



1901 Gratiot Street, St. Louis

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MO. PUBLIC SERVICE COMMISSION

February 9, 1987

Mr. Harvey G. Hubbs, Secretary
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102

Dear Mr. Hubbs:

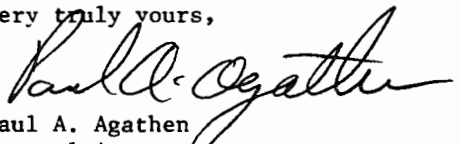
Case No. AO-87-48

The attached schedules are enclosed for filing in response to the Commission's order in this case dated January 30, 1987, requiring cost of service data for the year 1986. The Company's initial response in this case regarding its water utility operations is attached as Attachment 1 hereto. Attachment 2 are the cost of service summary schedules workpapers which the Company indicated were available for review. These schedules "detail the offsetting cost increases and other factors" on which we base our conclusion that our water rates are not excessive in spite of the impact of the TRA. As shown, our return on equity for the water business for the Pro-Forma test year was only 5.86 percent.

These schedules differ from the information requested in the initial and subsequent orders in that our data is based on 12 months ended June 30, 1986 and the orders request calendar 1986 data. We used June 30 data since it was the most recent actual information we had when our cost of service study was done.

We trust this information satisfies the Commission order especially in light of the fact that we plan a similar response for our gas utility service in the form of rate case testimony, exhibits and minimum filing requirements to be filed on March 2, 1987 in Case No. GR-87-62. If this is not the case we would appreciate being advised as quickly as possible so that additional information can be developed in response to the Commission's orders.

Very truly yours,


Paul A. Agathen
General Attorney

cc w/enclosures: To all parties

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several months the appropriate means of reflecting the impact of the change in the tax law is through rates resulting from this rate case. A reduction of rates during this interim period when the Company is showing a significant revenue deficiency is neither justifiable nor appropriate.

WATER

Union Electric Company also provides water utility service to customers in southeast Missouri. For the purpose of this filing the Company has proposed two sets of documents. The first is contained in Attachment G and reflects the effect of a 40% and 34% income tax rate on unadjusted 1985 operations. No rate base or rate of return adjustments were made since there have been no rate proceedings for water operations since 1982 at which time such operations were conducted by a former subsidiary, Missouri Utilities Company.

A more appropriate basis on which to judge the impact of the 1986 tax rate change on the Company's revenue requirement for Missouri jurisdictional water service is to reference a recently completed but not filed cost of service study. This study was performed by the Company on the same basis and for the same test year (12 months ended June 30, 1986) as the gas filing referred to above. This cost of service study indicated a revenue deficiency at existing rate levels of over \$400,000. This study was performed using a federal income tax rate of 34%. Had the Company utilized the 46% rate the revenue deficiency would have been \$97,000 or nearly 25% greater. The calculations

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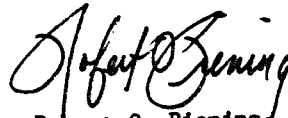
involving the relevant tax rates is contained in Attachment H. The cost of service workpapers have not been included in the filing but are available for review by the Staff if desired.

In light of the results of the cost of service study indicating a significant revenue deficiency even at the lower tax rate, any reduction in water rates to reflect the minor effect of the tax rate change is inappropriate and could prompt the filing of a request for increased water rates.

STEAM

In accordance with the Commission's Order of December 17, 1986 relating to the tax effect on the Company's steam operations no information has been included in this filing.

