

Exhibit No.:
Issues: Updated Capital Structure
Witness: Lee R. Nickloy
Sponsoring Party: Union Electric Company
Type of Exhibit: Supplemental Direct Testimony
Case No.: ER-2007-0002
Date Testimony Prepared: September 29, 2006

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2007-0002

SUPPLEMENTAL DIRECT TESTIMONY

OF

LEE R. NICKLOY

ON

BEHALF OF

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

**St. Louis, Missouri
September, 2006**

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1 **SUPPLEMENTAL DIRECT TESTIMONY**

2 **OF**

3 **LEE R. NICKLOY**

4 **CASE NO. ER-2007-0002**

5 **I. INTRODUCTION**

6 **Q. Please state your name and business address.**

7 A. My name is Lee R. Nickloy. My business address is 1901 Chouteau Avenue,
8 St. Louis, Missouri 63103.

9 **Q. Are you the same Lee R. Nickloy who previously filed testimony in this**
10 **case?**

11 A. Yes.

12 **II. PURPOSE OF TESTIMONY**

13 **Q. What is the purpose of your supplemental direct testimony?**

14 A. The purpose of this supplemental direct testimony is to update the capital
15 structure and overall rate of return to reflect actual data for the test year adopted by the
16 Commission consisting of the twelve months ended June 30, 2006. This testimony is
17 submitted as provided for in the Order Adopting Procedural Schedule and Test Year adopted
18 by the Commission in this case.

1 **III. OVERALL FAIR RATE OF RETURN**

2 **Q. Have you prepared or has there been prepared under your direction and**
3 **supervision any schedules relating to overall fair rate of return for purposes of this**
4 **supplemental direct testimony?**

5 A. Yes, I am sponsoring Schedules LRN-E5 through LRN-E8 for that purpose.
6 These schedules are based upon the test year twelve months ended June 30, 2006, and are
7 designated as follows:

8 Schedule LRN-E5 Capital Structure / Weighted Average Cost of Capital

9 Schedule LRN-E6 Embedded Cost of Long-Term Debt

10 Schedule LRN-E7 Cost of Short-Term Debt

11 Schedule LRN-E8 Embedded Cost of Preferred Stock

12 **Q. How did you calculate the overall fair rate of return or weighted average**
13 **cost of capital for AmerenUE?**

14 A. I calculated these items in the same manner as that submitted in my direct
15 testimony in this proceeding.

16 **Q. Please describe the capital structure of AmerenUE.**

17 A. As outlined on Schedule LRN-E5, the capital structure of AmerenUE on
18 June 30, 2006 consisted of 44.964% long-term debt, 0.795% short-term debt, 2.017%
19 preferred stock and 52.224% common equity.

20 **Q. How were the balances of the components of AmerenUE's capital**
21 **structure determined?**

22 A. The balance of long-term debt, \$2,551,919,839, is the total carrying value of
23 the Company's long-term debt using the net proceeds method. The net proceeds method

1 calculates the carrying value by taking the indebtedness principal amount outstanding and
2 subtracting the unamortized discount, issuance expenses and any loss on reacquired debt.

3 The balance of short-term debt, \$45,093,124, is the last twelve-month average
4 of net short-term debt – see Schedule LRN-E7. This approach measures the average monthly
5 short-term debt balance, less Construction Work in Progress (“CWIP”), over the 12 months
6 in the test year. It recognizes that short-term debt balances can fluctuate substantially during
7 the year and includes in the Company’s capital structure only that portion of short-term debt
8 which may represent permanent capital – i.e. the extent to which short-term debt plays a
9 continual role on the financing of long-term assets.

10 The balance of preferred stock, \$114,502,040, is also the carrying value or net
11 proceeds amount of AmerenUE’s preferred stock as found in the embedded cost calculation
12 for this component of capitalization.

13 The balance of common equity, \$2,963,961,528, represents AmerenUE’s
14 book value of common equity at June 30, 2006 adjusted to remove the effects of its
15 investment in its wholly-owned subsidiary, Union Electric Development Corporation. The
16 assets of this subsidiary are not utilized by the Company in providing utility services to its
17 customers. I further adjusted the book value by removing AmerenUE’s total other
18 comprehensive income as well as the Company’s investment in shares of capital stock of
19 Electric Energy, Inc. (“EEInc.”).

20 **Q. What is the embedded cost of AmerenUE’s long-term debt?**

21 A. AmerenUE’s embedded cost of long-term debt was 5.473% as of June 30,
22 2006. Schedule LRN-E6 provides the calculation of the embedded cost of long-term debt.
23 AmerenUE has about \$437 million principal amount of variable rate environmental

1 improvement indebtedness (in various series) outstanding under which the interest rates are
2 reset by a Dutch auction process every 7 or 35 days. The effective cost used for this
3 indebtedness for purposes of this proceeding was derived using current rates for these
4 securities including related auction broker/dealer fees.

