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July 3, 2002

VIA HAND DELIVERY

Ameren

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
200 Madison Street, Suite 100
Jefferson City, MO 65101

Re: MPSC Case No. EC-2002-1

Dear Mr. Roberts:

Enclosed for filing on behalf of Union Electric Company, d/b/a AmerenUE, in the above matter, please find an original and eight (8) copies of its **Union Electric Company Statement of Position On Issues**.

Very truly yours,

James J. Cook / ah

James J. Cook
Managing Associate General Counsel

JJC/vww

Enclosures

16157

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

UNION ELECTRIC COMPANY
STATEMENT OF POSITION ON ISSUES

COMES NOW Union Electric Company, d/b/a AmerenUE ("the Company" or "UE") and for its Statement of Positions on the Issues presented in this case, states as follows:

STATEMENT OF POSITION

1. Rate of Return: What rate of return should be used in determining the revenue requirement?

The Company proposes an overall return on rate base of 10.13%. This includes a return on equity of 12.5%, which falls at the low end of the 12% to 14% range Company witness Kathleen C. McShane has determined to be reasonable, based on multiple tests applied to samples of companies that are comparable to AmerenUE (including Ameren Corporation). As the Company shows, the rates of return proposed by the Staff and other intervenors are inappropriate given the rapid changes that are occurring within the industry, are insufficient to compensate investors fairly, are not commensurate with returns on investments of corresponding risks, and would not allow the Company to maintain its credit rating and to finance its infrastructure requirements timely and cost effectively.

Roger A. Morin (UE)
Kathleen C. McShane (UE)
Steven M. Fetter (UE)

2. Depreciation:

A. Average Service Lives: What plant average service lives should be used in determining depreciation rates?

The Company proposes that its depreciation rates should be based on the average service lives estimated by Company witness William M. Stout. These average service lives appropriately incorporate a statistical analysis of retirements, discussions with management concerning its outlook for the plant, a thorough review of life estimates of several electric utilities in Missouri and approximately 100 electric utilities throughout the United States, and, where appropriate, estimates of interim survivor curves and final retirement dates.

William M. Stout (UE)
Garry L. Randolph (UE)

B. Net Salvage: Should the net salvage for plant upon retirement be expensed or included in the calculation of depreciation rates? If treated as an expense, what amount should be included in cost of service for net cost of removal?

The Company believes that the Staff's proposal to remove net salvage from its depreciation calculation is completely inappropriate because (a) it violates longstanding, well-established, mainstream principles of depreciation accounting embodied in every text on depreciation, the ratemaking practices of 48 of the other 49 states, and the Uniform System of Accounts adopted by this Commission; (b) it inappropriately departs from the practice of including AmerenUE's net salvage in the calculation of its depreciation rates which the Commission has followed consistently for many decades; and (c) it creates significant inequities between generations of AmerenUE customers. Moreover, even if the Commission determines that net salvage should be removed from the depreciation rate calculations of some utilities, net salvage should still be included in AmerenUE's depreciation rates, based on the principles enunciated by the Commission in Re: St. Louis County Water Company, Case No. WR-2000-844, and the Company's well-documented need for significant infrastructure improvements in the immediate future. The amount of net salvage accrual the Company proposes to include in its depreciation rates is approximately $51 million, as set forth in the rebuttal testimony of Mr. Stout.

William M. Stout (UE)
Thomas S. LaGuardia (UE)
Garry L. Randolph (UE)
David A. Whiteley (UE)
Thomas R. Voss (UE)

C. Depreciation Reserve Imbalance: Is it appropriate to amortize in rates any depreciation reserve imbalance? If so, should the imbalance be amortized over twenty years or forty years?

The Company believes that it is not appropriate to amortize the enormous depreciation reserve imbalance that would result from the Staff's proposed change in policy whereby net salvage would be removed from the calculation of depreciation rates. Any such amortization would constitute retroactive ratemaking. The small depreciation reserve imbalance that the Company has calculated, which constitutes a deficiency of only approximately 3%, should be amortized over a 20-year period.

William M. Stout (UE)

D. 4 CSR 240-10.020: Does 4 CSR 240-10.020 require any adjustment in this case for return on depreciation reserve? If so, what adjustment does 4 CSR 240-10.020 require?

