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November 25, 1998

FILED
NOV 25 1998
Missouri Public Service Commission

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

RE: Case No. EO-96-14 and EM-96-149

Dear Mr. Roberts:

Enclosed for filing in the above-captioned cases are an original and fifteen (15) conformed copies of a **Motion For Setting An Expedited Early Prehearing Conference.**

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

Steven Dottheim

Steven Dottheim
Chief Deputy General Counsel
573-751-7489
573-751-9285 (Fax)

jb
Enclosure
cc: Counsel of Record

130

FILED

NOV 25 1998

Missouri Public Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the Matter of the Monitoring of the Experimental Alternative Regulation Plan of Union Electric Company	))	Case No. EO-96-14
In the Matter of the Application of Union Electric Company for an Order Authorizing: (1) Certain Merger Transactions Involving Union Electric Company; (2) the Transfer of Certain Assets, Real Estate, Leased Property, Easements and Contractual Agreements to Central Illinois Public Service Company; and (3) In Connection Therewith, Certain Other Related Transactions	)))))))	Case No. EM-96-149

MOTION FOR SETTING AN EXPEDITED EARLY PREHEARING CONFERENCE

Comes now the Staff of the Missouri Public Service Commission (Staff) in response to the Missouri Public Service Commission's (Commission) Report And Order in Case No. ER-95-411 (In the matter of a Stipulation and Agreement respecting Union Electric Company (UE) effectuating a one-time credit, a reduction in annual Missouri retail electric revenues, and a three-year experimental alternative regulation plan) adopting the Stipulation And Agreement filed in said case and establishing Case No. EO-96-14 to monitor and receive reports concerning the UE Experimental Alternative Regulation Plan (UEEARP). In particular, the Staff hereby proceeds pursuant to paragraphs "3.f.vii.," "3.f.viii.," "3.f.ix." and "3.f.x." of the Stipulation And Agreement approved by the Commission in Case No. ER-95-411, and requests pursuant to 4 CSR 240-2.090(4) the setting of an expedited early prehearing conference for the purpose of setting a procedural schedule whereby the Staff may put before the Commission issues raised by the Staff, which the Staff has not been able to resolve with UE, relating to the results of the third year of the UEEARP.

In addition, the Staff is proceeding pursuant to the Commission's Report And Order of February 21, 1997 in Case No. EM-96-149 conditionally approving the Stipulation And Agreement filed in said docket on July 12, 1996. Section "6. Rate Reduction" of said Stipulation And Agreement in the Union Electric Company – CIPSCO, Inc. merger case, Case No. EM-96-149, provides for a change in rates charged and revenues collected (i.e., a rate reduction) based on the three-year average of the weather normalized earnings shared with/credited to customers during the three alternative regulation plan years, 7/1/95-6/30/96, 7/1/96-6/30/97 and 7/1/97-6/30/98. There is a dispute, which the Staff has not been able to resolve with UE, relating to the appropriate methodology for weather normalizing the earnings shared with/credited to customers for the three alternative regulation plan years. Also, the parties need to propose to the Commission a basis on which the rate reduction is to be spread on an interim basis within and among customer classes pending issuance of the Commission's decision in Case No. EO-96-15 (In the Matter of the Investigation into the Class Cost of Service and Rate Design for Union Electric Company). The Staff proposes that these items also should be addressed at the expedited early prehearing conference requested herein by the Staff pursuant to 4 CSR 240.090(4).

In support of this motion for the setting of an expedited early prehearing conference, the Staff states as follows:

1. The Staff is in receipt of the Request For Commission Guidance filing of UE in Case No. EO-96-14 made two days ago, November 23, 1998, by UE. The Staff intends to respond to said pleading by the end of the business day, Thursday, December 3, 1998, if not sooner. This pleading has not been drafted as a response to UE's November 23, 1998 filing.

2. Paragraph "3.f.vii." of the Stipulation And Agreement in Case No. ER-95-411 provides that signatories reserve the right to bring issues to the Commission for resolution which

cannot be resolved by them and which are related to the operation and implementation of the UEEARP.

