yes. A copy of the currently proposed “Third Amended and Restated Tax Qualified
4 Decommissioning Trust” agreement is contained in Schedule 3.

5 **Q. Has an annotated copy of the proposed “Third Amended and Restated Tax Qualified**
6 **Decommissioning Trust” agreement, showing the wording that has been deleted and**
7 **added relative to the “Second Amended and Restated Tax Qualified Decommissioning**
8 **Trust” agreement, been prepared?**

9 A. Yes. Schedule 4 contains such a “comparative” document. “Strike-outs” illustrate text contained
10 in the “Second Amended and Restated Tax Qualified Decommissioning Trust” agreement that is
11 being eliminated in the proposed “Third Amended and Restated Tax Qualified Decommissioning
12 Trust” agreement. Shaded areas illustrate text that is not in the “Second Amended and Restated
13 Tax Qualified Decommissioning Trust” agreement being added to the proposed “Third Amended
14 and Restated Tax Qualified Decommissioning Trust” agreement.

15 **Q. Has the Company’s “Illinois Property Transfer Case” (Case No. EM-2001-233) been**
16 **resolved, such that the “exceptions” to the approval of the trust agreement and**
17 **investment guidelines stated in Case No. EO-2001-245 can now be addressed and**
18 **reconciled?**

19 A. Yes. The MPSC granted the Company’s request to withdraw its application and closed Case No.
20 EM-2001-233 as of May 14, 2001. It is no longer an open issue.

21 **Q. Please discuss the exceptions and concerns noted by the MPSC in its Order in Case No.**

1 **EO-2001-245, and describe how they have been resolved in the modified “Third Amended**
2 **and Restated Tax Qualified Decommissioning Trust” agreement contained in Schedule**
3 **3.**

4 A. The first exception involved a revision that was made to Article II, Section 2.01 of the “Second
5 Amended and Restated Tax Qualified Decommissioning Trust” agreement. In preparing the
6 proposed “Third Amended and Restated Tax Qualified Decommissioning Trust” agreement
7 presented in Case No. EO-2001-245, this section was revised as follows (underlined words were
8 added):

9 “Selection of the investment media for the investment and reinvestment of the principal and
10 income of the Trust Fund shall be in the sole discretion of the Trustee, except for any portion
11 of the Trust Fund that may be subject to the instructions of the Company or of an additional
12 investment advisor; provided, however, that investments shall be so diversified as to minimize
13 the risk of large losses unless under the circumstances it is clearly prudent not to do so; and
14 further provided that on the written request of the Company to retain cash, the Trustee shall
15 retain so much cash as shall be specified in such request and shall be under no obligation to
16 invest the same as herein provided, and also that the Trustee in its discretion may retain cash
17 temporarily awaiting investment.”

18
19 The Office of Public Counsel (OPC) had concerns with the proposed change as they felt
20 the Company may be attempting to interject itself into the management of the fund’s investments
21 on a routine, day-to-day basis. While one could construe this from the added trust agreement
22 language, this was never the Company’s intent. The Company added this wording at the request
23 of the proposed trustee (BNY). The intent of the trust agreement is for BNY to act as custodian
24 of the fund’s assets; not as an investment manager. However, the trust agreement must contain
25 some consideration as to the responsibility for investment management in the event that an acting
26 investment manager would suddenly resign or otherwise become non-viable. Without the addition

1 included in the proposed revision, this responsibility would fall solely on the trustee. BNY desires
2 to take investment direction from the Company up until the time that a new investment manager has
3 been put into place, evidenced by an executed investment management agreement. The Company
4 has no intent of directing the specific, day-to-day investing of the fund's assets; but, it should have
5 the ability to take interim action in the event that an acting investment manager becomes unable or
6 unwilling to perform its duties.

7 In addition, the Company feels very strongly that it is within its fiduciary responsibility to
8 establish and implement general, overall investment policies and practices which investment
9 managers (selected by the Company and approved by the MPSC) will carry out in their managing
10 of the fund's assets. In fact, the Company believes that it would be imprudent for it not to provide
11 this broad, general oversight and administrative management of the trust fund.