Respectfully submitted,



Robert O. Piening
Vice President - Rates
Union Electric Company
P.O. Box 149
St. Louis, MO 63166

UNION ELECTRIC COMPANY
NET ORIGINAL COST RATE BASE AND
RATE OF RETURN - MISSOURI WATER OPERATIONS
YEAR ENDING JUNE 30, 1986

Missouri
Ultimate Consumers

Original Cost of Property and Plant	\$9 659 808
Reserves for Depreciation & Amortization	2 026 444
Net Original Cost of Property and Plant	7 633 364
Materials & Supplies	190 853
Cash Working Capital	13 711
Customers Advances for Construction	-326 246
Contribution in Aid of Construction	-268 438
Deferred Taxes on Income From:	
- Liberalized Depreciation	-662 661
- Other	-110 000
Net Original Cost Rate Base - Electric	<u>\$6 470 583</u>
Net Operating Income - Electric:	
At Present Rates	\$ 482 757
At Proposed Rates	\$ 735 705
Rate of Return on Net Original Cost Rate Base:	
At Present Rates	7.46%
At Proposed Rates	11.37%
Rate of Return on Common Equity:	
At Present Rates	5.86%
At Proposed Rates	15.00%

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UNION ELECTRIC COMPANY
COST OF SERVICE
WATER OPERATIONS
YEAR ENDED JUNE 30, 1986

<u>Line</u>		<u>Amount</u>
A. Net Original Cost Rate Base		
1	Original Cost of Property Devoted to Water Operations	\$9 659 808
2	Reserves for Depreciation	2 026 444
3	Net Original Cost of Water Property Operations	7 633 364
4	Materials & Supplies	190 853
5	Cash Working Capital	13 711
6	Customer Advances for Construction	-326 246
7	Contributions in Aid of Construction	-268 438
	Accumulated Deferred Taxes on Income	
8	- Accelerated Depreciation	-662 661
9	- Other	-110 000
10	Total Net Original Cost Rate Base	<u>\$6 470 583</u>
B. Operating Revenue Deductions		
	Operating Expenses	
11	Production	635 237
12	Transmission & Distribution	654 047
13	Customer Accounts	238 622
14	Customer Service and Information	18 324
15	Sales	2 977
16	Administrative & General	466 307
17	Total Operating Expenses	2 015 514
18	Depreciation and Amortization	164 117
19	Taxes Other Than Income Taxes	156 032(1)
	Income Taxes-Based on Claimed Rate of Return of 11.37%	
20	Federal	147 936
21	State - Missouri	7 541
22	Total Income Taxes	155 477
23	Return @11.37%	735 705
24	Total Revenue Requirements	<u>\$3 226 845(1)</u>
25	C. Operating Revenue (Pro Forma)	<u>\$2 829 540(1)</u>
26	D. Revenue Deficiency	<u>\$ 397 305(1)</u>

(1) Excludes gross receipts taxes from gross revenue deficiency.