3. Paragraph "3.f.viii." of the Stipulation And Agreement in Case No. ER-95-411 provides that signatories have the right to present to the Commission concerns over any category of cost that has not been included previously in any UE ratemaking proceeding.

4. Paragraph "3.f.ix." of the Stipulation And Agreement in Case No. ER-95-411 provides that differences among the signatories are to be brought to the Commission's attention for guidance as early in the process as possible.

5. Paragraph "3.f.x." of the Stipulation And Agreement in Case No. ER-95-411 provides that signatories will have thirty (30) days after a final report is filed to provide notice that there may be areas of disagreement not previously brought to the attention of the Commission that need to be resolved.

6. On November 12, 1998, the Staff and the Office of the Public Counsel (Public Counsel) filed a Notice And Request For Extension Of Time in this docket respecting UE's Final Earnings Report And Proposed Sharing Report For The Third Sharing Period (July 1, 1997 – June 30, 1998) submitted to the Commission on October 14, 1998 and stating that their separate reviews of the results of the third year of UEEARP were continuing and as of November 12, 1998, there were some unresolved matters. The Staff and the Public Counsel noted as a consequence that (1) some areas of disagreement existed and (2) the Staff and the Public Counsel would either be able to resolve these items with UE within the additional time requested, or these items would need to be brought to the Commission for resolution.

7. The Staff has not been able to resolve these items with UE; therefore, the Staff is bringing these items to the Commission for resolution. These items are summarized in Attachment 1, which is appended hereto. Attachment 1 is an initial Staff report prepared by the

Staff accountants assigned to review the third year results of the alternative regulation plan. The items addressed in Attachment 1 are (1) Year 2000 (Y2K) Costs, (2) Other Computer Costs, (3) Merger Transaction Costs, (4) Injuries and Damages Expense, (5) Advertising, (6) Territorial Agreements, (7) Decommissioning Trust Fund Deposits and (8) Deferred Taxes. The Staff is still evaluating the Deferred Taxes item to determine the proper treatment deferred taxes should be accorded in the calculation of the third year sharing credit. The Staff hopes to be able to submit to the Commission the results of its analysis by Friday, December 4, 1998 or the first part of the following week.

8. The Staff noted in its November 12, 1998 Notice And Request For Extension Of Time that it is presently engaged in the analysis necessary for the rate reduction provided for in the Stipulation And Agreement in the Union Electric Company – CIPSCO, Inc. merger case (Case No. EM-96-149). The rate reduction is addressed in Section "6. Rate Reduction" of the Stipulation And Agreement in Case No. EM-96-149.

The change in rates to be charged and revenues to be collected (i.e., rate reduction) after the conclusion of the Case Nos. ER-95-411/EO-96-14 three-year alternative regulation plan is dependent upon two matters at this point. The first is the determination of UE's sharing credits for the third sharing period, July 1, 1997 – June 30, 1998. The second is the three-year average of the weather normalized earnings credited to/shared with ratepayers during the alternative regulation plan years, 7/1/95-6/30/96, 7/1/96-6/30/97 and 7/1/97-6/30/98. The earnings credited to/shared with customers after each of the three alternative regulation plan years, 7/1/95-6/30/96, 7/1/96-6/30/97 and 7/1/97-6/30/98, provided for in the Stipulation And Agreement in Case No. ER-95-411 and determined in Case No. EO-96-14, are not weather normalized. Thus, the rate reduction after the instant three-year alternative regulation plan is not the average of the credits received/to be received for the three one year sharing periods, since these amounts do not reflect the effect of weather normalization. The effect of weather normalization is illustrated by the calculations submitted to the Commission by UE, by letter dated September 14, 1998. By letter dated November 24, 1998, UE has advised the Commission and parties to Case No. EO-96-14 of a correction to its calculation of the third year sharing credit filed on October 14, 1998. This revision by UE is reflected below. UE has not submitted either a revised calculation of the weather normalized earnings to be shared with/credited to ratepayers for the third year of the alternative regulation plan or a revised three-year average.

