

FILED³

APR 25 2007

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

CASE NO. EF-77-197

In the matter of the application
of Union Electric Company for
authority to "guaranty" certain
financial obligations of Electric
Energy, Inc., an affiliate.

Missouri Public
Service Commission

Commission Exhibit No. 972
Case No(s). ER-2007-0002
Date 3/20/07 Rptr MV

APPEARANCES: Ronald K. Evans, Attorney at Law, 1901 Gratiot Street,
St. Louis, Missouri 63166, for Union Electric Company.
Arthur L. Conover, Counsel, Missouri Public Service Commission,
P. O. Box 360, Jefferson City, Missouri 65101, for Staff of
the Missouri Public Service Commission.

REPORT AND ORDER

This case is before the Commission on application filed May 18, 1977,
by Union Electric Company (hereinafter sometimes referred to as "Applicant")
requesting authority to "guaranty" certain financial obligations of Electric
Energy, Inc., an affiliate.

After due notice to interested parties, a hearing was held on June 8,
1977, in the Commission's hearing room on the tenth floor of the Jefferson State
Office Building, Jefferson City, Missouri.

Findings of Fact

The Missouri Public Service Commission, having considered all of the
competent and substantial evidence upon the whole record, makes the following
findings of fact:

Applicant, a Missouri corporation, with its executive office at
One Memorial Drive, St. Louis, Missouri 63102, is engaged in rendering electric,
and heating services within the State of Missouri as a public utility subject to
the jurisdiction of this Commission. It is also engaged in rendering electric
service within the State of Iowa, and electric and gas services within the State
of Illinois.

Applicant owns 24,800 (40 percent) of the 62,000 outstanding shares of
common stock, \$100 par value, of Electric Energy, Inc. ("EEI"). The remaining

60 percent of the shares are owned by: Central Illinois Public Service Company ("CIPS") - 20 percent; Illinois Power Company ("IP") - 20 percent; and Kentucky Utilities Company ("KU") - 20 percent. CIPS and IP are Illinois corporations engaged in the business of furnishing electric and gas utility services to the public in Illinois and KU is a Kentucky corporation engaged in the business of furnishing electric service to the public in Kentucky, Tennessee and Virginia. Applicant, CIPS, IP, and KU are hereinafter referred to collectively as the "Sponsoring Companies." The acquisition of the 24,800 shares of EEI common stock was approved by the Commission on December 8, 1950 in Case No. 12,064 (14,000 shares) and on December 18, 1952 in Case No. 12,463 (10,800 shares).

EEI owns and operates a steam electric generating station located at Joppa, Illinois, having a capacity of about 1,000 megawatts. It supplies a substantial portion of the electric energy requirements of a gaseous diffusion project of the Energy Research and Development Administration ("ERDA") located at or near Paducah, Kentucky, pursuant to the provisions of a power contract dated February 3, 1975, between EEI and ERDA. The Sponsoring Companies are entitled to receive from EEI surplus power that is not contractually obligated to ERDA, with Applicant being entitled to a maximum of 106 megawatts after the summer of 1977.

EEI proposes to acquire and to install at its generating station at Joppa certain air pollution control equipment consisting of three 550 foot chimneys, coal handling equipment and an air quality monitor. In connection therewith, EEI has filed a Petition with the Illinois Commerce Commission seeking authority to issue pursuant to its Mortgage, as proposed to be amended by a Ninth Supplemental Indenture thereto, and sell not to exceed, in the aggregate, \$10,000,000 in principal amount of its 8 1/2 percent First Mortgage Sinking Fund Bonds, due December 15, 1989 (the "8 1/2 percent Bonds"), to Metropolitan Life Insurance Company at 100 percent of their principal amount for the purpose of financing the cost (estimated at \$10,000,000) of the acquisition, installation and construction of such equipment and property.

The Sponsoring Companies, EEI and the Trustee under EEI's Mortgage (the "Trustee") are parties to an Amended Intercompany Agreement dated July 10, 1953, as amended July 23, 1970, which has been assigned to the Trustee as additional security for the bonds issued by EEI under the Mortgage. A copy of the Amended Intercompany Agreement and the July 23, 1970 amendment was submitted

to this Commission as Applicant's Exhibit 1. Said Amended Intercompany Agreement, as amended, provides in effect, among other things, that the Sponsoring Companies are obligated to make payments for power purchased from EEI in such amounts which, when added to EEI's other revenues, will be sufficient to enable EEI to pay all its operating and other costs and expenses, including taxes and interest and sinking fund charges on its bonds outstanding from time to time under the Mortgage. The obligations of the Sponsoring Companies under said Amended Intercompany Agreement, as amended, are several and not joint and, in the performance of such obligations, each of the Sponsoring Companies is to participate severally on the basis set forth in paragraph 4(b) of the Amended Intercompany Agreement. Generally, the obligation of each Sponsoring Company is equal to its ownership percentage of EEI, subject to adjustment as provided in said paragraph 4(b).

