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July 3, 2002

By Hand Delivery

The Honorable Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102-0360

Re: AmerenUE Case No. EC-2002-1

Dear Judge Roberts:

Enclosed for filing on behalf of the Missouri Industrial Energy Consumers in the above-referenced case are an original and eight (8) copies each of the *Statement of Position of the Missouri Industrial Energy Consumers and Doe Run*. I would appreciate it if you would have the additional copy file-stamped.

Thank you for your assistance in bringing this filing to the attention of the Commission

Very truly yours,



Diana M. Vuylsteke

DMV:dv

cc: All Parties of Record

Enclosures

**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.)	

**STATEMENT OF POSITION OF
THE MISSOURI INDUSTRIAL ENERGY CONSUMERS AND DOE RUN**

Comes now Adam's Mark Hotel, Alcoa Foil Products, Anheuser-Busch Companies, Inc., The Boeing Company, Ford Motor Company, General Motors Corporation, Holnam, Hussmann Refrigeration, ISP Minerals, Mallinckrodt, Inc., Monsanto Company, Precoat Metals, Procter & Gamble Manufacturing, Ralston Purina and Solutia, hereafter referred to as the Missouri Industrial Energy Consumers ("MIEC"), together with Doe Run, and files their Statement of Position. For their Statement of Position, the MIEC and Doe Run will follow the order of issues set forth in the *Proposed List of Issues, Order of Witnesses and Order of Cross-Examination* filed on June 27, 2002.

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

An appropriate return on equity for AmerenUE (hereafter "UE") would range from 9.6 percent to 11.2 percent, with a mid-point estimate of 10.4 percent. This recommended rate of return on equity should only be used with the recommended capital structure for UE presented in the Rebuttal Testimony of Michael Gorman. The MIEC's

recommended rate of return was developed using an adjusted capital structure with a common equity ratio that reflects the mid-point of Standard & Poor's debt ratio range of 43.0 percent to 49.5 percent. This produces a common equity ratio of 51.2 percent and an overall rate of return of 8.67 percent.

If the Commission adopts UE's actual capital structure, then this recommended return on equity would be too high and would provide unreasonable compensation to UE. This is because UE's capital structure is over-weighted with common equity and is therefore unreasonable. If the Commission finds that UE's actual capital structure is reasonable, then Staff witness Bible's recommended return on common equity is reasonable for UE in this proceeding.

2. Depreciation

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?

Net salvage for plant upon retirement should be expensed, and should be excluded from the development of UE's depreciation rates. The net salvage expense should be included in UE's revenue requirement as an operating expense and not a component of book depreciation rates. The net salvage ratios contained in UE's current depreciation rates produce excessive depreciation expense and do not reflect the current level of net salvage expense that UE experiences. Including the net salvage ratio in the development of the depreciation rates results in collecting future net salvage costs from current ratepayers.

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?

There is a significant over-accrual of UE's accumulated depreciation reserve. This over-accrual should be amortized back to the ratepayers over a 40-year period, because of the size of the over-accrual. However, if the Commission determines that some of the Staff's life recommendations are inappropriate, or that net salvage should be included in rates, then the over-accrual amortization period should be shortened.

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

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

The MIEC's cost-of-service study uses the traditional methodology most favorable to the residential class, the Average and Excess – Four Non-Coincident Peak method and is set forth in Schedules 1 through 3 of the Rebuttal Testimony of Maurice Brubaker. If the Commission wanted to move toward cost of service, but not to the extent proposed by the MIEC, the MIEC and Doe Run recommend the general approach with an ending point movement 50 percent of the way to cost of service, as shown in Schedule 4 of the Rebuttal Testimony of Maurice Brubaker. The recommendation based on an updated test year cost of service study is in Schedules 2 and 3 attached to the Surrebuttal Testimony of Maurice Brubaker. From the overall perspective of economic development and competitiveness, the rates currently faced by industrial customers in the

UE service territory in Missouri are substantially above average as outlined in Schedule 5 to the Rebuttal Testimony of Maurice Brubaker. Energy costs are a significant negative factor for the AmerenUE service territory in Missouri.

The MIEC and Doe Run oppose the modifications to Rider E suggested by UE. UE has not been able to accurately determine the impact of this proposal, and has not included additional revenue from Rider E in its revenue requirement calculation. The MIEC and Doe Run recommend that the proposed changes to Rider E be rejected.

In terms of the specifics of Rider E, numerous changes would be required if this version of a standby rider were to be adopted. These include:

1. A reduced level of backup demand charge.
2. A daily proration of the generation demand component of the rate to reflect use of forced outage service, without limitation as to the number of days that the service may be used.
3. Scheduled maintenance should be at a price approximately 50 percent of the price charged for forced outage service.
4. UE's proposed \$5 per megawatt hour adder for energy used should be rejected.
5. The requirement to base generator backup demand on nameplate capacity of a customer's self-generation equipment overstates requirements and should be rejected.

The MIEC and Doe Run oppose the reduction in Rider B credits proposed by UE.

UE's calculations for these reductions are erroneous, and unfairly fail to apply the loss

factor percentages applied to energy charges to the primary service rate demand charges. For service at the 34.5/69 kV, the Rider B credit should be 75 cents per kW-month. At the 138 kV level, the Rider B credit should be \$1.26 per kW month.

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

Policy: 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?

The MIEC and Doe Run endorse the concept of an Alternative Regulation Plan. However, the plan must be structured in such a way to give reasonable confidence to the utility, the consumers and the regulator that the plan delivers the intended benefits, and must be capable of reasonable implementation. UE's proposed plan is for a reasonable term. Further, the MIEC and Doe Run do not disagree with the provisions of UE's proposal that define when it can file a rate case, and does not disagree with the deadband in its proposed sharing grid of 9.5 percent to 10.5 percent where nothing happens.

However, the MIEC and Doe Run oppose other important aspects of UE's proposal. First, the MIEC and Doe Run disagree with the failure of UE's proposal to include a rebasing of UE's rates. A re-basing of UE's rates is essential, and should take place prior to the beginning of any future Alternative Regulation Plan. Second, the MIEC and Doe Run disagree with UE's proposed sharing grid. The MIEC and Doe Run disagree with UE's proposal that the \$15 million fixed credit if ROE is between 10.5 and

12.5 percent, and disagrees with the construction of the sharing bands which allows UE to keep the majority of the earliest and easiest to achieve benefits, while providing customers with a larger share of the benefits which are harder to achieve. It would be appropriate for a larger percentage of the easier to achieve savings to go to consumers and a smaller percentage to UE.

The MIEC and Doe Run recommend a sharing band structure similar to that adopted for San Diego Gas and Electric Company, as explained on pages 17 and 18 of the Surrebuttal Testimony of Maurice Brubaker. Additionally, the Alternative Regulation Plan should provide a maximum percentage of equity in the capital structure as part of the Plan's evaluation procedure, consistent with the Commission's findings with respect to this issue for purposes of determining test year revenue requirements. Also, there should be a provision in the Plan that would provide that the final year of the Plan would be the test year for the next rate proceeding which would be used to evaluate the Plan and also, potentially, to adjust rates from that point forward. UE's proposal to allocate annual credits under the Plan on a per kilowatthour basis makes it essential to move rates substantially closer to the cost of service in this case.

The failure to include a Statement of Position on any particular issue should not be interpreted as agreement or disagreement with any particular position asserted in this case. The MIEC and Doe Run reserve the right to assert a position on any issue raised in this case and to assert positions on issues as they continue to develop in this case.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been served by United States mail on all parties on this 3rd day of July, 2002.

Diana M. Vuylsteke