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PUBLIC SERVICE COMMISSION

UNION ELECTRIC COMPANY
SUMMARY OF WATER DEPT., PRO FORMA REVENUE AND EXPENSES
TWELVE MONTHS ENDED JUNE 30, 1986

	Operating Revenue	Production	Transm. & Dist.	Customer Accounts	Customer Service	Sales	Admin. & General	Deprec. & Amortization	Taxes, Other	Income Taxes	Total Oper. Expenses	Net Oper. Revenue
Revenue & Expenses - Per Books	\$2 896 267	\$599 270	\$611 361	\$223 085	\$16 653	\$2 705	\$441 888	\$161 488	\$222 759	\$92 000	\$2 371 209	\$ 525 058
<u>Pro Forma Adjustments</u>												
(1) Elimination of Gross Receipts Taxes from Revenues	-66 727											-66 727
(2) Annualization of Wage Increases Effective 7/1/86 to 7/1/87		35 967	42 686	15 537	1 671	272	15 791				111 924	-11 924
(3) Increase in Employee Benefits Expense relating to wage increases							25 891				25 891	-25 891
(4) Decrease in Estimated Pension Expense							-17 263				-17 263	17 263
(5) Additional Depreciation Expense to Reflect Use of year-end plant								2 629			2 629	-2 629
(6) Elimination of Gross Receipts Taxes									-66 727		-66 727	66 727
Total Pro Forma Adj. Before Income Taxes	<u>-66 727</u>	<u>35 967</u>	<u>42 686</u>	<u>15 537</u>	<u>1 671</u>	<u>272</u>	<u>24 419</u>	<u>2 629</u>	<u>-66 727</u>	<u>-</u>	<u>56 454</u>	<u>-123 181</u>
Pro Forma Balances Before Income Taxes	<u>2 829 540</u>	<u>635 237</u>	<u>654 047</u>	<u>238 622</u>	<u>18 324</u>	<u>2 977</u>	<u>466 307</u>	<u>164 117</u>	<u>156 032</u>	<u>92 000</u>	<u>2 427 663</u>	<u>401 877</u>
<u>Income Taxes</u>												
(7) Effect of Pro Forma Adjustments to Net Operating Income (1-6 above)										-44 611	-44 611	44 611
(8) Adjustment to reflect lower income tax rates										2 645	2 645	-2 645
(9) Increased interest deductions										-5 181	-5 181	5 181
(10) Net increased tax depreciation on year-end plant										-6 987	-6 987	6 987
(11) Elimination of Unbilled Taxes - Net										-86	-86	86
(12) Reduction of Investment Tax Credit										-9 000	-9 000	9 000
(13) Decreased deferred taxes due to Annualized Depreciation on Year-End Plant (Includes adjustment to reflect lower current tax rates on Liberalized Depreciation)										-17 660	-17 660	17 660
Pro Forma Balances	<u>\$2 829 540</u>	<u>\$635 237</u>	<u>\$654 047</u>	<u>\$238 622</u>	<u>\$18 324</u>	<u>\$2 977</u>	<u>\$466 307</u>	<u>\$164 117</u>	<u>\$156 032</u>	<u>\$ 11 120</u>	<u>\$2 346 783</u>	<u>\$482 757</u>

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UNION ELECTRIC COMPANY
WATER OPERATIONS
EXPLANATION OF PRO FORMA ADJUSTMENTS

Operating Revenue

(1) Net decrease in revenue due to elimination of gross receipts taxes.	\$-66 727
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Operating Expenses

(2) Increased labor cost to reflect annualized wage increases of 4.25%, effective July 1, 1986 and 5% effective July 1, 1987.	111 924
(3) Increase in employee benefits expense to reflect annualized wage and salary increases.	25 891
(4) Decrease in estimated pension expense.	-17 263

Depreciation

(5) Net increase in the depreciation expense resulting from accruing a full year's depreciation on the depreciable balance at June 30, 1986.	2 629
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Taxes, Other Than Income Taxes

(6) Eliminate gross receipts taxes.	-66 727
Total Expense Adjustments (Before Income Taxes)	\$ 56 454

Income Taxes

(7) Lower income taxes from Pro Forma adjustments (1) thru (6) above.	-44 611
(8) Adjustment to reflect lower income tax rates on higher taxable income.	2 645
(9) Increased interest deductions.	-5 181
(10) Net increased tax depreciation on year-end plant.	-6 987
(11) Change in income taxes from eliminated deduction and deferred income taxes on unbilled revenue.	-86
(12) Reduction of Investment Tax Credit due to new tax laws.	-9 000
(13) Decrease in deferred income taxes from annualization of accelerated depreciation at new tax rates and adjustment to reflect lower current tax rates on Liberalized Depreciation.	-17 660
Total Income Tax Adjustments	\$-80 880
Total Net Adjustments to Operating Income	\$-42 301

