Missouri Public Service Commission

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March 29, 2002

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

RE: Case No. EC-2002-1 – Staff of the Missouri Public Service Commission, Complainant, vs. Union Electric Company, d/b/a/ AmerenUE, Respondent.

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of the **STAFF'S MOTION FOR LEAVE TO CORRECT THE PRE-FILED DIRECT TESTIMONY OF STAFF WITNESS RONALD L. BIBLE FILED ON MARCH 1, 2002.**

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

Nathan Williams

Nathan Williams
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Enclosure
cc: Counsel of Record

BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED[3]
MAR 2 9 2002
Missouri Public Service Commission

Staff of the Missouri Public Service Commission, Complainant,	)	
v.	)	Case No. EC-2002-1
Union Electric Company, d/b/a AmerenUE, Respondent.	)	

STAFF'S MOTION FOR LEAVE TO CORRECT THE PRE-FILED DIRECT TESTIMONY OF STAFF WITNESS RONALD L. BIBLE FILED MARCH 1, 2002

COMES NOW the Staff of the Missouri Public Service Commission ("Staff"), and for its Motion for Leave to Correct the Pre-filed Direct Testimony of Staff Witness Ronald L. Bible filed March 1, 2002, states as follows:

1. Staff witness Ronald L. Bible has discovered an error in a number and an error in a date, both of which appear at multiple locations in his direct testimony and schedules filed March 1, 2002.

2. Having identified the need to make these corrections to Mr. Bible's direct testimony and schedules the Staff thought it best to make these corrections at this time. The Staff points out that these corrections have no impact on the Staff's rate of return recommendation for AmerenUE as presented in the direct testimony of Mr. Bible filed March 1, 2002.

4. The pages of the direct testimony of Staff witness Ronald L. Bible where he would make corrections are the following: Pages 16, 24 and 25; Schedules. 8, 15, 16 and 23.

5. Attached hereto are pages to the direct testimony of Staff witness Ronald L. Bible that show, in red text or red strikethrough, the corrections to the direct testimony of Staff witness

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Ronald L. Bible that he would make. Also accompanying this pleading are an original and eight conformed copies of the direct testimony pages and schedules of Ronald L. Bible, containing corrections, without red text or red strikethrough, but with the date "3/29/2002," appearing on the bottom right-hand corner. The Staff anticipates offering into evidence at the evidentiary hearing in this case the direct testimony of Ronald L. Bible filed March 1, 2002 modified by substitution of the attached correction pages bearing the date 3/29/2002 in the lower right-hand corner for the same-numbered page and schedule appearing in the direct testimony of Ronald L. Bible that was filed March 1, 2002.

WHEREFORE, the Staff requests the Commission for leave to make this filing of corrections to the direct testimony of Staff witness Ronald L. Bible that was filed on March 1, 2002.

Respectfully submitted,

DANA K. JOYCE
General Counsel

Nathan Williams

Nathan Williams
Associate General Counsel
Missouri Bar No. 35512

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 29th day of March, 2002.

Nathan Williams

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Case No. EC-2002-1
Verified: February 8, 2002 (rr)

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Exhibit No.:	
Issues:	*Rate of Return*
Witness:	*Ronald L. Bible*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case Nos.:	*EC-2002-1*
Date Testimony Prepared:	*March 1, 2002*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

RONALD L. BIBLE

UNION ELECTRIC COMPANY
d/b/a AMERENUE

CASE NO. EC-2002-1

Jefferson City, Missouri
March 2002

Redlined Pages *03/29/02*

A. Schedules 7 and 8 present historical capital structures and selected financial ratios from 1996 to 2000 for AmerenUE. AmerenUE's common equity ratio has ranged from a high of 57.30 percent to a low of 53.85 percent over the time period of 1996 through 2000. *The Value Line Investment Survey: Ratings & Reports* dated January 4, 2002, reported that the average common equity ratio (figured excluding short-term debt) for the electric utility (central) industry for 2000 was 40.50 percent, estimated to be 42.50 percent and 44.50 percent for 2001 and 2002, respectively, and 48.5 percent for the period 2004 to 2006. According to Standard & Poor's Corporation: *Ratings Direct,* dated November 10, 2001, "Management's financial strategy, which until last year was viewed as conservative, is now moderate. This is evident in the rising level of debt in the company's capital structure and recent expansion of its riskier unregulated generation business".