12 In order to alleviate the concerns of the MPSC and OPC Staff and to define the parameters
13 of the Company's responsibility for developing and implementing overall investment management
14 policies and practices, several changes and additions were made to Article II. The "Third
15 Amended and Restated Tax Qualified Decommissioning Trust" agreement presented in Schedule
16 3 includes the changes made to Article II addressing these issues. Schedule 4 contains a
17 comparative version of the "Third Amended and Restated Tax Qualified Decommissioning Trust"
18 agreement relative to the "Second Amended and Restated Tax Qualified Decommissioning Trust"
19 agreement, currently in effect, with additions identified by shading and deletions identified by strike-
20 out lines.

21 The second exception involved the elimination of a sentence in Article I, Section 1.01 of

1 the “Second Amended and Restated Tax Qualified Decommissioning Trust” agreement. The
2 sentence being eliminated read as follows:

3 “The anticipated decommissioning costs and expenses shall include all reasonable costs and
4 expenses incurred in connection with the entombment, decontamination, dismantlement,
5 removal and disposal of the structures, systems and components of the Callaway Plant at the
6 time of decommissioning, including all expenses to be incurred in connection with the
7 preparation for decommissioning, such as engineering and other planning expenses, and to be
8 incurred after the actual decommissioning occurs, such as physical security and radiation
9 monitoring expenses, less proceeds of insurance, salvage or resale of machinery, construction
10 equipment or apparatus the cost of which was charged as a decommissioning expense.”
11

12 The Company proposed eliminating this sentence simply as an effort to “streamline” the
13 wording of the trust agreement. The foregoing sentence defines decommissioning costs and
14 expenses, and replicates the definition contained in Missouri statutes. Since the proposed trust
15 agreement contains a section requiring it to adhere to all applicable state laws, the Company felt that
16 this sentence was redundant and could be removed without affecting the intent of the document.

17 OPC expressed concern with the removal of this sentence. Given that the Company’s only
18 intent was to remove redundancies and to streamline the document, the simplest solution was to
19 reinsert the previously deleted sentence in the currently proposed version of the “Third Amended
20 and Restated Tax Qualified Decommissioning Trust” agreement.

21 The final area of concern was a change made to Article III, Section 3.05 of the “Second
22 Amended and Restated Tax Qualified Decommissioning Trust” agreement, as follows (added
23 wording is underlined, deleted wording is stricken out):

24 “3.05 In the event the Company sells or otherwise disposes of its ownership interest, or
25 any part thereof, in the Callaway Plant, the funds of the Trust shall be distributed ~~to the~~
26 ~~Company to the extent of the reductions in its liability for future decommissioning after taking~~

1 ~~into account the liabilities of the Company for future decommissioning of the Callaway Plant and~~
2 ~~the liabilities that have been assumed by another entity in the manner prescribed by written~~
3 instruction from the Company delivered to the Trustee.”
4

5 The Company desired this change to avoid being forced by the terms of the trust agreement
6 to distribute the funds in the trust should the Company ever “dispose of its interest” in the Callaway
7 plant by transferring it to an operating subsidiary. In such an event, it would most likely be desirable
8 for the trust fund to remain in place and continue to be funded, in a manner determined at the time
9 of the transfer. Since the terms of the trust agreement require the Company to abide by any Orders
10 issued by any applicable regulatory bodies, and since such regulatory bodies would almost certainly
11 stipulate the handling of the decommissioning trust fund in the event of such a transfer, it seemed
12 reasonable to the Company to remove the specific wording from the trust agreement and replace
13 it with the more general language that could apply to any circumstances that may be encountered
14 upon disposition of the plant.

15 OPC expressed concern with this change, and again felt that it could be problematic given
16 the restructuring taking place in the utility industry. After meeting with the MPSC Staff and the
17 OPC, a modification was made which was acceptable to all of the involved parties. The “Third
18 Amended and Restated Tax Qualified Decommissioning Trust” agreement presented in Schedule
19 3 includes the changes made to paragraph 3.05. Again, the comparative version of the “Third
20 Amended and Restated Tax Qualified Decommissioning Trust” agreement relative to the “Second
21 Amended and Restated Tax Qualified Decommissioning Trust” agreement, presented in Schedule
22 4, illustrates the revisions with additions identified by shading and deletions identified by strike-out
23 lines.

