

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Union Electric Company)
d/b/a Ameren Missouri’s Tariffs to)
Increase Its Revenues for Electric)
Service.)

File No. ER-2014-0258

POSITION STATEMENT OF UNION ELECTRIC COMPANY
d/b/a AMEREN MISSOURI

COMES NOW Union Electric Company d/b/a Ameren Missouri (“Company” or “Ameren Missouri”), and for its Statements of Position on the Issues to be determined by the Commission as set forth in the *First Amended List of Issues, List and Order of Witnesses, Order of Cross Examination, and Order of Opening Statements* filed in satisfaction of the Commission's *Order Adopting Procedural Schedule, Establishing Test Year, and Delegating Authority*, states as follows:

1. Regulatory Policy and Economic Considerations

The Commission should resolve the issues in this case as outlined in the testimonies of the Company’s witnesses.

2. Advertising & Communications

A. *What amount of advertising or communications expense should be included in Ameren Missouri’s revenue requirement?*

The amount of advertising or communications expense included in the revenue requirement used for ratemaking purposes in this case should be increased by the amounts stated in response to the following sub-issues:

B. *What amount, if any, of the costs incurred by Ameren Missouri for its Community Lights campaign should be included in revenue requirement?*

The Commission should increase Staff's calculation of Community Lights campaign expense by \$283,485.

- C. *What amount, if any, of the costs incurred by Ameren Missouri for its Social Media campaign should be included in revenue requirement?*

The Commission should increase Staff's calculation of Social Media campaign expense by \$183,390 so that the full amount of \$366,780 is included in the Company's revenue requirement.

- D. *What amount, if any, of the costs incurred by Ameren Missouri for its Energy Efficiency campaign should be included in revenue requirement?*

Staff recommended recovery of only 50% of these expenditures. The entire \$33,288 incurred by the Company for this campaign should be included in the Company's revenue requirement.

- E. *What amount, if any, of the costs incurred by Ameren Missouri for its Cardinal Digital Outdoor Signs should be included in revenue requirement?*

The Commission should increase Staff's calculation of Cardinal Digital Outdoor Signs expense by \$44,222.

- F. *What amount, if any, of the costs incurred by Ameren Missouri for its Storm Response campaign should be included in revenue requirement?*

The Commission should increase Staff's calculation of Storm Response campaign expense by \$49,901.

- G. *What amount, if any, of the costs incurred by Ameren Missouri for its Reliability Fair should be included in revenue requirement?*

Again, Staff had recommended recovery of only half of these expenditures. The Commission should increase Staff's calculation of Reliability Fair expense to reflect the entire cost of the Reliability Fair, which was \$66,610.

- H. *What amount, if any, of the costs incurred by Ameren Missouri for its Solar Energy Center Artwork should be included in revenue requirement?*

The Commission should increase Staff's calculation of Solar Energy Center Artwork expense by \$197,000.

- I. *What amount, if any, of the costs incurred by Ameren Missouri for its Downtown Banners should be included in revenue requirement?*

The Commission should increase Staff's calculation of Downtown Banners expense by \$1,621.

- J. *What amount, if any, of the costs incurred by Ameren Missouri for its Louie the Lightning Bug balloon should be included in revenue requirement?*

The Commission should increase Staff's calculation of Louie the Lightning Bug expense by \$52,644.

3. Dues, Including EEI and Environmental Working Groups Dues

- A. *What amount should be included in Ameren Missouri's revenue requirement for dues?*
- B. *What amount, if any, of the dues paid by Ameren Missouri to EEI should be included in revenue requirement?*
- C. *What amount, if any, of the dues paid by Ameren Missouri to the Utility Water Act Group should be included in revenue requirement?*
- D. *What amount, if any, of the dues paid by Ameren Missouri to the Utility Air Regulatory Group should be included in revenue requirement?*
- E. *What amount, if any, of the dues paid by Ameren Missouri to the United Solid Waste Activities Group should be included in revenue requirement?*
- F. *What amount, if any, of the dues paid by Ameren Missouri to the Midwest Ozone Group should be included in revenue requirement?*