5 **Q. Did you make any adjustments to AmerenUE's long-term debt balance?**

6 A. I did not include the Company's obligations under capital leases related to the
7 Chapter 100 "financing" of its Peno Creek (City of Bowling Green) and recently acquired
8 Audrain County gas-fired generating facilities. These transactions and the related capital
9 leases did not generate any proceeds nor were they a source of capital for the Company.

10 **Q. What is the cost of AmerenUE's short-term debt?**

11 A. AmerenUE's cost of short-term debt was 5.36% based on the Company's
12 borrowing rates on outstanding commercial paper and under Ameren's Utility Money Pool
13 arrangement as of September 8, 2006.

14 **Q. What is the embedded cost of AmerenUE's preferred stock?**

15 A. AmerenUE's embedded cost of preferred stock was 5.189% as of June 30,
16 2006. Schedule LRN-E8 provides the calculation of the embedded cost of preferred stock.
17 Using the net proceeds method of calculating the balance of preferred stock, the balance
18 outstanding as of June 30, 2006 was \$114,502,040.

19 **Q. Did you consider expenses associated with AmerenUE's issuance of**
20 **preferred stock in developing the embedded cost of this component of the Company's**
21 **capital structure?**

22 A. Yes, I did. I included expenses in the same manner as that reflected in my
23 earlier direct testimony.

1 **Q. Please describe your calculation of AmerenUE's balance of common**
2 **equity.**

3 A. I derived AmerenUE's balance of common equity, \$2,963,961,528, by
4 adjusting the Company's book value of common equity at June 30, 2006 of \$2,955,200,260
5 by the amount representing the common stockholder's equity associated with AmerenUE's
6 investment in its wholly-owned subsidiary, Union Electric Development Corporation --
7 (\$5,541,125). I further adjusted the stated book value by removing AmerenUE's June 30,
8 2006 total other comprehensive income -- (\$33,425,822) -- as well as the Company's
9 investment in EEInc. of \$30,205,679.

10 **Q. What is the cost of common equity for AmerenUE?**

11 A. I used the same return on common equity as that used in my earlier direct
12 testimony in this proceeding - 12.00%.

13 **Q. What is the overall fair rate of return for AmerenUE for this proceeding?**

14 A. As shown on Schedule LRN-E5, as of June 30, 2006, the overall fair rate of
15 return for AmerenUE is 8.876%. I derived this result by using the capital structure and
16 embedded costs of long-term debt, short-term debt and preferred stock discussed above, and
17 shown on the various Schedules attached, along with the cost of common equity for
18 AmerenUE developed by Ms. McShane and Dr. Vander Weide in their direct testimony.

19 **Q. Does this conclude your supplemental direct testimony?**

20 A. Yes, it does.

Union Electric Company d/b/a AmerenUE
Capital Structure / Weighted Average Cost of Capital

at 6/30/2006:

CAPITAL COMPONENT	AMOUNT	PERCENT OF TOTAL	COST	WEIGHTED COST
Long-Term Debt	\$2,551,919,839	44.964%	5.473%	2.461%
Short-Term Debt	\$45,093,124	0.795%	5.360%	0.043%
Preferred Stock	\$114,502,040	2.017%	5.189%	0.105%
Common Equity	\$2,963,961,528	52.224%	12.000%	6.267%
TOTAL	\$5,675,476,531	100.000%		8.876%