1 **Q. What sections of the “Second Amended and Restated Tax Qualified Decommissioning**
2 **Trust” agreement were revised as a result of the NRC’s final rule for Decommissioning**
3 **Trust Provisions?**

4 A. Paragraphs 3.02 and 3.03 in the “Third Amended and Restated Tax Qualified Decommissioning
5 Trust” agreement, presented in Schedule 3, contain the provisions necessary to comply with the
6 NRC final rule for Decommissioning Trust Provisions. Again, Schedule 4 contains a comparative
7 version of the “Third Amended and Restated Tax Qualified Decommissioning Trust” agreement
8 relative to the “Second Amended and Restated Tax Qualified Decommissioning Trust” agreement,
9 currently in effect, with additions identified by shading and deletions identified by strike-out lines.

11 **Q. Are there any other parts of the “Third Amended and Restated Tax Qualified**
12 **Decommissioning Trust” agreement presented in Schedule 3 that are different than the**
13 **“Second Amended and Restated Tax Qualified Decommissioning Trust” agreement**
14 **currently in effect?**

15 A. Yes. These other changes were also presented as part of the proposed “Third Amended and
16 Restated Tax Qualified Decommissioning Trust” agreement presented in MPSC Case No. EO-
17 2001-245 and ICC Docket No. 00-0664. To the best of the Company’s knowledge, no exception
18 was taken to these other changes by the ICC, the MPSC, nor the OPC; nor were they disputed
19 in the ICC nor in the MPSC Orders in that case. The other changes fall generally into two
20 categories: those changes to “clean-up” redundant, outdated or vague language in the agreement
21 or those changes of a “legal” nature requested by BNY in order to enter into the agreement.

1 **Q. Are any trustee fee changes associated with the trust agreement changes requested by**
2 **this filing?**

3 A. No. The “Schedule of Trustee Fees” included as Attachment 1 to the “Third Amended and
4 Restated Tax Qualified Decommissioning Trust” agreement that were approved by the MPSC in
5 Case No. EO-2001-245 will remain in effect until at least January 1, 2004.

6 **Q. Are any other regulatory commission approvals required for this trust agreement**
7 **revision?**

8 A. Yes. The Company must also obtain the approval of the Illinois Commerce Commission (ICC).
9 On Page 2 of its Order in Case No. EO-2001-245, the MPSC included a footnote that reads as
10 follows,

11 “AmerenUE failed to explain why the approval of its requests by the Illinois Commerce
12 Commission was necessary. Thus, this part of AmerenUE’s pleading was not taken into
13 consideration by the Commission.”
14

15 The Company would like to address this comment and explain the basis for the necessity
16 of approval by the ICC. The ICC, in its Order in Docket No. 88-0301, dated December 7, 1988,
17 made the following statement:

18 “The Commission [ICC] is also of the opinion that: (1) any alteration or amendment which
19 substantially, significantly or materially affects the Trust Agreements is subject to the prior
20 approval of the Commission;”
21

22 Thus, any trust agreement changes require the approval of both the MPSC and the ICC.

23 If one Commission approves a proposed revision and the other does not, as occurred with the
24 prior effort to revise the “Second Amended and Restated Tax Qualified Decommissioning Trust”
25 agreement, the result is that the proposed agreement cannot be entered into by the Company and

1 the Trustee. For that reason, it is requested that the MPSC make its approval of the proposed
2 “Third Amended and Restated Tax Qualified Decommissioning Trust” agreement contingent upon
3 the Company obtaining corresponding approval from the ICC.

