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January 31, 2001

VIA FEDERAL EXPRESS

FILED<sup>3</sup>

FEB 01 2001

Missouri Public  
Service Commission

Mr. Dale Hardy Roberts  
Secretary/Chief Regulatory Law Judge  
Missouri Public Service Commission  
Governor Office Building  
200 Madison Street, Ste. 100  
Jefferson City, MO 65102-0360

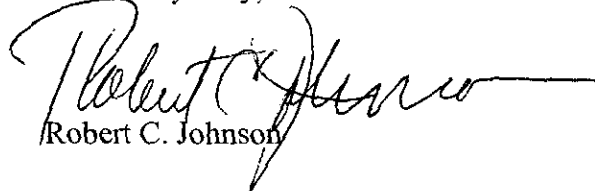
Re: Case No.: EM-96-149

Dear Mr. Roberts:

Pursuant to the Stipulation and Agreement dated July 12, 1996, and on behalf of the Missouri Energy Group, Daimler Chrysler et al, I enclose herewith an original and eight copies of the Recommendations of the Missouri Energy Group with respect to whether or not the Experimental Alternative Regulation Plan should be continued.

I will appreciate your bringing this filing to the attention of the Commission.

Yours very truly,

  
Robert C. Johnson

RCJ/gmw  
Enclosures  
cc: All parties of record

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

FILED<sup>3</sup>

FEB 01 2001

Missouri Public  
Service Commission

In the matter of the application of )  
Union Electric Company for an order )  
authorizing (1) certain merger )  
transactions involving Union Electric Co.; )  
(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

**RECOMMENDATIONS OF THE MISSOURI ENERGY GROUP**  
**REGARDING THE EXPERIMENTAL ALTERNATIVE REGULATION PLAN**

The Missouri Energy Group ("MEG"), Daimler Chrysler, et al, submits herewith its recommendations regarding the Experimental Alternative Regulation Plan ("EARP"), pursuant to the provisions of the Stipulation and Agreement, dated July 12, 1996, and previously entered into by the parties to the above matter.

**1. Primary Recommendation**

It is the primary recommendation of the Missouri Energy Group that the EARP be permanently discontinued. It is the position of MEG that the customers of Union Electric Company ("UE") have received no benefit from the EARP, because they are paying electric utility rates that are significantly higher than they would pay if UE were regulated by the Commission in a manner consistent with the Commission's past practices, even after taking into account the refunds paid and adjustments made to rates. We know for example that under the EARP, UE is achieving a return on equity ("ROE") almost certainly in excess of 13 percent. This ROE is significantly higher than other electric utilities are achieving under traditional

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regulation. Furthermore, the EARP has led to numerous disputes, multiple hearings before the Commission, and now litigation with no closure in the foreseeable future. Clearly, the EARP has not been beneficial to the customers.

It is our further recommendation that the Commission promptly initiate a full rate case proceeding dealing with revenue and rate design issues and establish future rates for UE customers in accordance with the traditional regulatory standards and procedures.

## **2. Alternative Recommendations**

If the Commission determines to continue the EARP in the future, it is the MEG recommendation that the EARP be substantially revised from its present form. Among other things, we recommend that the base-line return on equity should be substantially lower and no higher than the ROE presently being allowed comparable electric utilities under traditional regulatory standards and practices. In addition, a more favorable percentage of any refund should be payable to the customers, particularly with respect to the refund payable from revenues attributable to the initial two (2) percent of ROE in excess of the baseline ROE.

It is our further recommendation that market-based interest should be charged and paid to the customers on all customer refunds that are not paid within sixty days after the close of the fiscal year with respect to which the refund is being determined. The failure to charge interest on refunds, in our judgment, has led to prolonged disputes and litigation as the utility has no incentive to promptly settle the amount of any allowed refund with its customers. In effect, the utility is using customer money for its operations, which in a sense is free money, and to the end that the utility has no economic incentive to promptly resolve disputes over the amount of any customer refund. To the contrary, the incentive is to delay refunds as long as possible.

In addition, if the Commission determines to continue the EARP, we strongly recommend that the Commission, prior to establishing the format for any new plan, conduct a full rate case proceeding for this utility.

Dated: January 31, 2001

Respectfully submitted,



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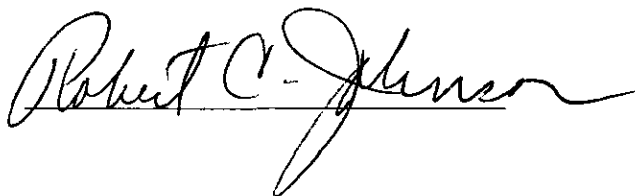
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**CERTIFICATE OF SERVICE**

The undersigned counsel hereby certifies that a true and correct copy of the foregoing has been mailed or hand delivered to the parties named on the attachment hereto, on this 31<sup>st</sup> day of January 2001.



**CASE NO.: EM-96-149**

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