The Company's position is that 4 CSR 240-10.020 requires the Commission to provide ratepayers with a credit of 3% of the depreciation reserve balance, rather than subtracting the depreciation reserve from original cost rate base in calculating the rate of return component of the Company's revenue requirement.

Gary S. Weiss (UE)
Suedeen Kelly (UE)
Warner Baxter (UE)

3. Weather Normalization Adjustments: What adjustments for weather should be made to normalize the impacts of weather on customer usage and revenues during the test year?

In calculating the weather normalization adjustment to test year sales, normal temperature for each day should be a simple average of the temperature occurring on that date over the thirty-year base period which both the Staff and the Company have used. The Commission should not use the convoluted "ranking" method that the Staff has invented for determining the normal temperature for each day because it is not consistent with the method used by the National Oceanic and Atmospheric Administration, it is inconsistent with the method the Company needs to use for system planning purposes within the Mid American Interconnected Network (MAIN), and it inappropriately minimizes the weather adjustment, instead of determining the appropriate adjustment.

Richard A. Voytas (UE)

4. Non-Weather Normalization Adjustments: What adjustments for non-weather items should be made to normalize the impacts of these items on customer usage and/or revenues during the test year?

The billed revenues and kWh sales for the twelve months ending September 30, 2001, which reflect the known and measurable changes occurring through the update period ordered by the Commission, adjusted for the loss of revenues and sales of two large customers, the City of Rolla and Laclede Steel, are appropriate. No other normalizing adjustments are necessary.

Gary S. Weiss (UE)

5. Customer Growth: What usage allowance for customer growth, if any, should be reflected in the determination of revenue requirement in this case?

No allowance for usage and/or revenues beyond that which occurred during the test year and update period should be imputed in the calculation of AmerenUE's revenue requirement through a growth adjustment. To the extent that such usage and/or revenues are imputed, a full complement of associated costs must also be included in the calculation, and the Missouri jurisdictional demand and energy allocation factors must also be adjusted.

Richard A. Kovach (UE)

6. Sulfur Dioxide (SO_2) Allowance Revenues: What amount for revenues received from sulfur dioxide (SO_2) allowance transactions should be included in cost of service?

SO2 allowance revenues received by the Company during the twelve months ended September 30, 2001 should be included in the Company's cost of service.

Warner L. Baxter (UE)
James C. Moore (UE)

7. SO_2 Allowance Authority: Should the authority that Commission granted to UE in Case No. EO-98-401 to manage, within certain limits, its SO_2 emission allowances inventory be modified as recommended by Public Counsel?

This authority should not be modified as recommended by Public Counsel. No sufficient reason for the inefficient and unnecessary restrictions recommended by Public Counsel has been shown.

Warner L. Baxter (UE)
James C. Moore (UE)

8. Income Taxes: What amount for income taxes should be included in cost of service?

The amount of income taxes calculated by the Company for the twelve months ending September 30, 2001 should be included in the cost of service. It is the Company's position that Staff's proposed "tax straight line" adjustment is highly inappropriate and must be rejected because it would create fictitious tax benefits. In addition, Staff's adjustments to certain tax deductions to reflect the Staff's "cash" treatment of some items instead of the correct "accrual" treatment should also be rejected, because Staff's proposed "cash" treatment of those items is inappropriate (see e.g. Items 24(a) and 30).

James A. Warren (UE)

8(a). Deferred Income Taxes: Should certain accumulated deferred income taxes ("ADIT") be deducted in the determination of rate base?

Yes. The Company has deducted an appropriate amount of ADIT from rate base. The proposed adjustments to the ADIT by OPC are inappropriate and should be rejected.

James A. Warren (UE)

9. Energy Losses: What factor for energy losses should be used to account for energy losses that occur between the generation sources and customers' meters in UE's system, how should these losses be used and should different loss factors be used for different customer classes and jurisdictions supplied at different voltages levels?

Energy losses should reflect the differences in voltages of customers and jurisdictions. The Company's calculation of losses appropriately includes these factors. Staff's calculations understates energy losses.

Richard A. Kovach (UE)

10. Fuel and Purchased Power. What amount for fuel and purchased power costs for UE's native load should be included in cost of service?