4
5 **REQUEST FOR APPROVAL OF CHANGES TO THE**
6 **“INVESTMENT GUIDELINES FOR THE CALLAWAY PLANT**
7 **TAX QUALIFIED AND NON-TAX QUALIFIED NUCLEAR DECOMMISSIONING**
8 **TRUST FUNDS – EFFECTIVE JANUARY 1, 2001”**
9

10 **Q. What investment guidelines are currently applicable to the trust fund’s assets?**

11 A. The “Investment Guidelines for the Callaway Plant Tax Qualified and Non-Tax Qualified Nuclear
12 Decommissioning Trust Funds – Effective January 1, 2001” are currently in effect. Schedule 5
13 contains a copy of these guidelines.

14 **Q. Please describe the manner in which the foregoing version of the investment guidelines**
15 **was approved and implemented.**

16 A. The “Investment Guidelines for the Callaway Plant Tax Qualified and Non-Tax Qualified Nuclear
17 Decommissioning Trust Funds – Effective January 1, 1998” had been in effect prior to the
18 Company’s filing a proposed revision in MPSC Case No. EO-2001-245 and ICC Docket No.
19 00-0664. In addition to general clarification and minor wording changes, the proposed revision
20 included the addition of the following paragraph to Article V, Section B:

21 “UE shall monitor the actual equity allocation value, and shall direct the investment manager(s)
22 regarding the appropriate actions to take to adjust the jurisdictional sub-account to maintain the
23 targeted equity allocation, when necessary.”

24
25 The MPSC, in their Order in Case No. EO-2001-245, approved the proposed investment

1 guidelines with one exception, that being the disallowance of the foregoing added paragraph. As
2 with the exceptions that were taken to the trust agreement revisions, the MPSC Order indicated
3 that the foregoing exception would be “taken under advisement” until the resolution of the
4 Company’s Illinois property transfer case (Case No. EM-2001-233) was resolved. Consequently,
5 the Company incorporated all of the changes that had been approved by the MPSC and ICC (but
6 without the addition of the proposed paragraph to Article V, Section B) and proceeded to
7 implement the revised version as the “Investment Guidelines for the Callaway Plant Tax Qualified
8 and Non-Tax Qualified Nuclear Decommissioning Trust Funds – Effective January 1, 2001”.

9 **Q. Why did the MPSC take exception to the proposed paragraph addition to the investment**
10 **guidelines?**

11 A. This action was apparently in response to OPC concerns that the added paragraph would grant the
12 Company the ability to “inject itself improperly in the management of the trust”.

13 **Q. Does the Company agree with this position?**

14 A. No. As discussed earlier regarding the proposed trust agreement revisions, the Company does not
15 intend, nor does it consider it appropriate, to be involved in the specific, day-to-day investment
16 management of the trust fund’s assets. However, the Company feels very strongly that it is within
17 its fiduciary responsibility to establish and implement general, overall investment policies and
18 practices which investment managers (selected by the Company and approved by the MPSC) will
19 carry out in their managing of the fund’s assets. In fact, the Company considers that it would be
20 imprudent for it not to provide this broad, general oversight and administrative management of the
21 trust fund.

1 **Q. What is the Company proposing to reconcile this issue?**

2 A. The Company met with the MPSC and OPC Staff, and came to an agreement that the primary
3 concern OPC had with the addition of the previously proposed paragraph was the fear that the
4 Company could begin directing the trustee to purchase specific securities; thus incurring excessive
5 risk. The Company never had any intention of doing this, so it was agreed that language would be
6 added to the investment guidelines to more specifically delineate the Company's role in the
7 investment management process. Specifically, the Company is proposing to revise Article IV of
8 the "Investment Guidelines for the Callaway Plant Tax Qualified and Non-Tax Qualified Nuclear
9 Decommissioning Trust Funds – Effective January 1, 2001" to read as follows (added wording is
10 underlined, deleted wording is stricken out):

11 ~~"The trust funds shall utilize investment managers as selected by UE. UE shall not engage~~
12 ~~in the day-to-day management of the trust funds nor make individual investment decisions,~~
13 ~~as this is the responsibility of the investment managers. General investment policies are~~
14 ~~provided to the investment managers by UE through these investment guidelines. UE shall~~
15 ~~also determine the allocation of assets, including contributions and withdrawals, among~~
16 ~~investment managers."~~

17
18 "Day-to-day management of the trust funds shall be the responsibility of investment
19 managers selected by UE. Neither UE nor its subsidiaries, affiliates or associates may
20 serve as investment manager or otherwise engage in day-to-day management of the fund
21 or mandate individual investment decisions. The investment managers shall be responsible
22 for the selection of specific securities to invest in. UE shall not direct any investment
23 manager to invest in any specific, individual securities; however, UE does retain the right
24 to instruct investment managers to not invest in certain securities, as it deems appropriate."