ITEM	**PERIOD (12 MONTHS ENDING)** (In Thousands Of Dollars)			**3-YEAR AVG.** (Rate Reduction)
	6/30/96	6/30/97	6/30/98	
Earnings Shared With/ Credited To Ratepayers	$43,662*	$17,897*	$23,550**	NA
UE's Calculation of Weather Normalized Earnings Sharing -- Rate Reduction, 3yr.avg.	$11,133	$21,358	To Be Determined	To Be Determined
Staff's **Preliminary** Calculation of Weather Normalized Earnings Sharing -- Rate Reduction, 3-yr. avg.	$22,946	$30,860	To Be Determined	To Be Determined

* : Agreed to by UE, Staff and Public Counsel
** : Filed by UE by cover letter dated November 24, 1998
NA: Not Applicable

There is a dispute between UE and the Staff, which it appears will require Commission resolution, regarding the appropriate methodology for weather normalizing the earnings shared/credited for the three alternative regulation plan years, 7/1/95-6/30/96, 7/1/96-6/30/97 and 7/1/97-6/30/98. Attachment 2 is an initial Staff report respecting the weather normalization dispute between UE and the Staff.

9. The determination of a rate design to effectuate the rate reduction is a further reason for the Commission to schedule an expedited early prehearing conference. An interim rate design to effectuate the rate reduction must be determined as specified by Section "6. Rate Reduction" of the Stipulation And Agreement in Case No. EM-96-149:

> . . . Any rate reduction shall be spread within and among revenue classes on the basis of the Commission decision in Case No. EO-96-15, which is the UE customer class cost of service and comprehensive rate design docket created as a result of Case No. ER-95-411. In the event that a Commission decision has not been reached in Case No. EO-96-15, the parties will jointly or severally propose to the Commission a basis or bases on which a rate reduction may be spread on an interim basis within and among the classes pending issuance of the Commission's decision in Case No. EO-96-15.

10. The Staff is not aware of any additional party, other than the Public Counsel, that is actively reviewing with UE the third year results of the initial UE alternative regulation plan. The Staff is not aware of any additional party, other than Public Counsel, that is reviewing the matter of UE's weather normalization methodology. Finally, the Staff is not aware of any other party addressing the issue of an interim rate design for the rate reduction.

11. Good cause exists for setting an expedited early prehearing conference in that the matters in dispute relate to the third year earnings credit for UE customers in Case No. EO-96-14 and a rate reduction for UE customers in Case No. EM-96-149.

Wherefore the Staff hereby notifies the Commission that there are areas of disagreement with UE respecting the determination of the third year earnings credit in the Case Nos. ER-95-411/EO-96-14 alternative regulation plan, a dispute between UE and the Staff concerning weather normalization in the determination of the rate reduction provided for in Case No. EM-96-149 and a need to determine an interim rate design for the purpose of effectuating the rate reduction provided for in Case No. EM-96-149. It appears that each of these matters requires

Commission resolution. The Staff therefore requests that the Commission schedule an expedited early prehearing conference for the purpose of setting a procedural schedule whereby these matters may be resolved by the Commission.

Respectfully submitted,

DANA K. JOYCE
General Counsel

Steven Dottheim

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 25th day of November, 1998.

Steven Dottheim

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case Nos. EO-96-14 and EM-96-149, AmerenUE

FROM: Stephen Rackers, Mark L. Oligschlaeger, Arlene Westerfield and
Michael Gruner, Utility Services Division, Accounting Department

R. E. Schallenberg 11-24-98 — Utility Services Division/Date

Steven Dottheim 11/24/98 — General Counsel's Office Division/Date

SUBJECT: Staff Initial Report for Third Year Sharing Credit Calculation for Union Electric Company d/b/a AmerenUE (UE or Company) Experimental Alternative Regulation Plan (Alternative Regulation Plan) Ending June 30, 1998

DATE: November 24, 1998

The Accounting Department (Staff) has reviewed AmerenUE's (UE or Company) Final Earnings Report and Proposed Sharing Report for the third sharing period (July 1, 1997 – June 30, 1998) established by Commission's adoption of the Stipulation and Agreement in Case No. ER-95-411. That Stipulation and Agreement provides for the filing of this report in Case No. EO-96-14 to indicate that there are areas of disagreement between UE and the Staff.