Test period dues and donations expense totaling \$5,348,594 should be included in the revenue requirement in this case. This includes sums that remain in dispute for the memberships listed in items B through F above. For those items, \$483,138 should be included for dues paid to

the Edison Electric Institute (“EEI”). This sum does not include that part of the EEI dues attributable to EEI’s lobbying activities, which are recorded below-the-line and which are not included in the Company’s revenue requirement in this case. Dues totaling \$96,010 should be included in the revenue requirement for dues paid to the Utility Water Act Group. Dues totaling \$235,455 should be included in the revenue requirement for dues paid to the Utility Air Regulatory Group. Dues totaling \$47,163 should be included in the revenue requirement for dues paid to the Utility Solid Waste Activities Group. Dues totaling \$120,900 should be included in the revenue requirement for dues paid to the Midwest Ozone Group.

Membership in these organizations allows the Company to gain valuable information and keep abreast of developments regarding numerous issues affecting electric utilities, and to then use this information to take action and adopt or change policies that ultimately benefit both Ameren Missouri and its customers. Although the precise benefits of membership cannot be quantified, they greatly exceed the costs incurred for membership. Consequently, it is unreasonable for Staff to insist on such quantification as a condition for allowing that these dues to be included in rates.

4. Weather Normalization (SPS and LGS Classes)

A. What level of weather normalized sales should be used to establish the billing units used to set rates?

Ameren Missouri’s position is set forth in detail in the rebuttal testimony of Steven Wills. Ameren Missouri believes it is most appropriate to use the 12 months ending July 2014 to set the weather normalized level of sales.

B. How should the LGS and SPS weather normalization adjustments be allocated to the various rate blocks in order to establish normalized revenues at present rates?

Ameren Missouri's position is set forth in detail in the rebuttal testimony of Steven Wills. Ameren Missouri believes it is most appropriate to allocate the adjustments in a manner that is proportionate to the level of sales that occurred in each rate block.

C. What capacity factor should be used for solar distributed generation systems for purposes of calculating the solar annualization adjustment to test year billing units proposed by the Company and Staff?

A capacity factor of 15.4% should be used for solar distributed generation systems for purposes of calculating the solar annualization adjustment to test year billing units.

D. What level of sales to Noranda should be assumed for the test year for purposes of establishing billing units?

For the last two months of the true-up period (November and December of 2014), Noranda's load stabilized at approximately 437 megawatts ("MW"). Noranda's load as of the end of the true-up period is the most appropriate level to be used for setting rates, consistent with matching revenues, expense and rate base as of the end of the true-up period for other elements of the revenue requirement. However, should the Commission decide to reach beyond the end of the true-up period, it should be recognized that Noranda's load is not always consistent, and that a long-term average load factor approach to normalize Noranda's load should be used, as discussed in Mr. Wills' surrebuttal testimony..

5. Income Tax

A. Should Ameren Missouri's Net Operating Loss Carryforward Related to ADIT be included in Ameren Missouri's rate base?

The parties agree that an NOL carryforward related to ADIT should be included in rate base. For the reasons stated in Ameren Missouri witness James Warren's testimony, the NOL carryforward amount should be calculated using Ameren Missouri's allocated portion of the consolidated taxpayer group's net operating loss.

- B. *Should the Company's IRC Section 199 Deduction be computed without regard to Net Operating Loss Carryovers from prior years in determining the Company's income tax expense?*

The parties agree that the 199 deduction should be computed by taking the NOL carryover into account in determining taxable income. As discussed in Mr. Warren's testimony, the calculation should be made using its allocated portion of the consolidated net operating loss.