1
2 “UE shall be responsible for establishing and implementing general, overall investment
3 policies and practices; including, but not necessarily limited to:

- 4
5 1) The selection of trustees, investment managers, advisors, consultants, etc.;
6 2) The selection of allowable asset categories;
7 3) The specification of asset allocations between asset categories;
8 4) The specification of asset allocations between investment managers;
9 5) Directing contributions to selected asset categories / investment managers and
10 directing reallocations between asset categories / investment managers.”

11
12 “The overall investment policies established by UE shall be set forth in these written
13 investment guidelines. These investment guidelines shall be reviewed and approved, as
14 required, by all applicable federal and state regulatory authorities in accordance with all
15 federal and state laws and with all orders issued by such applicable federal or state
16 regulatory authorities.”

17
18 “All instructions from UE to any other parties necessary to implement the overall investment
19 policies and practices established by these investment guidelines shall likewise be in
20 accordance with said guidelines and with all federal and state laws and with all orders
21 issued by applicable federal or state regulatory authorities.”

22
23 The originally proposed paragraph to be added to Article V, Section B has been modified

24 to read as follows:

25 “UE shall monitor the actual equity allocation value, and shall direct the investment manager(s)
26 regarding the appropriate actions to take to adjust the jurisdictional sub-account to fall within
27 the targeted equity allocation, when necessary. As stated in Section IV, the investment
28 managers shall be responsible for the selection of specific securities to invest in. UE shall not
29 direct any investment manager to invest in any specific securities.”

30
31 A complete copy of the revised investment guidelines is included as Schedule 6.

32 **Q. Please provide an annotated copy of the proposed “Investment Guidelines for the**
33 **Callaway Plant Tax Qualified and Non-Tax Qualified Nuclear Decommissioning Trust**
34 **Funds – Effective _____” showing the wording that has been deleted and added**
35 **relative to the “Investment Guidelines for the Callaway Plant Tax Qualified and Non-Tax**

1 **Qualified Nuclear Decommissioning Trust Funds – Effective January 1, 2001”.**

2 A. Schedule 7 contains such a “comparative” document. “Strike-outs” illustrate text contained in the
3 current “Investment Guidelines for the Callaway Plant Tax Qualified and Non-Tax Qualified
4 Nuclear Decommissioning Trust Funds – Effective January 1, 2001” that are being eliminated in the
5 proposed “Investment Guidelines for the Callaway Plant Tax Qualified and Non-Tax Qualified
6 Nuclear Decommissioning Trust Funds – Effective _____”. Shaded areas illustrate text
7 that is not in the current investment guidelines but is added to the proposed version.

8 **Q. Are any other regulatory commission approvals required for this revision to the**
9 **investment guidelines?**

10 A. Yes. The Company must also obtain the approval of the ICC. Although the Company has
11 attempted to segregate the criteria contained in the investment guidelines by jurisdiction, the change
12 in Article IV proposed in this filing is generic to all of the jurisdictions.

13 The ICC, in its Order in Docket No. 93-0300, dated December 15, 1993, made the
14 following statement:

15 “It is further ordered that said authorization and consent by the Commission is granted on the
16 condition that investment and reinvestment of the assets of Union Electric Company’s tax
17 qualified and non-tax qualified trusts shall be made pursuant to the guidelines provided in
18 Appendix A attached to this order. Any alteration which materially affects these guidelines is
19 subject to the prior approval of the Commission.”
20

21 Thus, the proposed change to the investment guidelines requires the approval of both the
22 MPSC and the ICC. If one Commission approves a proposed revision and the other does not,
23 the Company will be unable to implement the investment guidelines until the differences are resolved
24 between both Commissions. For that reason, it is requested that the MPSC make its approval of

1 the requested change in the investment guidelines contingent upon the Company obtaining
2 corresponding approval from the ICC.