In compliance with the Stipulation and Agreement in Case No. ER-95-411, UE filed its Final Earnings Report and Proposed Sharing Report for the third sharing period on October 14, 1998. UE's filing identifies earnings that exceed the 12.61% return on equity threshold and calculated a proposed sharing credit amount of $40,320,000. (In response to the Staff's examination of deferred taxes, UE has reviewed and revised its calculation of deferred taxes, causing UE's quantification of the sharing credit amount to decrease to approximately $23,550,000. As noted in the "Deferred Taxes" section below, the Staff is still reviewing this area. The Staff has no objection to such a decrease in the sharing credit amount if it results from a correct quantification and a correct and consistent application of the terms of the Stipulation And Agreement.)

Based on its review, the Staff is proposing several adjustments to the sharing credit calculated by UE. An explanation and quantification of the Staff's proposed adjustments appear in the following summary.

Year 2000 (Y2K) Costs

Included in the third sharing period expense is $671,709 related to the work performed by UE to modify its computer software for the year 2000. Due to the manner in which data was previously stored and/or programs were written, the year 2000 is, in some computer software, recognized by the computer as the year 1900. A significant number of the computer systems based on two-digit years are not programmed to identify the start of a new century unless they have been recently modified. The amount incurred by UE during the third sharing period for Y2K represents a small portion of an ongoing project to address the year 2000 problem at UE. UE has stated that it expects to incur $10,000,000 to $15,000,000 for the total year 2000 project. In an effort to examine the preparedness of Missouri utility companies to deal with this problem, the Commission established Case No. OO-99-43. In that docket, the Commission has urged the companies to address the year 2000 problem in a timely and effective manner and stated that the prudence and recovery of these costs would be examined in the future. In recognition of the Commission's stated preference and the ongoing nature of this project, the Staff proposes to defer the total Missouri jurisdictional portion of these costs. This deferral should continue until the project is complete and the prudence of UE's expenditures, as well as the appropriate method of recovery, is determined. The Staff will make such a determination and submit it to the Commission prior to the end of the alternative regulation plan resulting from the Commission's acceptance of the Stipulation And Agreement in Case No. EM-96-149, which was UE's filing seeking authorization to merge with CIPSCO, Inc. (The third and final sharing period of this second alternative regulation plan ends June 30, 2001.)

Other Computer Costs

The third sharing period of the first alternative regulation plan includes costs to develop three significant computer software systems: CSS, AMRAPS and EMPRV. The CSS system is a customer information database that is currently being developed for large commercial and industrial customers. This system may be expanded in the future to include all customer classes. The AMRAPS system is a human resources and payroll database. The EMPROV system is a power plant maintenance management program. The amounts of $8,823,859, $1,564,576, and $468,763, for the CSS, AMRAPS and EMPRV systems, respectively, were incurred in the third sharing period. UE's current policy with regard to these costs is to expense them as they are incurred. The Staff believes that this policy is inappropriate considering the significance of the amounts, the enhanced capabilities of the new systems compared to their predecessors, and the fact that these systems are intended to provide benefits over extensive future periods.