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INCOME TAXES AT 34% RATE

UNION ELECTRIC COMPANY
MISSOURI WATER OPERATIONS
CALCULATION OF INCOME TAXES
12 MONTHS ENDED 6-30-86

	PRO FORMA	AT CLAIMED RETURN 11.37%
PRO FORMA NET OPERATING INCOME	\$401,877	
INCOME TAX - PER BOOKS	92,000	
	493,877	
PRO FORMA INCOME TAXES	11,120	
NET OPERATING INCOME	482,757	\$735,705
NON-OPERATING INCOME & DEDUCTIONS:		
INTEREST INCOME	3,948	3,948
MISCELLANEOUS INCOME DEDUCTIONS:		
INTEREST CHARGES:		
INTEREST ON LONG TERM DEBT	(394,000)	(394,000)
OTHER INTEREST CHARGES	(39,204)	(39,204)
AMORT. OF LOSS ON REACQUIRED DEBT	(2,618)	(2,618)
TOTAL NON-OPERATING INCOME & DEDUCTIONS	(431,874)	(431,874)
NET INCOME FROM OPERATIONS	50,883	303,831
ADD: DEFERRED INCOME TAXES- NET	95,340	95,340
DEFERRED I.T.C.-NET	0	0
INVESTMENT TAX CREDIT	(14,000)	(14,000)
TOTAL	81,340	81,340
TOTAL	132,223	385,171
OTHER DEDUCTIONS:		
ADDITIONAL DEPRECIATION	5,567	5,567
ACCELERATED DEPRECIATION-NET	211,989	211,989
EXPENSES CAPITALIZED	16,541	16,541
PENSIONS EXPENSE CAPITALIZED	10,657	10,657
PAYROLL TAXES CAPITALIZED	10,671	10,671
DISMANTLING EXPENSE	472	472
MISCELLANEOUS	0	0
TOTAL DEDUCTIONS	255,897	255,897
TAXABLE AFTER TAXES (NAT)	(123,674)	129,274
INCOME TAXES:		
FEDERAL INCOME TAX (FIT)	0.51515151 (63,711)	66,596
TAXES, NOT BASED ON INCOME:		
INVESTMENT TAX CREDIT	(14,000)	(14,000)
DEFERRED INVESTMENT TAX CREDIT-NET	0	0
DEFERRED INCOME TAXES-ACCELERATED DEPR.	77,340	77,340
DEFERRED INCOME TAXES-OTHER-NET	18,000	18,000
TOTAL TAXES NOT BASED ON INCOME	81,340	81,340
TOTAL FEDERAL INCOME TAXES	17,629	147,936
STATE INCOME TAXES	0.05 (6,509)	7,541
TOTAL FEDERAL AND STATE INCOME TAXES	\$11,120	\$155,477

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INCOME TAXES AT 34% RATE

UNION ELECTRIC COMPANY
MISSOURI WATER OPERATIONS
CALCULATION OF INCOME TAXES
12 MONTHS ENDED 6-30-86

	PER BOOKS	PRO FORMA ADJUSTMENTS	PRO FORMA
NET OPERATING INCOME	\$525,058	(\$123,181)	\$401,877
NON-OPERATING INCOME & DEDUCTIONS:			
INTEREST INCOME	3,948		3,948
MISCELLANEOUS INCOME DEDUCTIONS:			
INTEREST CHARGES:			
INTEREST ON LONG TERM DEBT	(379,695)	(14,305)	(394,000)
OTHER INTEREST CHARGES	(39,204)		(39,204)
AMORT. OF LOSS ON REACQUIRED DEBT	(2,618)		(2,618)
TOTAL NON-OPERATING INCOME & DEDUCTIONS	(417,569)	(14,305)	(431,874)
NET INCOME FROM OPERATIONS	107,489	(137,486)	(29,997)
ADD: PROVISION FOR INCOME TAXES	(20,000)		(20,000)
DEFERRED INCOME TAXES-NET	112,000		112,000
DEFERRED I.T.C.-NET	0		0
TOTAL	92,000	0	92,000
TOTAL	199,489	(137,486)	62,003
OTHER DEDUCTIONS:			
ADDITIONAL DEPRECIATION	(1,736)	7,303	5,567
ACCELERATED DEPRECIATION-NET	200,000	11,989	211,989
EXPENSES CAPITALIZED	16,541		16,541
PENSIONS EXPENSE CAPITALIZED	10,657		10,657
PAYROLL TAXES CAPITALIZED	10,671		10,671
DISMANTLING EXPENSE	472		472
STATE INCOME TAXES	0	(6,509)	(6,509)
UNBILLED REVENUE-NET	(3,000)	3,000	0
MISCELLANEOUS	0		0
TOTAL DEDUCTIONS	233,605	15,783	249,388
TAXABLE INCOME	(34,116)	(153,269)	(187,385)
INCOME TAXES:			
CURRENT FEDERAL INCOME TAX	PRO FORMA @ 34% (15,000)	(48,711)	(63,711)
ADJUSTMENT TO PRIOR YEARS	0	0	0
CURRENT STATE INCOME TAXES	0	(6,509)	(6,509)
INVESTMENT TAX CREDIT	(5,000)	(9,000)	(14,000)
TOTAL	(20,000)	(64,220)	(84,220)
UNBILLED TAXES	(1,000)	1,000	0
DEFERRED INVESTMENT TAX CREDIT-NET	0	0	0
DEFERRED INCOME TAXES:			
LIBERALIZED DEPRECIATION	98,000	(17,660)	80,340
AMORT OF LIBERALIZED DEPRECIATION	(3,000)		(3,000)
DEFERRED INCOME TAXES-OTHER-NET	18,000		18,000
TOTAL DEFERRED	113,000	(17,660)	95,340
TOTAL PROVISION FOR INCOME TAXES	\$92,000	(\$80,880)	\$11,120