The fuel and purchased power expense incurred during the twelve months ended September 30, 2001, adjusted to reflect normal weather and to eliminate unbilled sales, should be included in cost of service. The production cost model used by the Staff to calculate fuel costs is unreliable, has not been adequately validated, and understates the Company's cost of service.

Timothy D. Finnell (UE)

11. Test Year Production Expense. Should the starting point for determining test year production expense be the amounts reflected on UE's books for the twelve months ending June 30, 2001 or the twelve months ending September 30, 2001?

The production expense incurred by the Company during the twelve month period ending September 30, 2001, which reflects known and measurable changes occurring through the update period ordered by the Commission, should be included in cost of service on an appropriately weather normalized basis.

Gary S. Weiss (UE)

12. Test Year Revenues: Should the starting point for determining test year revenues be the amounts reflected on UE's books for the twelve months ending June 30, 2001 or the twelve months ending September 30, 2001?

Revenues realized during the twelve month period ending September 30, 2001, which reflects known and measurable changes occurring through the update period ordered by the Commission, should be included in cost of service on an appropriately weather normalized basis.

Gary S. Weiss (UE)

13. Venice Power Plant Fire Normalization: What amount for costs related to the August 2000 Venice power plant fire should be included in cost of service?

Venice power plant fire costs incurred during the twelve months ending September 30, 2001, which reflects known and measurable changes occurring through the update period ordered by the Commission, should be included in cost of service.

Martin J. Lyons (UE)

14. Capacity Purchases for Firm Retail and Wholesale Load ("native load"):

A. Should the profits from UE's and Ameren Energy Generating Company (AEG)/Ameren Energy Marketing Company (AEM)'s off-system sales be allocated between UE and AEG/AEM according to the Joint Dispatch Agreement (JDA) on the basis of UE's and AEG/AEM's monthly load requirements, as proposed by UE, or on the basis of the contribution of UE's and AEG/AEM's share of monthly energy from resources jointly used to meet load requirements plus off-system sales, as proposed by Staff?

The profits from UE/AEG/AEM off-system sales should be allocated in accordance with the Commission-approved Joint Dispatch Agreement, which provides for allocating these purchases on the basis of UE's-AEG/AEM's monthly load requirements.

Craig D. Nelson (UE)

B. Should UE's reserve requirements for meeting its summer 2001 peak be treated as having been met by the contract between UE and AEG/AEM, as proposed by UE, or by the cost as if UE had built, operated and maintained combustion turbines identical to those brought on line by AEG at Columbia, Missouri and Pinkneyville, Illinois?

UE's reserve margin requirements for the summer of 2001 were actually met by its contract with AEG/AEM, and this reality, rather than the hypothetical construction, operation and maintenance of facilities, should be reflected in the cost of service.

Richard A. Voytas (UE)

C. What amount for power capacity purchases for UE's native load, if any, should be included in cost of service?

The cost of power capacity purchases for UE's native load that was actually incurred during the twelve month period ending September 30, 2001, which reflects known and measurable changes occurring through the update period ordered by the Commission, should be included in cost of service.

Richard A. Voytas (UE)

15. Allocations of Fuel and Purchased Power Costs: Should fuel and purchased power costs incurred on a joint dispatch basis be allocated pursuant to the current JDA or should they be allocated or assigned based upon proportional savings achieved by UE and AEG derived from considering savings each entity achieves relative to stand-alone dispatch costs?

Fuel and purchased power costs should be allocated in accordance with the Commission-approved Joint Dispatch Agreement.

Craig D. Nelson (UE)

16. Jurisdictional Allocations: Should UE's production/transmission plant and expenses be allocated among its Missouri retail operations, Missouri wholesale operations and Illinois operations on the basis of a 12 CP (coincidental peak) methodology, as proposed by the Staff, or a 4 CP methodology, as proposed by UE?

UE's production/transmission plant and expenses should be allocated through the use of a 4 CP methodology, based on the characteristics of the AmerenUE system, and the four tests used by the Federal Energy Regulatory Commission for determining the appropriate allocation methodology. UE's various other costs should be allocated through the use of the various other jurisdictional allocation factors as reflected in the Company's cost of service determinations.

Richard A. Kovach (UE)

17. Interchange Sales Profit ("margin"): What amount for interchange sales profit (margin) should be used in the determination of revenue requirement?