3
4 **NOTIFICATION OF CHANGES IN THE NAME OF THE TRUST FUND'S**
5 **EQUITY INVESTMENT MANAGER**
6 **AS A RESULT OF RECENT MERGERS IN THE BANKING INDUSTRY**
7

8 **Q. Please describe the change in equity investment manager's name that has occurred.**

9 A. Mississippi Valley Advisors (MVA), the original equity investment manager for the trust fund, was
10 added on July 10, 1992 as an additional investment manager for the trust fund. MVA was a
11 subsidiary of Mercantile Bank, which was subsequently acquired by Firststar. On February 29,
12 2000, MVA was merged into the Firststar investment management subsidiary with "Firststar
13 Investment Research & Management Company, LLC" (FIRMCO) as the surviving entity. The
14 investment management agreement and fee structure in place with MVA remained in place under
15 FIRMCO. Essentially, the change was in name only. The MPSC was notified of this change in my
16 direct testimony submitted in connection with Case No. EO-2001-245.

17 In February, 2001, Firststar Corporation merged with U.S. Bancorp, a bank holding
18 company. Consequently, FIRMCO became a wholly owned subsidiary of U.S. Bancorp. U.S.
19 Bancorp also owns "U.S. Bank National Association", which owned "First American Asset
20 Management, Inc." (FAAM). On May 1, 2001, FIRMCO and FAAM were consolidated into
21 a newly created organization, "U.S. Bancorp Piper Jaffray Asset Management, Inc."
22 (USBPIAM), which was a wholly-owned subsidiary of U.S. Bank National Association. The
23 "Piper Jaffray" portion of the name was dropped in December, 2001, and the title "U.S.

1 Bancorp Asset Management, Inc.” (USB) was adopted. The investment management
2 agreement and fee structure originally in place with MVA continues to remain in place under the
3 surviving company, USB.

4 **SUMMARY**

5 **Q. Is there any affiliation of interest between Union Electric Company and BNY?**

6 A. No.

7 **Q. On what date does the Company desire to make the revised trust agreement and**
8 **investment guidelines effective?**

9 A. As the Company was able to proceed with the change in trustees through appointing BNY as a
10 successor trustee under the existing “Second Amended and Restated Tax Qualified
11 Decommissioning Trust” agreement, expedited treatment is not being requested for approval of
12 the documents presented in this filing. The Company, the trustee and the investment managers
13 will sign the revised trust agreements and investment guidelines, as appropriate, and make them
14 effective following receipt of the required approvals from both the MPSC and the ICC. The
15 trust agreement changes required by the NRC final rule for Decommissioning Trust Provisions is
16 required to be effective by December 24, 2003. Consequently, although the Company is not
17 seeking expedited treatment, MPSC action is requested within such a time frame so as to be
18 able to meet this legal deadline.

19 **Q. In summary, what does the Company seek from the MPSC?**

20 A. The Company is requesting that the MPSC:

21 1) Approve the “Third Amended and Restated Tax Qualified Decommissioning Trust” agreement

- 1 between the Company and BNY, in the form of Schedule 3;
- 2 2) Approve the “Investment Guidelines for the Callaway Plant Tax Qualified and Non-Tax
- 3 Qualified Nuclear Decommissioning Trust Funds, Effective _____” (to be effective as of
- 4 the date the document is signed, following receipt of MPSC and ICC approval); in the form
- 5 of Schedule 6; and
- 6 3) Acknowledge the change in equity investment managers from Firststar Investment Research &
- 7 Management Company, LLC (FIRMCO) to U.S. Bancorp Asset Management, Inc. (USB).
- 8 **Q. Does this conclude your testimony?**
- 9 A. Yes, it does.