Applicant proposes to enter into and execute and deliver a second amendment to the Amended Intercompany Agreement, substantially in the form submitted to the Commission as Applicant's Exhibit 2. Said proposed amendment will have the effect of extending the provisions of said Amended Intercompany Agreement, as previously amended, to cover and include the 8 1/2 percent Bonds, and will be assigned to the Trustee as additional security for the bonds of EEI (including the 8 1/2 percent Bonds) issued or to be issued under the Mortgage as to be further amended by said proposed Ninth Supplemental Indenture. Said proposed amendment will also make unconditional the obligations of the Sponsoring Companies to make payments to EEI sufficient to enable EEI to pay its operating and other costs and expenses, as aforesaid, so that in the event that EEI is unable for any reason to generate or deliver any power or energy to the Sponsoring Companies, they will nonetheless be obligated to continue payments to EEI. The obligations of the Sponsoring Companies are proposed to be so enlarged in order to induce the purchase of the 8 1/2 percent Bonds by Metropolitan Life Insurance Company. The enlargement of such obligations will give the purchaser assurance that EEI will have the necessary funds to meet its obligations with respect to all bonds outstanding under the Mortgage (including the 8 1/2 percent Bonds) even in the event that EEI's generating station cannot be operated. Applicant believes that the risk of EEI being unable to operate its generating station is remote.

In the unlikely event EEI's generating station could not be operated, ERDA, through its power contract with EEI, would be obligated to provide sufficient funds to EEI to repay approximately 81 percent of EEI's outstanding indebtedness. The remaining 19 percent would be divided among the Sponsoring

Companies in proportion to the stock interest in EEI. Applicant would be responsible for 7.6 percent, which, in the event of a default by one of the other Sponsoring Companies, could increase to 9.5 percent. Upon issuance of the 8 1/2 percent Bonds, EEI will have approximately \$51,000,000 principal amount of bonds outstanding. If Applicant had to honor its guaranty immediately, its maximum exposure on the principal amount of the bonds would be less than \$5,000,000 spread over the next twelve years and its liability for interest payments would average less than \$250,000 a year. Each year, however, as EEI retires a portion of the bonds outstanding, Applicant's potential liability decreases.

The execution and delivery by the Sponsoring Companies, EEI and the Trustees of the proposed amendment and the assignment thereof to the Trustees, are conditions precedent to the obligations of Metropolitan Life Insurance Company to purchase and pay for the 8 1/2 percent Bonds of EEI. In return for its "guaranty" of EEI's financial obligations, Applicant will be assured of a continuous source of economical power, its entitlement of the surplus power not contractually obligated to ERDA. This surplus power is more economical to Applicant than the installation of other new generation or the purchase of such power from others. During 1976, the surplus power cost Applicant an average of 1.5 cents per kilowatt hour, as compared with an estimated 2.2 cents per kilowatt hour for other similar purchased power and 2.0 cents per kilowatt hour to construct new additional generation to replace the EEI capacity.

Balance sheets and statements of income of Applicant and EEI were submitted to this Commission as Applicant's Exhibits 3 and 4, respectively. There is no adjustment to Applicant's statements because of the "guaranty" since the maximum exposure is small in comparison with Applicant's total assets and the possibility of any liability occurring is very remote.

Conclusions

The Missouri Public Service Commission has arrived at the following conclusions:

Jurisdiction in this case is under Section 393.180 and 393.200, RSMo 1969. The Commission, having considered the verified application herein and all the evidence in support thereof, and being fully advised in this matter, is of the opinion and concludes that authority to "guaranty" certain financial obligations of EEI through the execution, delivery and performance of the document submitted to this Commission as Applicant's Exhibit 2 is in the public interest and should be granted.

It is, therefore,

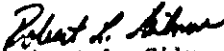
ORDERED: 1. That Union Electric Company be, and it is, hereby authorized to "guaranty" certain financial obligations of Electric Energy, Inc., an affiliate, through the execution, delivery and performance of the document submitted to this Commission as Applicant's Exhibit 2.

ORDERED: 2. That Union Electric Company be, and it is, hereby directed to file with this Commission, no later than thirty (30) days after being finalized, a certified and true copy of the Second Amendment of Amended Intercompany Agreement as finally executed and delivered.

ORDERED: 3. That nothing in this Report and Order shall be considered a finding by the Commission of the value for rate-making purposes of the properties herein involved, nor as an acquiescence in the value placed upon such properties by Union Electric Company.

ORDERED: 4. That this Report and Order shall become effective on the 29th day of June, 1977.

BY THE COMMISSION


Robert L. Gilmore
Secretary

(S E A L)

Mulvaney, Chm.; Sprague and
Jones, CC., Concur.
McCartney, C., Absent.

Dated at Jefferson City, Missouri,
on the 24th day of June, 1977.