> Interchange profit margin realized during the twelve months ending September 30, 2001, which reflects known and measurable changes occurring through the update period ordered by the Commission, should be included in the determination of cost of service.
>
> Gary S. Weiss (UE)
> Craig D. Nelson (UE)

18. Callaway Refueling: Should a normalization adjustment be made with respect to the refueling at the Callaway nuclear power plant? If so, what adjustment should be made?

> The actual costs from the most recent Callaway plant refueling (which occurred during the test year), adjusted to reflect the fact that refueling occurs every 18 months, should be included in the cost of service. No further normalization adjustment is warranted.
>
> Garry L. Randolph (UE)
> Gary S. Weiss (UE)

19. Nuclear Supervision & Engineering Expense: What amount for nuclear supervision and engineering expenses should be included in cost of service?

> The actual nuclear supervision and engineering expenses incurred by the Company during the twelve months ending September 30, 2001, which includes all known and measurable changes occurring through the update period ordered by the Commission, should be included in the cost of service.
>
> Gary S. Weiss (UE)

20. Administrative & General Salaries: What amount for administrative and general salaries should be included in cost of service?

> The actual administrative and general salaries incurred by the Company during the test year should be included in the cost of service.
>
> Gary S. Weiss (UE)

21. Payroll: What method should be used to calculate the amount for payroll expense to be included in cost of service?

> The actual payroll for the test year, updated to reflect the annualized level of wage changes through September 30, 2001, should be included in the cost of service.

Gary S. Weiss (UE)

22. Pension and OPEBs Expense: What amount should be included in cost of service for pension and other post-retirement employment benefit expenses?

The actual amount of pension and OPEBs cost that was charged to expense during the test year should be included in cost of service. The Commission should reject the Staff's proposed methodology for determining pension and OPEB expenses because it greatly increases the volatility of expenses, inappropriately defers costs to future ratepayers, and is not in compliance with Financial Accounting Standards.

Michael D. McGilligan (UE)

22(a). Should a rate base reduction be recognized for unfunded FAS 106 liability?

A rate base reduction should not be recognized for unfunded FAS 106 liability associated with Postretirement Benefits Other Than Pensions (OPEBs). A rate base reduction for OPEBs is not appropriate, since the Company has not recovered the amount of the liability through its rates.

Martin J. Lyons (UE)

23. Incentive Compensation: Should incentive compensation be included in cost of service? If so, what amount should be included?

The year 2000 incentive plan payments incurred in March of 2001 should be reflected in the cost of service, because the Company's incentive compensation plan meets the standards set by the Commission for recovering such costs, and it provides direct benefits to Missouri ratepayers.

Warner L. Baxter (UE)
Mark C. Lindgren (UE)
David Cross (UE)

24. Outside Services: What adjustments to outside services expense should be made, if any, in this case?

The outside services expenses incurred by the Company during the test year should be reflected in the cost of service.

Gary S. Weiss (UE)

24(a). Legal Fees: What amount for legal fees expense should be included in cost of service?

The legal fees accrued by the Company during the test year should be reflected in the cost of service.

Martin J. Lyons (UE)

25. Rate Case Expense: What amount for rate case expense should be included in cost of service?

The estimated cost of this rate proceeding, $2.6 million, should be amortized over three years and included in cost of service.

Martin J. Lyons (UE)

26. Post test-year security costs. Should amounts for security costs incurred after September 30, 2001 be included in this case? If yes, then what amount should be included in the cost of service

$1.5 million in additional expenses and $1.5 million in rate base additions necessary to protect the Company and its assets from security threats in the wake of the September 11, 2001 terrorist attack, should be included in cost of service.

Garry L. Randolph (UE)

27. Cash Working Capital: What amount for cash working capital should be included in rate base?

The Company's calculation of cash working capital, which includes a more appropriate and internally consistent calculation of the billing lag and the correct treatment of vacation accruals, should be included in cost of service. Likewise, the Company's calculations of the interest and income tax offsets are more reflective of when the payments are made and should be accepted.

Michael Adams (UE)

28. Low-Income Customer Weatherization and Assistance Programs: Should an amount for low-income customer weatherization and assistance programs be included in cost of service? If so, what amount should be included?

The Company's proposal to address the needs of low income customers through its Alternative Regulation Plan is superior to the Missouri Department of Natural Resources' proposal to increase weatherization funding.