6. Coal Issues

- A. *Should the value of Ameren Missouri's coal inventory include the value of coal in transit?*

Coal-in-transit costs should be included in Ameren Missouri's rate base. Like coal in the coal pile at each plant, coal-in-transit is an asset that is necessary to ensure that coal supplies at the power plants remain at a level that will allow reliable operation. Moreover, coal-in-transit is owned by Ameren Missouri in that Ameren Missouri takes title to the coal once it is loaded into rail cars at the mines. Staff returns to the same position it advanced in Ameren Missouri's last rate case and refuses to include coal-in-transit in rate base, arguing that it is not includable because it is not on the ground at the power plant and because Ameren Missouri has not yet paid for the coal-in-transit. The Commission rejected this same position taken by Staff in Ameren Missouri's last rate case, and Staff fails to provide any new reason for excluding coal in transit costs. No one takes the position that coal-in-transit is not necessary or useful to Ameren Missouri in order for the power plants to maintain necessary inventories of coal. In addition, there is no allegation of imprudence related to the amount of coal-in-transit costs. Accordingly, coal-in-transit should be included in rate base.

- B. *What amount should be included in the revenue requirement for coal refinement revenues at the Labadie Energy Center?*

The Commission should include \$8.5 million in the revenue requirement for coal refinement revenues at the Labadie Energy Center.

7. Amortizations

- A. *Should the amount of solar rebates paid by Ameren Missouri and recorded to a solar rebate regulatory asset through the end of the true-up period be included in Ameren Missouri's revenue requirement using a 3-year amortization period?*

Yes. The pool of \$91.6 million of solar rebates created by the Commission-approved Stipulation and Agreement entered into in File No. ET-2014-0085 reflect solar rebates that Ameren Missouri is required to pay under Missouri's Renewable Energy Standard law. By giving up its right to cease paying rebates in 2014 and in all likelihood in future years, the solar industry was able to avoid the situation where rebates started and then stopped, and was also able to take advantage of solar rebates at a higher dollar value per watt in advance of the statutory reduction in the rebate levels that was set to begin on July 1, 2015. Moreover, the Company gave up the right to seek recovery of solar rebate costs through a rider,¹ agreed not to seek rate base treatment of the unamortized balance of solar rebates not yet recovered through an amortization and agreed to give a preference to renewable energy credits ("RECs") associated with energy delivered to Missouri. Failure to allow amortization of the solar rebates paid in rates would deprive Ameren Missouri of the benefit of the bargain it reached, and that was approved by the Commission.

The sole basis for the Missouri Industrial Energy Consumers' ("MIEC") and the Consumer Council of Missouri's ("CCM") opposition to allowing the amortization of the solar rebates, as contemplated by the Stipulation, is their theory that the Company has "already recovered" the solar rebates through "excess earnings" in the past. This theory is nothing more than an attempt to seize past per-book earnings that lawfully belong to the Company on the

¹ A rider under the RES regulations is known as RESRAM.

theory that an authorized return on equity (“ROE”) constitutes a ceiling on what a utility may earn. The authorized ROE is neither a ceiling nor a floor. As this Commission has repeatedly recognized, utilities sometimes earn above the authorized, or target ROE, and sometimes below. Ameren Missouri’s earning history over the past several years proves that is the case, as recognized by the Commission in its Report and Order in File No. EC-2014-0223. Moreover, customers pay for electric service, and do not “pay for” a utility’s costs.

In addition, when the same argument that is being made in opposition to recover of the solar rebates has been made in the past, this Commission has consistently rejected it. Simply put, this Commission has never done what it is being asked to do in this case.

If the Commission were to start imposing an after-the-fact “earnings test” on recovery of properly deferred sums, the Commission will have effectively eliminated its ability to utilize regulatory assets, when it finds it appropriate to do so, because under the standards applicable to a utility’s ability to record will prevent the regulatory asset from ever being recorded in the first place.

Finally, MIEC’s opposition is improper and also violates the Stipulation to which it is a party, and also violates the Commission’s order approving the Stipulation, which required all parties to abide by its terms. The Company has reason to believe that MIEC has also improperly enlisted CCM’s witness, Mr. Dittmer, to advance its position, also in violation of the Stipulation. The Company will further address this issue in further proceedings before the Commission.