**Union Electric Company d/b/a AmerenUE
Embedded Cost of Long-Term Debt**

At June 30, 2006

SERIES C1	COUPON C2	ISSUED C3	MATURITY C4	PRINCIPAL C5	FACE AMOUNT OUTSTANDING C6	UNAMORTIZED BALANCES			CARRYING VALUE C10	ANNUALIZED COUPON INT. C11	ANNUALIZED AMORTIZATION			ANNUALIZED INT. EXP. C15	EMBEDDED COST C16
						DISC/(PREM) C7	ISSUE EXP. C8	LOSS C9			DISC/(PREM) C12	ISSUE EXP. C13	LOSS C14		
First Mortgage Bonds	6.750%	01-May-93	01-May-08	\$148,000,000	\$148,000,000	\$76,780	\$148,764			\$9,990,000	\$41,880	\$81,144			
Senior Secured Notes	5.250%	22-Aug-02	01-Sep-12	\$173,000,000	\$173,000,000	\$124,838	\$755,318			\$9,082,500	\$20,244	\$122,484			
Senior Secured Notes	4.650%	07-Oct-03	01-Oct-13	\$200,000,000	\$200,000,000	\$288,057	\$1,150,575			\$9,300,000	\$39,732	\$158,700			
Senior Secured Notes	5.500%	18-May-04	15-May-14	\$104,000,000	\$104,000,000	\$280,725	\$591,090			\$5,720,000	\$35,460	\$74,664			
Senior Secured Notes	4.750%	09-Apr-03	01-Apr-15	\$114,000,000	\$114,000,000	\$135,555	\$661,710			\$5,415,000	\$15,492	\$75,624			
Senior Secured Notes	5.400%	08-Dec-05	01-Feb-16	\$260,000,000	\$260,000,000	\$702,032	\$1,823,172			\$14,040,000	\$72,624	\$188,604			
Senior Secured Notes	5.100%	28-Jul-03	01-Aug-18	\$200,000,000	\$200,000,000	\$85,405	\$1,386,925			\$10,200,000	\$7,068	\$114,780			
Senior Secured Notes	5.100%	23-Sep-04	01-Oct-19	\$300,000,000	\$300,000,000	\$113,844	\$2,129,169			\$15,300,000	\$8,592	\$160,692			
Senior Secured Notes	5.000%	27-Jan-05	01-Feb-20	\$85,000,000	\$85,000,000	\$609,620	\$647,273			\$4,250,000	\$44,880	\$47,652			
First Mortgage Bonds	5.450%	15-Oct-93	01-Oct-28	\$44,000,000	\$44,000,000	\$217,071	\$398,631			\$2,398,000	\$9,756	\$17,916			
Senior Secured Notes	5.500%	10-Mar-03	15-Mar-34	\$184,000,000	\$184,000,000	\$1,834,830	\$1,610,388			\$10,120,000	\$66,120	\$58,032			
Senior Secured Notes	5.300%	21-Jul-05	01-Aug-37	\$300,000,000	\$300,000,000	\$987,704	\$2,896,345			\$15,900,000	\$31,776	\$93,180			
Subordinated Debentures	7.690%	16-Dec-96	15-Dec-36	\$65,500,000	\$65,500,000	\$437,004	\$101,016			\$5,036,950	\$14,328	\$3,312			
Environmental Improvement, Series 1991	3.569%	01-Dec-91	01-Dec-20	\$42,585,000	\$42,585,000		\$845,451			\$1,519,859		\$58,644			
Environmental Improvement, Series 1992	3.600%	01-Dec-92	01-Dec-22	\$47,500,000	\$47,500,000		\$712,597			\$1,710,000		\$97,800			
Environmental Improvement, Series 1998 ABC	3.906%	04-Sep-98	01-Sep-33	\$160,000,000	\$160,000,000		\$3,046,446			\$6,249,600		\$391,452			
Environmental Improvement, Series 2000 ABC	3.999%	09-Mar-00	01-Mar-35	\$186,500,000	\$186,500,000		\$5,090,750			\$7,458,135		\$174,540			
TOTAL LONG-TERM DEBT				\$2,614,085,000	\$2,614,085,000	\$5,893,465	\$23,995,620	\$32,276,076	\$2,551,919,839	\$133,690,044	\$407,952	\$1,919,220	\$3,657,144	\$139,674,360	5.473%

Carrying Value = Face Amount Outstanding less Unamortized Discount, Issuance Expenses, and Loss on Reacquired Debt

C10 = C6 - C7 - C8 - C9

Annualized Interest Expense = Annual Coupon Interest plus Annual Amortization of Discount, Issuance Expenses, and Loss on Reacquired Debt

C15 = C11 + C12 + C13 + C14

Embedded Cost = Annualized Interest Expense divided by Carrying Value

C16 = C15 / C10

Union Electric Company d/b/a AmerenUE
Cost of Short-term Debt

July 1, 2005 - June 30, 2006

MONTH	BALANCE OF SHORT-TERM DEBT (a)	BALANCE OF TOTAL CWIP	BALANCE OF CWIP ACCRUING AFUDC	NET AMOUNT OUTSTANDING	INTEREST RATE
July 2005	\$354,104,714	\$329,769,798	\$364,567,062	\$0	3.370%
August	148,600,000	346,087,817	386,031,063	0	3.560%
September	105,750,000	359,959,751	394,797,938	0	3.730%
October	121,575,000	331,115,750	278,490,627	0	4.053%
November	207,100,000	169,585,882	298,735,535	0	3.629%
December	176,050,000	172,961,290	260,982,348	0	4.520%
January 2006	145,750,000	256,411,192	211,271,430	0	4.599%
February	184,400,000	246,797,587	220,577,457	0	4.577%
March	311,000,000	269,957,693	234,742,158	76,257,842	4.913%
April	465,150,000	284,268,889	232,767,687	232,382,313	4.974%
May	455,850,000	270,639,917	255,260,097	200,589,903	5.065%
June	404,950,000	270,878,898	373,062,575	31,887,425	5.500%
AVERAGE	\$256,689,976	\$275,702,872	\$292,607,165	\$45,093,124	5.360%

(b)

(a) Monthly averages are calculated by adding the beginning and ending balances each month and dividing by two.