Richard J. Mark (UE)

29. Energy Efficiency Services To Residential and Commercial Customers: Should an amount for energy efficiency services to residential and commercial customers be included in cost of service? If so, what amount should be included?

The Missouri Department of Natural Resources' proposal to allocate $1.2 million of customer money to a group of company and state employees with a vague mandate to fund energy efficiency programs and services is an inappropriate use of ratepayer funds.

Richard J. Mark (UE)

30. Injuries and Damages: What amount for injuries and damages should be included in cost of service?

The injuries and damages expense accrued by the Company during the test year should be included in the cost of service. This amount needs to be calculated in adherence to accrual basis accounting to reflect an appropriate level of operating expenses on a going-forward basis.

Martin J. Lyons (UE)

31. Automated Meter Reading Expenses: What amount for expenses related to automated meter reading should be included in cost of service?

The actual amount of automated meter reading expenses incurred by the Company during the test year should be included in cost of service. This amount more appropriately reflects the level of expenses on a going-forward basis.

Thomas R. Voss (UE)

32. Advertising: What amount for advertising expenses should be included in cost of service?

The actual amount of advertising expenses incurred by the Company during the test year, less a $1 million adjustment to reflect the amount of goodwill and institutional advertising, should be included in the cost of service.

Martin J. Lyons (UE)

33. Territorial Agreements: What adjustment to cost of service, if any, should be made to reflect the impacts of territorial agreements?

No adjustments to cost of service should be made to reflect the impacts of territorial agreements. The Staff's adjustment with respect to territorial agreements are erroneously calculated, reflect inaccurate and out-of-date information, are based on a prior Commission order that is inapplicable to this ratemaking proceeding, and are otherwise based on inappropriate application of legal and public interest standards.

Martin J. Lyons (UE)

34. Midwest Independent System Operator: Should the exit fee Union Electric Company paid for withdrawing its membership in the Midwest System Operator be recovered from Missouri consumers? If so, what amount should be included in cost of service?

A four-year amortization of the exit fee the Company paid for withdrawing its membership in the Midwest Independent System Operator (MISO) should be included in cost of service. The Company's withdrawal from MISO and the payment of this fee were in the interest of its customers, and it conformed with FERC mandates concerning interstate transmission matters. In addition, if re-entry into MISO is approved and some or all of the withdrawal fee is returned, additional costs will then be incurred on an ongoing basis in the form of MISO administrative charges which will be greater than the proposed amortization of the withdrawal fee.

David A. Whiteley (UE)

35. Tree Trimming Expense: What amount for trimming trees should be included in cost of service?

The amount of tree trimming expense incurred during the test year is representative of the level of tree trimming expense the Company will need to incur in the future in order to assure service reliability. This amount should be included in cost of service.

Thomas R. Voss (UE)

36. Dues & Donations: What amount for dues and donations should be included in cost of service?

The Company's test year dues, comprised primarily of the non-lobbying portion of its Edison Electric Institute dues, should be included in cost of service. The Company's customers benefit as a result of the training and education offered by the organizations to which it pays dues.

Martin J. Lyons (UE)

37. Uncollectibles: What allowance for uncollectible debt should be included in cost of service?

The uncollectible expense accrued by the Company during the test year should be included in cost of service. This amount, calculated in adherence to accrual basis accounting, reflects the appropriate level of operating expenses on a going-forward basis.

Martin J. Lyons (UE)

38. Environmental Expense: What amount for environmental expense should be included in cost of service?

The environmental expense accrued by the Company during the test year should be included in cost of service. This amount, calculated in adherence to accrual basis accounting, reflects the appropriate level of operating expenses on a going-forward basis.

Martin J. Lyons (UE)

39. Coal Inventory: Should the coal inventory allowed at the UE generation plants be determined by the generation needed to meet the Joint Dispatch Agreement or UE's load and what amount for coal inventory costs should be included in cost of service?

The Company's actual 13-month average of coal inventory should be used to calculate the amount of coal inventory costs to be included in cost of service. Staff's unique method understates the level of coal inventory that the Company actually requires in its operations.

Gary S. Weiss (UE)

40. Lobbying Expense: Should lobbying expense be included in cost of service? If so, how much?

Costs included in the OPC's proposed "lobbying expense" adjustment relate to legislative activities that provide benefits to the Company's customers. All such expenses incurred during the test year should be included in cost of service.