In addition, the American Institute of Certified Public Accountants (AICPA) recently issued Statement of Position 98-1 (SOP 98-1) "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" (issued March 1998, effective beginning in December 1998.) This AICPA statement prescribes methods of accounting for software development or purchases by entities such as UE, and is binding upon them for financial reporting purposes. SOP 98-1 provides for uniformity in how companies should treat software costs, and calls for capitalization of at least a portion of these expenses. The Staff believes that SOP 98-1 requires, commencing December 1998, capitalization of either most or all of the CSS, AMRAPS and EMPROV costs expensed by UE in the third sharing period. UE itself appears to concur with this belief, stating in its first quarter of 1998 10Q report to the Securities and Exchange Commission the following: "Under SOP 98-1, certain costs which are currently expensed by the registrant may be capitalized and amortized over some future period." The Staff is mentioning SOP 98-1 in this context not because the Commission is or should be bound by generally accepted accounting principles (GAAP) in making rate determinations, but to bring to the Commission's attention the fact that GAAP appears to be moving to the same position that the Staff is recommending, i.e., capitalization of computer software costs.

The Staff proposes to capitalize and include the AMRAPS and EMPRV amounts in the office furniture and equipment plant account. These capitalized amounts will be included in rate base and depreciated using the rate authorized for the office furniture and equipment account. The information provided to Staff by UE indicates that the CSS project will not be in-service until February 1999, and therefore should not be reflected at all in the third sharing period results. In addition, the Staff has concerns with reflecting CSS costs, which presently are projected to benefit only large industrial and commercial customers, in a credit calculation affecting all customers.

Merger Transaction Costs

As part of the Stipulation and Agreement in Case No. EM-96-149, UE is allowed to amortize and include as an adjustment for determining the sharing credit, its actual merger transaction costs over a ten-year period. UE's amortization of merger-related costs (which began in January 1998) in the third sharing period is based on the estimate of these costs utilized by UE since at least mid-1996 (approximately $73 million). Documentation examined by the Staff shows that the current estimate of these costs has been reduced to approximately $66 million. Therefore, the Staff proposes to reduce the adjustment included in the calculation of the sharing credit by $287,139, to reflect the revised estimate of the merger transaction costs.

Injuries and Damages Expense

During the third sharing period UE incurred a significant increase in the amount of charges against its injuries and damages reserve. This reserve represents funds accumulated and set aside to pay claims for medical costs, workman's compensation costs and lawsuits relating to injuries and damages. As is common practice with large companies, UE is self-insured for these costs. During the year, amounts representing estimated future payments for claims are charged to operating expense and accumulated in the reserve. As claims are actually paid, the reserve is reduced. The Staff's examination revealed that the amount of expense charged exceeded the amount of claims actually paid during the third sharing period. However, the level of the injuries and damages reserve declined due to a high amount of claims payments. The Staff proposes to reduce injuries and damages expense to a level that equals the actual amount of claims paid during the third sharing period plus an amount necessary to restore the reserve to a normal level. The Staff proposes to reduce the amount charged to expense by $1,778,133. Even considering the Staff's proposed adjustment, the level of injuries and damages expense allowed by the Staff in the third sharing period is 265% above the average annual expense booked during the first two sharing periods.

Advertising

Following the merger between Union Electric Company and Central Illinois Public Service Company, a holding company, Ameren Corporation, became the parent of UE. The amount of advertising expense was increased to provide exposure for the new name, AmerenUE. This increase in the amount of advertising expense represents a merger cost, which should be deferred and amortized as was agreed to for other merger-related expenses. The Staff proposes to reduce expense by $1,058,902 by deferring the increased level of advertising associated with UE's change in name. The Staff proposes that this cost be treated as a merger transition cost and be amortized over the ten year period agreed upon in the Stipulation and Agreement in Case No. EM-96-149 for merger transaction costs.

Territorial Agreements

In Case Nos. EO-95-400, et al. and EO-97-6, et al. the Commission approved territorial agreements between UE and the Black River Electric Cooperative, Inc. and UE and the Macon Electric Cooperative, Inc. respectively. In both of these territorial agreements, the amount of lost revenue experienced by UE as a result of trading customers with the cooperatives was not offset by quantifiable cost savings in the near future. Therefore, the Staff in Case Nos. EO-95-400, et al and EO-97-6, et al. reserved the right to examine the revenue requirement associated with these territorial agreements in the context of a future rate case or sharing credit calculation.