AmerenUE's reported return on year-end common equity (ROE) has fluctuated during this time period ranging from a low of 12.38 percent in 1996 to a high of 14.60 percent in 2000 (see Schedule 8). AmerenUE's ROE of 14.~~6~~30 percent for 2000 is above the average of 7.4 percent for the electric utility (central) industry according to *The Value Line Investment Survey: Ratings & Reports*, January 4, 2002. *The Value Line Investment Survey: Ratings & Reports,* January 4, 2002 estimates that Ameren's return on equity for 2001 will be 14.00 percent. AmerenUE's market-to-book ratio has varied from a low of 1.46 in 1999 to a high of 1.99 in year 2000 (see Schedule 8).

<u>Determination of the Cost of Capital</u>

Q. Please describe your approach for determining a utility company's cost of capital.

dividend yield of 6.00 percent, which is lower than the dividend yield used in my DCF estimates and would decrease the recommended return on common equity.

Reasonableness of DCF Returns for AmerenUE

Q. What analysis was performed to determine the reasonableness of your DCF model derived return on common equity for Ameren?

A. I performed a risk premium cost of equity analysis for Ameren. The risk premium concept implies that the required return on common equity is found by adding an explicit premium for risk to a current interest rate. Schedule 14 shows the average risk premium above the yield of 30-Year Treasury Bonds for Ameren's expected return on common equity. This analysis shows, on average, Ameren's expected return on equity as reported by *The Value Line Investment Survey: Ratings & Reports* is 649 basis points higher than the yield on 30-Year Treasury Bonds for the period of January 1992 to December 2001 (see Schedule 14).

The average yield for 30-Year Treasury Bonds on January ~~6~~14, 2002 was 5.38 percent. Adding 649 basis points to this yield produces an estimated cost of equity of 11.87 percent. (See Schedule 15.)

Q. Did you perform any other checks on reasonableness of your DCF model derived return on common equity for Ameren?

A. Yes. I performed a Capital Asset Pricing Model (CAPM) cost of equity analysis for Ameren. The CAPM describes the relationship between a security's investment risk and its market rate of return. This relationship identifies the rate of return that investors expect a security to earn so that its market return is comparable with the market returns earned by other securities that have similar risk. The mathematical expression of the CAPM is the following:

$$k = R_f + \beta\,(R_m - R_f)$$

where:

k	=	the expected return on equity for a specific security,
R_f	=	the risk free rate,
β	=	beta; and
$R_m - R_f$	=	the market risk premium.

The first term of the CAPM is the risk free rate (R_f). The risk free rate reflects the level of return which can be achieved without accepting any risk. In reality, there is no such riskless asset, but it is generally represented by U.S. Treasury securities, because of the government's unlimited ability to tax and create money. For purposes of this analysis, the risk free rate was represented by the yield on 30-Year U.S. Treasury Bonds. The appropriate rate was determined to be 5.38 percent for the period January ~~6~~14, 2002, as published on www.marketwatch.com.

The second term of the CAPM is beta (β). Beta is an indicator of a security's investment risk. It represents the relative movement and relative risk between a particular security and the market as a whole (where beta for the market equals 1.00). Securities with betas greater than 1.00 exhibit greater volatility than do securities with betas less than 1.00. Thus, a higher beta security is considered riskier and requires a higher return in order to attract investor capital away from a lower beta security. For purposes of this analysis, the appropriate beta was determined to be 0.55 as published in *The Value Line Investment Survey: Ratings & Reports*, January 4, 2002.