Martin J. Lyons (UE)

41. Missouri Public Service Commission Assessment: What amount for the Missouri Public Service Commission's annual assessment should be included in cost of service?

The actual Missouri Public Service Commission Assessment expense incurred by the Company during the test year should be included in cost of service.

Martin J. Lyons (UE)

42. What applicability do Generally Accepted Accounting Principles (GAAP) have to (1) the use of cash v. accrual accounting, (2) the application of cost averaging and normalization practices, and (3) the exclusion of non-recurring items?

> Many of the Staff's proposed adjustments are not in accordance with GAAP because of the Staff's inappropriate use of cash v. accrual accounting, the application of unreasonable cost averaging and normalization practices, and the inappropriate exclusion of cost items that the Staff alleges are non-recurring.
>
> Martin J. Lyons (UE)

43. Class Cost of Service: How should UE's cost of service be assigned to the customer classes?

> The Company's current class cost of service study, which is the only cost of service study conducted by any party to this proceeding, should be used to assign costs to its customer classes.
>
> Richard A. Kovach (UE)
> William M. Warwick (UE)
> James R. Pozzo (UE)

44. Rate Design: How should the Commission implement any revenue change it orders in this case and address proposed revisions to existing tariff riders?

> The Commission should implement any revenue change it orders in this case and address proposed revisions to existing tariff riders, in accordance with the testimony of Company witness Richard A. Kovach. The Company's general recommendation regarding any revenue change ordered by the Commission in this case is to implement any such change in two steps. First, the Company's current class revenues should be adjusted to the equal rate of return results of the Company's class cost of service study. Second, any overall revenue adjustment ordered by the Commission should then be allocated to each customer class based upon the percentage distribution of equal rate of return class revenues derived in step one. Revisions in revenues or revenue requirements associated with changes in tariffs or riders proposed in this case are minimal in nature and should be accounted for as adjustments to the above results of step two, prior to the determination of the specific rate values required to reflect the results of this process.

Richard A. Kovach (UE)

45. How could this complaint adversely affect the Company's union employees?

If the Commission grants a significant rate reduction in response to this complaint, the Company's union employees would be adversely affected because it would make it more difficult for the Company to employ union members. It could also be harmful to the employees' ability and incentives to continue to provide quality service. A significant rate reduction could affect the Company's ability to invest in infrastructure in a timely and cost-effectively manner. This could adversely impact other Missouri companies and their employees.

Michael A. Datillo (UE)
Donald J. Giljum (UE)
Robert E. Peterson (UE)
Leo A. Beishir (UE)
Hugh McVey (UE)

46. Time of Use Program: Should the Commission establish a collaborative committee to design and evaluate an experimental residential Time of Use ("TOU") program?

The Commission should not establish a collaborative committee to design and evaluate an experimental residential Time of Use program. The Company already offers optional time of use rates to residential customers and there is no reason for the Commission to order a mandatory program for some or all of the Company's customers, particularly based on the vague and unsupported parameters the Public Counsel has proposed.

Richard A. Kovach (UE)
Richard A. Voytas (UE)

47. UE VERSION:

Policy: In addition to "cost of service," what policy considerations should guide the Commission in deciding this case?

A. Benefits of rate stability and reasonableness of UE's current rates compared to other utilities.

The Company's rates have been stable or declining. It is the Company's position that UE's rates are competitive regionally and nationally, and among the lowest in the region, particularly when compared to utilities facing similar business conditions. Evidence of low rates and the Company's superior cost efficiency under the EARPs confirms the benefits that alternative regulation provides to UE and its customers. The Company's proposed Alt Reg Plan offers reduced and stable rates through 2005, even though the Company believes that, based on the Company's affirmative cost of service, a rate increase would be justified under the traditional regulatory model. The combination of rate stability and reasonable rates, as offered through the Company's proposed Alt Reg Plan, is a public interest benefit that the Commission should consider in this case.