B. Should the amount of pre-MEEIA energy efficiency expenditures incurred by Ameren Missouri and recorded to a regulatory asset through the end of the true-up period be included in Ameren Missouri’s revenue requirement and, if so, over what period should they be amortized?

Yes, the pre-MEEIA energy efficiency expenditures should be included in Ameren Missouri’s revenue requirement through an amortization over a six-year period. This is

consistent with the treatment granted by the Commission in Ameren Missouri's previous rate cases.

C. *Should the amount of Fukushima flood study costs incurred by Ameren Missouri and recorded to a regulatory asset be included in Ameren Missouri's revenue requirement and, if so, over what period should they be amortized?*

Yes. For the reasons given above, customers have not "already paid for" these properly deferred sums. The sums deferred for the flood study should be amortized over ten years.

8. Noranda AAO

Should the sums authorized for deferral in Case No. EU-2012-0027 be included in Ameren Missouri's revenue requirement and, if so, over what period should they be amortized?

Yes. The arguments made against recovery of the sums approved for deferral by the Commission are, with one exception, a re-hash of the arguments made against the deferral in Case No. EU-2012-0027. The Commission has already rejected those arguments. Moreover, for the reasons given above, the Company has not "already recovered" the deferred sums. The sums deferred under this AAO should be amortized over five years.

9. Board of Directors-Related Expenditures

Should Ameren Missouri's allocated share of compensation paid to Ameren Corporation directors be included in revenue requirement?

Ameren Missouri believes it is appropriate that its allocated share of Ameren Corporation Board of Directors be included in Ameren Missouri's revenue requirement, including the fees, retainers and stock paid or provided to the directors as compensation for serving on the Board. Ameren Corporation is required by law to have a board of independent directors and were Ameren Missouri a stand-alone company, customers would pay the entire cost of an independent board rather than just a portion.

10. Uncollectibles

What level of uncollectible accounts expense should be included in the revenue requirement?

\$15.2 million of uncollectible expenses should be included in the revenue requirement, as recommended by Staff in its direct case. In reliance on the Staff's recommendation, with which Ameren Missouri agreed, Ameren Missouri did file rebuttal testimony regarding uncollectibles, reasonably believing that there was no dispute regarding the appropriate sum to include in the revenue requirement. However, the Staff, without justification, proposed a different level for the first time in its surrebuttal testimony that is not representative of the level that would reasonably be expected during the time when rates set in this case would be effective. Staff's change of position should be rejected.

11. Storm Expense and Two-Way Storm Costs Tracker

A. Should the Commission continue a two-way storm restoration cost tracker whereby storm-related non-labor operations and maintenance ("O&M") expenses for major storms would be tracked against the base amount with expenditures below the base creating a regulatory liability and expenditures above the base creating a regulatory asset, in each case along with interest at the Company's AFUDC rate?

Yes. In Ameren Missouri's last general rate case, the Commission authorized a two-way tracker for non-labor O&M costs the Company incurs to restore service following storms classified as a "Major Day Event" under an industry-wide mechanism developed by the Institute of Electrical and Electronics Engineers ("IEEE"). The two-way tracker benefits Ameren Missouri because it ensures the Company is able to fully recover all prudently-incurred storm restoration costs while also benefitting customers by ensuring customers do not overpay storm restoration costs through rates.

In its *Report and Order* in that case, the Commission acknowledged major storm events have increased in frequency and intensity in recent years, and when such storms occur Ameren

Missouri has little ability to control its restoration costs. The Commission also determined “major storm costs can have a significant impact on the company’s costs and the ability to earn a reasonable return on its investment” and “[m]ajor storm restoration costs are particularly well suited for inclusion in a two-way tracker.” Because the reasons the two-way tracker was approved in the last rate case have not changed, the tracker should be retained.

B. If the storm cost tracker is not continued, what annualized level of major storm costs should the Commission approve in this case?