It is inappropriate to recognize the loss in net revenue during the periods covered by the alternative regulation plan. This result of the territorial agreements, would constitute a detriment to current ratepayers, due to a reduction in the amount of the sharing credit going to current ratepayers. Recognizing the loss in net revenue also creates a mismatch between the cost of the territorial agreements which is being experienced currently and the potential offsetting benefits that may be realized in the future after both alternative regulation plans have expired. Therefore, the Staff proposes to increase the sharing credit by $1,205.113 which is the amount of the lost net revenue resulting from the territorial agreements between UE and these cooperatives.

Decommissioning Trust Fund Deposits

As a result of the timing in UE receiving a decommissioning trust funding Order from the Commission, containing a finding that the level of decommissioning expense, supported in the latest study update, is included in rates, the Company pursuant to the Internal Revenue Code (IRC) was unable to make quarterly deposits to the decommissioning trust fund in 1997. After receiving such decommissioning trust funding Order from the Commission in late 1997, UE was able to make a catch-up deposit for all of 1997 in March 1998. This situation resulted in a cash working capital benefit to the Company which should be reflected in the current sharing period. This benefit arises from the fact that UE had use of these funds prior to making the catch-up deposit. The allowance for funds used during construction

(AFUDC) rate should be used to calculate the value associated with having the use of the decommissioning funds. Therefore, the Staff has reduced expense by $287,139 to represent the benefit realized by the Company of having the use of the 1997 decommissioning funds prior to the catch-up deposit in 1998.

Deferred Taxes

As a result of an audit by the Internal Revenue Service (IRS), UE made adjustments to deferred income tax expense in December 1997. Based on discussions between UE and the Staff, UE has taken the position that these deferred tax adjustments should be eliminated from the calculation of the third year sharing credit amount. This treatment, if appropriate, would reduce the sharing credit amount that was filed by UE on October 14, 1998 by approximately $17,000,000. This matter is addressed by UE in its November 24, 1998 cover letter to the Commission's Secretary accompanying a revision of the final report it filed on October 14, 1998. The Staff is currently evaluating this item to determine the proper treatment it should be accorded in the calculation of the third year sharing credit amount.

Summary

After reviewing UE's Final Earnings Report and Proposed Sharing Report for the third sharing period of the Case No. ER-95-411 alternative regulation plan, the Staff proposes various accounting changes to the Company's filing to reflect the following:

1. Deferral of the costs associated with correcting the Y2K computer software problem,

2. Capitalization and amortization of the costs associated with the development of the EMPRV and AMRAPS computer systems and deferral of the costs associated with the CSS computer system ,

3. Reduction in the amount of the merger transaction cost amortization,

4. Reduction in the amount of expense associated with injuries and damages,

5. Deferral and amortization, as a merger transition expense, of the additional advertising expense associated with the merger-related UE name change to AmerenUE,

6. Elimination of the loss in net revenue resulting from the territorial agreements with Black River and Macon Cooperatives,

7. Reduction in expense associated with the cash working capital benefit realized by UE not being permitted to make deposits to the decommissioning trust fund in 1997,

8. Adjustment to the deferred tax adjustments booked in December 1997 as a result of an IRS audit.

Recommendation

The Staff recommends that the Commission adopt the Staff's changes to UE's Final Earnings Report and Proposed Sharing Report for the third sharing period as proposed above. (See Schedule 1 attached hereto.)