B. Financial impact on UE of Staff's rate proposal.

It is the Company's position that the Staff's rate proposal does not adequately consider the financial impact that its implementation would have on the Company and its stakeholders. Implementation of the Staff's rate proposal would significantly curtail the Company's cash flow, sharply lower the Company's credit ratings, increase financing requirements and financing costs, limit the Company's access to capital markets, impair the Company's ability to make necessary infrastructure investments in a timely and effective fashion, and lead to near-term rate increases. The country's credit rating agencies have clearly reacted to Staff's rate proposal by downgrading the Company's financial outlook. In addition to seriously damaging the financial integrity of UE and the Company's ability to operate efficiently and effectively, implementation of the Staff's rate proposal would severely and immediately punish the Company's investors, many of whom are Missouri residents.

C. Implications of UE's infrastructure investment requirements.

The Company currently is facing significantly higher infrastructure investment requirements than in recent years. The financing of this infrastructure investment will put additional strains on the Company's financial fundamentals. The Staff's rate proposal, which in the Company's view is not based on a reasonable determination of UE's cost of service, serves to undermine UE's ability to make these needed infrastructure investments in a timely and cost-effective fashion. Moreover, the determination of just and reasonable rates requires consideration of Company's infrastructure needs, a consideration that is notably absent in the Staff's direct case. For example, the Company's well-documented need for significant infrastructure improvements would require the inclusion of net salvage in AmerenUE's depreciation rates based on the principles enunciated by the Commission in Re: St. Louis County Water Company, Case No. WR-2000-844, even if the Commission determines that net salvage should be removed from the depreciation rate calculations of some utilities.

D. The adequacy of the traditional regulatory model in light of changing industry and economic conditions, and its ability to provide the flexibility and incentives to facilitate increases in operational efficiency.

It is the Company's position that a continuation of alternative regulation in general, and the adoption of the Company's proposed Alt Reg Plan specifically, is in the public interest. Alternative regulation recognizes that the utility industry no longer operates in a static environment, but requires the flexibility to operate efficiently and effectively in today's marketplace. The proposed Alt Reg Plan represents a continuation of the Commission's alternative regulation experiments which have successfully resulted in lower costs, lower rates, high customer satisfaction, important infrastructure investments made on a timely basis, a financially healthy company, and better overall incentives to improve performance to the benefit of all stakeholders. The evidence presented by the Company also demonstrates that the rates proposed under the Alt Reg Plan are just and reasonable based on an appropriately determined cost of service.

E. The reasonableness of Staff's rate of return and depreciation proposal compared to that which regulators have allowed in other jurisdictions.

The Company finds that the Staff's rate of return and depreciation proposals are greatly out of line in comparison to what regulators have allowed in other jurisdiction. The Staff's proposed rate of return is substantially below what the country's State regulatory commissions have allowed on average for electric utilities. Similarly, the Staff's depreciation proposal would result in allowed depreciation expenses that are significantly below those that regulators have allowed for other utilities in the country. Along with the other evidence presented by the Company, this clearly documents that the Staff's proposed rates are insufficient to compensate investors fairly and inappropriately shift significant depreciation-related costs to future customers.

47. STAFF VERSION:

UE's Alternative Regulation Plan: Should the Commission adopt UE's alternative regulation plan in lieu of establishing rates by traditional ratemaking principles and regulating UE on a traditional cost-of-service basis, as proposed by the Staff and Public Counsel?

It is the Company's position that a continuation of alternative regulation in general, and the adoption of the Company's proposed Alt Reg Plan specifically, is in the public interest. The evidence presented by the Company demonstrates that the rates proposed under the Alt Reg Plan are just and reasonable based on an appropriately determined cost of service. As further demonstrated, the proposed Alt Reg Plan also is in the public interest because it represents a continuation of the Commission's alternative regulation experiments which have successfully resulted in lower costs, lower rates, high customer satisfaction, important infrastructure investments made on a timely basis, a financially healthy company, and better overall incentives to improve performance to the benefit of all stakeholders. Moreover, a continuation with alternative regulation recognizes that the utility industry no longer operates in a static environment, but requires the flexibility to operate efficiently and effectively in today's marketplace.

Gary L. Rainwater (UE)
Warner L. Baxter (UE)
Suedeen Kelly (UE)
Peter Fox-Penner (UE)
Richard J. Mark (UE)
Dennis M. Weisman (UE)
Mark N. Lowry (UE)
Gregory L. Nelson (UE)

Respectfully submitted,

UNION ELECTRIC COMPANY
d/b/a AmerenUE

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DATED: July 3, 2002

CERTIFICATE OF SERVICE

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