If the Commission declines to continue the current two-way tracker for major storm restoration costs, the annualized level of storm cost restoration expenses included in the revenue requirement used to set rates in this case should be \$4,600,000. This amount is based on a 60-month normalization of actual, incurred storm restoration expenses, which is the normalization period agreed to by Staff and the Company, and approved by the Commission, in File No. ER-2012-0166. Ameren Missouri believes 60 months is long enough to capture the variability historically observed in storms and related restoration costs, but without going back too far in time so as to lose the benefits of normalization.

C. Should the amount of major storm cost over-recovery by Ameren Missouri be included in Ameren Missouri’s revenue requirement and, if so, over what period should it be amortized?

Ameren Missouri supports a five-year amortization of any over-recovery of major storm costs. The annual amount that should be included in the revenue requirement used to set rates in this case is \$1,282,948.

12. Vegetation Management and Infrastructure Inspection Trackers

A. What amount should be included in the revenue requirement for Vegetation Management and Infrastructure Inspection?

The Commission should include in the revenue requirement used to set rates in this case expense of \$62,443,856 for Vegetation Management and Infrastructure Inspection.

B. Should the vegetation management and infrastructure inspection trackers be continued?

Two Commission rules – 4 CSR 240-23.020 and 4 CSR 240-23.030 – prescribe the frequency and scope of Ameren Missouri’s vegetation management and infrastructure inspection activities. Recognizing that spending necessary to comply with these rules is not discretionary, the Commission has authorized a vegetation management and infrastructure inspection tracker that ensures Ameren Missouri fully recovers its costs of compliance. Because compliance with these rules is still mandatory, and also because the costs of compliance still vary from year to year, the rationale and justification for the tracker have not changed. Therefore, the Commission should authorize the Company to retain and continue to use the currently-approved tracker mechanism to recover its vegetation management and infrastructure inspection compliance costs.

C. If the vegetation management and infrastructure inspection trackers are not continued, what annualized level of vegetation management and infrastructure inspection costs should the Commission approve in this case?

If the Commission declines to continue the current tracker for vegetation management and infrastructure inspection compliance costs, the annualized level of expense for these activities included in the revenue requirement used to set rates in this case should be \$62,443,856.

D. Should an amount of vegetation management and infrastructure inspection cost over-recovery by Ameren Missouri be included in Ameren Missouri’s revenue requirement and, if so, over what period should they be amortized?

Ameren Missouri supports a three-year amortization of any over-recovery of vegetation management and infrastructure inspection compliance costs. Only amounts associated with

infrastructure inspection were over-recovered. The amortization of the amount over-recovered for infrastructure inspection is \$307,600.

13. Union Proposals

A. Can the Commission mandate or require that the Company address its workforce needs in a particular manner and, if so, should it do so?

As part of its day-to-day management, the Company already closely monitors and plans for its workforce needs, so it is not necessary for the Commission to take any action with respect to the Company's workforce. In addition, since workforce needs are matters within the Company's management discretion, and since the Commission is not allowed to manage the business of the utility, the Commission does not have the legal authority to require the Company to address its workforce needs in any particular manner.

B. Should the Commission require the additional reporting requested by Mr. Walters?

The Commission should not require Ameren Missouri to provide the additional reporting requested by Mr. Walters. The costs of the periodic reporting Mr. Walters suggests would ultimately be borne by the Company's customers, but the reporting would not provide any benefit to the Company's customers. Expenditures to replace aging infrastructure and the other information Mr. Walters wants the Company to report about, might go to the issue of reliability, but the Company already provides reliability-related reports to the Commission. It is not necessary to report to the Commission at the level of detail Mr. Walters suggests, and it is simply an improper attempt to inject the Commission into the day to day management of the Company.

14. Rate Case Expense

What is the appropriate amount to include in Ameren Missouri's revenue requirement for Rate Case Expense?

Staff has proposed that rate case expenses be amortized over 18-months and true-up throughout the case but no later than two weeks after the filing of reply/true-up briefs. The Company accepts these terms as reasonable. However, the Company disagrees with the Staff's proposed disallowance of cash working capital study expenses. With respect to Staff's proposed disallowance of cash working capital testimony and support costs, the actual costs incurred were reasonable and necessary in order to present and defend Ameren Missouri's proposed revenue requirement.