UNION ELECTRIC COMPANY
CASE NO. EO-96-14
PROPOSED ACCOUNTING ADJUSTMENTS - 3RD CREDIT PERIOD

Description	Total Project Cost (D)		Total for Current Period	Amount Capitalized	Amount Expensed	Union Elect. Co Alloc. Factor		Union Elect. Co. Amount Exp.	Missouri Juris Alloc. Factor (B)		***Total Adjustment***
Y2K	10,000,000	to	1,042,700	none	1,042,700	72.89%	(A)	760,024	88.38%		671,709
	15,000,000										
CSS	22,500,000		13,700,000	1,400,000	12,300,000	81.17%		9,984,000	88.38%		8,823,859
EMPRV	4,500,000			none	726,569	73.00%		530,395	88.38%		468,763
AMRAPS	12,500,000		2,555,000	none	2,555,000	69.29%		1,770,283	88.38%		1,564,576
MERGER & ACQ. COSTS								268,921	86.13%	(C)	231,622
INJURIES & DAMAGES								2,011,918	88.38%		1,778,133
ADVERTISING								1,198,124	88.38%		1,058,902
TERRITORIAL AGREEMENTS								949,630	100.00%		949,630
DECOMMISSIONING DEPOSITS								287,139	100.00%		287,139
DEFERRED TAXES											(E)

(A) Composite (001a) is an equal weighting of:
- 002A - sales (kwh & decatherm)
- 003a - # of customers
- 004a - # of employees

(B) Allocated on labor

(C) Allocated on Co. %, DR#31

(D)	Total cost to date 10/5/98	AMRAPS	$12.1M
		CSS	$13.7M
		EMPRV	$4,588,920

(E) To be determined

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case Nos. EO-96-14 and EM-96-149, AmerenUE

FROM: Michael S. Proctor
Electric Department

Warren Wood[?] 11-25-98 Steven Dottheim 11/25/98
Utility Operations Division/Date General Counsel's Office/Date

SUBJECT: Staff Initial Report Respecting Weather Normalization of Earnings Shared With Ratepayers During the Alternative Regulation Plan Years 7/1/95-6/30/96, 7/1/96-6/30/97, and 7/1/97-6/30/98

DATE: November 24, 1998

Union Electric (UE) has adjusted sales, revenues and fuel expense for differences between normal weather and actual weather that occurred over the three years of the alternative regulation plan. The problem with UE's adjustment is not in the methods, but in the data used for both normal and actual weather at Lambert Field (St. Louis Airport).

The normal weather used by UE is based on a weather history going back to 1930. The data in this historical data set is based on the maximum and minimum daily temperatures recorded at the time by the National Oceanic and Atmospheric Administration (NOAA). The problem with using the actual recorded level for daily temperatures is that they are not consistent over time. When NOAA moves the location of a recording device, changes the type of device or both, these observation changes result in differences in the level of temperature recordings which can be significant. NOAA bases its estimate of normal weather on a thirty year history of weather that has been adjusted for these observation changes.

In contrast, UE recognized the change that occurred in May of 1996 when NOAA moved the recording devise at Lambert Field and replaced it with an updated recording system called Automated Surface Observation System (ASOS). In an attempt to make current readings consistent with previous readings, UE has adjusted actual readings after May 14, 1996 by adding 2 degrees to both maximum and minimum daily temperatures.

In contrast to UE, the Staff's consultant, Dr. Steven Qi Hu adjusts historical data from January 1, 1961 through May 15, 1996 to be consistent with current readings being taken at Lambert Field. Dr. Hu found that data from 1961 through 1977 are consistent with current readings. Dr. Hu's analysis shows that readings between 1977 and 1987 are 0.3 degrees higher than from 1961 through 1977, and readings between 1988 and 1996 are 0.75 degrees higher than from 1961 through 1977.

These differences in both normal and actual temperatures result in significant differences in weather adjustments to UE's actual sales during the three years of the alternative regulation plan. In all three years, the differences between normal and actual weather based on the Staff's weather data results in higher levels of overall weather normalized sales than for UE's weather data. Higher sales mean higher revenues and higher fuel expenses, but since rates reflect revenues that are higher than fuel expenses, the overall impact is higher profits for UE. The Staff estimates the higher profits to be a 66% increase from what UE estimates on a weather normalized basis.

SERVICE LIST FOR
CASE NO. EO-96-14 & EM-96-149
Revised: November 25, 1998

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