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March 5, 2009

Chairman Robert M. Clayton, III
Missouri Public Service Commission
200 Madison Street, Suite 900
Jefferson City, MO 65101

RE: Letter from Senator Joan Bray
Callaway 2 Studies and Analyses
Case Nos. EW-2009-0275
EO-2009-0126

Dear Chairman Clayton:

On February 26, 2009 in response to a letter from Senator Joan Bray relating to CWIP and Callaway 2, you sent a letter to me requesting that the Staff conduct a review of materials involving the potential construction of a second nuclear generating unit in Callaway County, Missouri. You requested Staff analysis and input on three items. Those three items and the Staff's response appear below.

1. Please direct staff to respond to the White Paper entitled, "Analysis of Regulatory Regimes to Address Periods of Major Investment by Utilities" filed by the Office of Public Counsel in Case No. EO-2009-0126, including whether staff agrees or disagrees with the analysis, whether the inputs are within a reasonable range of appropriateness, whether the descriptions of financing and rate making are accurately made and whether staff agrees or disagrees with the conclusions.

Response: The Staff agrees with the analysis presented in the Office of Public Counsel's ("OPC") October 6, 2008 White Paper, within the parameters of the scope and timeframe of OPC's analysis.[1] The projected rate case amounts reflect a hypothetical situation that is

[1] The parameters underlying the White Paper analysis included the following:

1. An investment of $6 billion, which was the estimate of the cost of a new nuclear generating electrical facility for AmerenUE. Such an investment would approximately double AmerenUE's existing rate base.

satisfactory for analysis purposes, but will differ in practice. The study in the OPC White Paper was performed before the Commission made its decisions in the recent AmerenUE rate case, Case No. ER-2008-0318, and, therefore, overstates AmerenUE's current level of revenues. The Staff agrees with OPC's conclusions that: (1) even greater revenues / rate relief during the construction period are necessary in order for construction work in progress regulation (CWIP) and traditional rate of return regulation (TRRR) to protect the financial integrity of the utility, and (2) cash metrics (financial ratios / credit metrics) regulation (CMR) is an approach worthy of further consideration because among other reasons it appears to be more economic.

2. Using the same financial figures assumed in the above noted White Paper in item 1, please estimate the impact on AmerenUE rates during construction and after such a facility has been placed into service. Please utilize the same rate design adopted in AmerenUE's most recent rate case. The analysis should include rate increase estimates for residential, commercial, industrial and special industrial customers (Noranda) during construction under each method of rate making over the course of the estimated years of construction and include the rate increase estimates for each customer class once the unit is assumed to be placed into service under each method of financing and rate making.

Response: Attached are schedules prepared by the Staff providing the requested information. The Staff adjusted OPC's TRRR and CWIP approaches to include the additional monies which the Staff calculated as necessary to satisfy AmerenUE's financial ratios / credit metrics requirements. The Staff uses these financial ratios / credit metrics as the threshold test to determine whether an approach would be adequate to finance the construction of a nuclear unit. Without the adjustment for additional revenues / rate relief, AmerenUE will fail to meet its financial ratios / credit metrics, and thus be unable to finance the second nuclear unit at Callaway. In reality, AmerenUE could build the plant, but its credit quality would deteriorate. AmerenUE's credit quality is also impacted by the actions of its parent holding company, Ameren Corporation, and affiliates, both unregulated and regulated, in Illinois and Missouri. The analysis presented in OPC's White Paper is based on the assumption that no

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2. Financial data to serve as a base line for investment, revenue and expenses was from AmerenUE's rate case filing, Case No. ER-2008-0318.

3. A six-to-eight year construction cycle.

4. Annual rate relief to reflect current revenue requirements.

5. An investment life cycle of sixty years.

6. The relationship of investment (other than the major project) to customers does not change due to normal operations, which would include "small" construction projects and customer growth.

impact, positive or negative, will occur from these relationships, which is proper for such an analysis. In reality, these other entities will impact AmerenUE's credit quality while it is constructing a new nuclear unit, just as these other entities impact AmerenUE's credit quality now.

The three attached schedules were prepared by the Staff and show the rate impacts for construction of a 1600 MW Callaway 2 nuclear plant at a construction cost of $6,395 million (the construction cost AmerenUE presented in its last integrated resource plan, filed February 5, 2008 in Case No. EO-2007-0409) and with an in-service date of 2020. Schedule 1 shows by individual rate class the projected base revenue requirements under CMR, CWIP and TRRR for the period 2013 to 2026.

Schedule 2 shows the annual increase in base revenue requirements by customer class for each regulatory approach. Schedule 3 shows the percentage change in total base revenue requirements on a year-by-year basis and also relative to the total base revenue requirements in year 2012. All three schedules assume the relative rate class cost-of-service levels remain unchanged from those approved in the Commission's recent AmerenUE rate case Report And Order, Case No. ER-2008-0318.

The greatest single year increases occur with the CWIP approach. The smallest annual increases occur with the CMR approach. The cumulative revenue requirement changes for all three approaches increase until the year 2021, the estimated year that the project would be completed, and then the cumulative revenue requirement changes for all three approaches decrease. TRRR has the highest cumulative increase of 74.5%, while CMR has the lowest at 52.5%.

3. As mentioned in the Senator's letter, it is my understanding that staff and other parties have received information from AmerenUE relating to Callaway 2. If the information has been deemed "non-proprietary," please provide staff's analysis of the data, assess the conclusions made and provide any conclusions or recommendations of the staff. If the information has been deemed confidential, please provide in a public document as much of staff's analysis of data as possible in a format staff deems appropriate, if that is possible. If you need to consult with AmerenUE about the treatment of confidential information, please do so.

Response: The Staff is meeting with AmerenUE today by speakerphone to discuss with AmerenUE its Callaway 2 financing model which is premised on a less than 100% ownership by AmerenUE of a new nuclear unit, i.e., an AmerenUE 900 MW ownership share of a 1600 MW nuclear unit. AmerenUE's Callaway 2 financing model provides details on the rate impacts for the Callaway 2 project. AmerenUE has publicly discussed this model, but did not share this model with the Staff until last week. Among other things, the Staff wants to talk with AmerenUE about similarities and differences between this model and the material provided in 2008 in AmerenUE's Integrated Resource Planning case. These two models /analyses are not the same. The Staff will supplement this response as soon as possible after the phone call meeting with AmerenUE.

The principal members of the Staff who contributed to this response are Robert E. Schallenberg, Lena M. Mantle, John Rogers, and James Watkins.

Very truly yours,

/s/ Wess Henderson
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cc: Senator Joan Bray
Commissioner Connie Murray
Commissioner Jeff Davis
Commissioner Terry M. Jarrett
Commissioner Kevin Gunn
Case Nos. EO-2009-0126
EW-2009-0275

Attachments