Negative amounts are excluded.

(b) Prevailing cost of short-term debt as of September 8, 2006.

Union Electric Company d/b/a AmerenUE
Embedded Cost of Preferred Stock

at June 30, 2006

SERIES, TYPE, PAR C1	DIVIDEND C2	ISSUED C3	MATURITY C4	SHARES OUTSTANDING C5	PAR ISSUED/ OUTSTANDING C6	PREMIUM C7	ISSUANCE EXPENSE/DISCOUNT C8	NET PROCEEDS C9	ANNUAL DIVIDEND C10	EMBEDDED COST C11
\$4.50 Series, Perpetual, \$100 par	\$4.500	01-May-41	-	213,595	\$21,359,500	(\$825,000)	\$440,294	\$21,744,206	\$961,178	
\$5.50 Series, Perpetual, \$100 par	\$5.500	01-Oct-41	-	14,000	\$1,400,000			\$1,400,000	\$77,000	
\$3.70 Series, Perpetual, \$100 par	\$3.700	01-Oct-45	-	40,000	\$4,000,000	(\$70,000)	\$69,396	\$4,000,604	\$148,000	
\$3.50 Series, Perpetual, \$100 par	\$3.500	01-May-46	-	130,000	\$13,000,000	(\$910,000)	\$252,772	\$13,657,228	\$455,000	
\$4.30 Series, Perpetual, \$100 par	\$4.300	01-Jul-46	-	40,000	\$4,000,000			\$4,000,000	\$172,000	
\$4.75 Series, Perpetual, \$100 par	\$4.750	01-Oct-49	-	20,000	\$2,000,000			\$2,000,000	\$95,000	
\$4.00 Series, Perpetual, \$100 par	\$4.000	01-Nov-49	-	150,000	\$15,000,000	(\$384,000)	\$326,896	\$15,057,104	\$600,000	
\$4.56 Series, Perpetual, \$100 par	\$4.560	01-Nov-63	-	200,000	\$20,000,000	(\$266,000)	\$297,633	\$19,968,367	\$912,000	
\$7.64 Series, Perpetual, \$100 par	\$7.640	01-Jan-93	-	330,000	\$33,000,000		\$325,469	\$32,674,531	\$2,521,200	
TOTAL PREFERRED STOCK					\$113,759,500	(\$2,455,000)	\$1,712,460	\$114,502,040	\$5,941,378	5.189%

issuance expenses, discount/premium, and any loss incurred in acquiring/redeeming prior series are not amortized due to the perpetual nature of the company's preferred stock

Net Proceeds = Par Value Outstanding plus Premium less Issuance Expense and Discount

$$C9 = C6 + C7 - C8$$

Embedded Cost = Annual Dividend divided by Net Proceeds

$$C11 = C10 / C9$$

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

In the Matter of Union Electric Company)
d/b/a AmerenUE for Authority to File)
Tariffs Increasing Rates for Electric)
Service Provided to Customers in the)
Company's Missouri Service Area.)

Case No. ER-2007-0002

AFFIDAVIT OF LEE R. NICKLOY

STATE OF MISSOURI)
) ss
CITY OF ST. LOUIS)

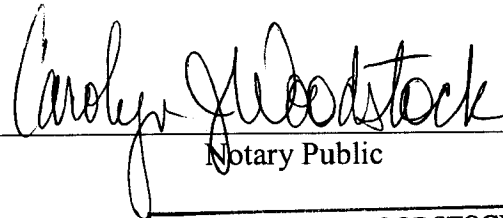
Lee R. Nickloy, being first duly sworn on his oath, states:

1. My name is Lee R. Nickloy. I work in the City of St. Louis, Missouri, and I am employed by Ameren Corporation as Assistant Treasurer.
2. Attached hereto and made a part hereof for all purposes is my Supplemental Direct Testimony on behalf of Union Electric Company d/b/a AmerenUE consisting of 5 pages and Schedules LRN-E5 through LRN-E8, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.



Lee R. Nickloy

Subscribed and sworn to before me this 29th day of September, 2006.



Notary Public

My commission expires: May 19, 2008