INCOME TAXES AT 34% RATE

TAX CALCULATION

	AMOUNT
PRO-FORMA NET INCOME	\$401,877
INCOME TAX PER BOOKS	92,000
OTHER DEDUCTIONS:	
INTEREST	431,874
OTHER TAX DEDUCTIONS	255,897
TOTAL DEDUCTIONS	687,771
TAXABLE INCOME	(193,894)
FEDERAL INCOME TAX @ 34%	(67,711)
STATE INCOME TAXES	(6,509)

INCOME TAXES AT 34% RATE

PROVISION FOR INCOME TAXES
RECONCILIATION OF PRO FORMA WITH ACTUAL

DESCRIPTION	PRO FORMA ADJUSTMENTS	PER BOOKS EFFECT ON INCOME TAX @ 43.96763982%	NET TAX EFFECT	PRO FORMA EFFECT ON INCOME TAX @ 36.21566633%
ADJ. TO NET OPERATING INCOME	(\$123,181)	(\$54,160)	\$9,549	(\$44,611)
ADJ. TO REFLECT LOWER TAX RATE				2,645
ADJ. EMBEDDED COST TO L.T.D. AT 6-30-86	(14,305)	(6,290)	1,109	(5,181)
ADJ. TO BOOK DEPRECIATION	(7,303)	(3,211)	566	(2,645)
ADDITIONAL TAX DEPRECIATION ON YEAR-END PLANT	(11,989)	(5,271)	929	(4,342)
ELIMINATION OF UNBILLED REVENUES	(3,000)	(1,319)	233	(1,086)
TOTAL TAXABLE INCOME ADJ.	(159,778)	(70,251)	12,386	(55,220)
ELIMINATION OF PRIOR YEARS ACCRUAL	0			0
REDUCTION OF INVESTMENT TAX CREDIT	(9,000)			(9,000)
ELIMINATION OF UNBILLED TAXES	1,000			1,000
REDUCTION OF DEFERRED INVESTMENT TAX CREDIT	0			0
INCR. DEF. TAXES DUE TO ANNUALIZED DEPRECIATION	(17,660)			(17,660)
	(\$185,438)			(\$80,880)

PROOF OF INCOME TAXES

	TAXABLE INC.	AVERAGE EFFECTIVE TAX RATE	TOTAL FED. & STATE INC. TAX
PER BOOKS	(34,116)	43.96763982%	(\$15,000)
PRO FORMA	(193,894)	36.21566633%	(\$70,220)
	(\$159,778)	7.75197349%	(\$55,220)
CHANGE IN TAXABLE INCOME @ CURRENT RATE			(57,865)
PER BOOKS TAXABLE INCOME @ DIFFERENCE IN EFFECTIVE TAX RATES			2,645
PRO FORMA ADJUSTMENT TO FED. & STATE INCOME TAXES			(55,220)