On behalf of the OPC, Ted Robertson proposes a "Rate Case Expense" disallowance, however the expenses Mr. Robertson seeks disallowance are not rate case expenses and in fact are not included in the Company's revenue requirement.

15. Miscellaneous Revenue Requirement Issues

- A. *What amount of corporate franchise tax should be included in the revenue requirement?*

Recognizing the changes in Missouri law governing franchise taxes, Ameren Missouri proposes to include \$420,000 in its revenue requirement for franchise taxes.

- B. *Should the investment through December 31, 2014, in an extension of the Nuclear Regulatory Commission ("NRC") license for the Callaway Energy Center be included in rate base if the extension is issued by the NRC by the filing of reply briefs in this case?*

If Ameren Missouri is granted a life extension by the NRC prior to the filing of reply briefs, it is appropriate to include the costs associated with this life extension in rates, especially because the Commission previously extended the presumed life of Callaway for depreciation purposes to match the license period that will be reflected in the NRC license extension.

- C. *How should the DOE breach-of-contract settlement amounts be treated in this case?*

Ameren Missouri agrees to notify Staff's Chief Counsel if and when it receives further reimbursement(s) from this settlement.

16. Return on Common Equity (“ROE”)

In consideration of all relevant factors, what is the appropriate value for Return on Equity (“ROE”) that the Commission should use in setting Ameren Missouri’s Rate of Return?

As this case demonstrates, Ameren Missouri has been making significant capital investment in its operations in order to maintain reliable service and to comply with regulatory mandates, including specific requirements imposed by the EPA. As the Company continues to meet existing and emerging environmental regulations, and to replace and maintain aging infrastructure, capital expenditures will be required on an on-going basis. Capital markets are competitive, and Ameren Missouri must offer investors a competitive return to ensure access to capital as needed and at reasonable rates. Maintaining a reasonable return on equity also impacts the Company’s credit ratings both in terms of quantitative credit metrics as well as qualitative assessments of the supportiveness of Ameren Missouri’s regulatory environment.

On behalf of Ameren Missouri, Mr. Hevert presents an array of well-supported results derived from competent cost of equity models. These models and their results support a well-reasoned measure of investor expectations. Mr. Hevert recommends a return on equity equal to 10.4%. Mr. Hevert’s analyses employ data published by recognized authorities and sources in order to calculate a Constant Growth Discounted Cash Flow (DCF) analysis, a multi-stage DCF analysis, the Capital Asset Pricing Model, and a Bond Yield Plus Risk Premium model. Further, Mr. Hevert observes that his recommendation is within the range of recently authorized returns as reported from 2012 through 2014 for vertically integrated electric utilities. Those

returns average 10.01%. Given the unique risks facing Ameren Missouri and other qualitative considerations, Mr. Hevert's recommendation is well supported by the record evidence.

Staff and intervenors propose unreasonably low return on equity recommendations. Staff proposes an ROE recommendation of 9.25%, which is not directly supported by quantitative analysis. Staff's witness, Mr. David Murray, indicated he believes the true cost of equity for utilities is in the range of 6% to 8%. Office of Public Counsel witness Mr. Lance Schafer proposes a return on equity of 9.01%, and argues that the Commission should ignore the fact that his recommendation is staggeringly lower than recently authorized returns in other jurisdictions. MIEC's witness Mr. Michael Gorman also proposes a very low recommended return on equity of 9.3%, which is far below recently authorized returns for vertically integrated electric utilities, and even below returns authorized for natural gas distribution utilities. All three witnesses support their recommendations through analyses that rely upon faulty assumptions. In particular all three witnesses rely heavily upon very low growth rate assumptions that understate investor expectations for prospective capital appreciation.

Capital investment is required to maintain safe and reliable electric service to customers. Ameren Missouri must obtain that capital from markets that are competitive. Ameren Missouri therefore competes with other investment opportunities, including other utilities, for equity capital. The Company is actively investing in its generation and electric delivery system assets and it is important that the Commission authorize a reasonable and competitive return on equity to set rates in this case. Accordingly, the return of 10.4% should be accepted and used to set rates in this proceeding.

17. Lobbying Expenditures

Should rent allocated to Ameren Missouri for Ameren Services' office in Washington D.C. be included in the revenue requirement?

Ameren Missouri records half of the amount it is allocated below the line as lobbying, meaning that half of this cost does not appear in Ameren Missouri revenue requirement request. The Company believes this treatment accurately reflects how the office is used. This office supports personnel who represent Ameren Missouri in FERC proceedings and in interactions with FERC Staff, all of which is necessary for Ameren Missouri's provision of service to its customers, including as related to its participation in MISO.

18. Incentive Compensation

A. *Should the safety component of the EIP-O incentive compensation plan be included in revenue requirement?*

Yes, the safety component of the EIP-O incentive compensation plan should be included in the Company's revenue requirement. The Commission has already determined that operational standards are appropriate and the Commission has always found safety expenditures to be prudent. The plan's focus is to move away from rules based compliance and towards a corporation wide emphasis on creating a culture of safety where employees feel free to challenge unsafe acts. This plan demonstrates that Ameren Missouri officers consider safety to be of paramount importance. The costs of this component should be included in Ameren Missouri's revenue requirement.

B. *Should payments made under the BNA program be included in revenue requirement?*

Yes, these represent sign-on or retention bonuses that were paid in order to attract or retain key personnel. These are standard practice in the industry, and are prudent payments which should be included in the Company's revenue requirement.

C. *Should payments made to non-union employees made under the BBI program be included in revenue requirement?*

Yes, Staff has agreed that these payments to union employees should be allowed. The payments made to non-union employees are equally prudent. These are bonuses paid to employees selected (and who can qualify) to serve on what is called the Adversary Team. This is required by the Nuclear Regulatory Commission and the group conducts periodic drills and exercises to challenge our security at Callaway. These employees must meet more stringent physical requirements and receive additional training. It is reasonable that this additional work result in these employees receiving a bonus for that responsibility. If Ameren Missouri had merely increased the employees' base pay, there likely would have been no argument. That, however, does not justify removal of these costs from the Company's revenue requirement.

19. Class Cost of Service, Revenue Allocation and Rate Design

A. What methodology should the Commission use to allocate generation fixed costs among customer classes?

Ameren Missouri supports the continued use of a four non-coincident peak version of the Average and Excess Demand allocation methodology to allocate fixed production plant costs among the Company's rate classes. The Commission has adopted this methodology, which gives weight to both class demands and class energy consumption, in each of the Company's recent electric rate cases.

B. How should the non-fuel, non-labor components of production, operation and maintenance expense be classified and allocated?

Non-fuel, non-labor production operation and maintenance expense should be classified as fixed and variable based on an approach prescribed in the NARUC Electric Utility Cost Allocation Manual. The fixed component should be allocated based on the fixed production allocator and the variable component should be allocated using the energy (kWh) allocator.

C. How should any rate increase be collected from the several customer classes?

The rate increase should be implemented as an equal percentage increase to all customer classes.

D. What should the Residential Class customer charge be?

The residential customer charge should increase by the same percentage as the overall increase to the Residential rate class approved by the Commission in this case.

E. Should the Commission approve Wal-Mart's proposed shift to increase the demand component of the hours-use rate design for Large General Service and Small Primary Service?

No. The Commission should not approve Wal-Mart's proposed shift to increase the demand component of the hours-use rate design for the Large General Service and Small Primary Service rate classes.

F. Should the Commission approve Wal-Mart's recommendation to require the Company to present analyses of alternatives to the hours-use rate design in its next rate case?

No. The Commission should not approve Wal-Mart's recommendation to require the Ameren Missouri to present in its next rate case analyses of alternatives to the hours-use rate design. The hours-use rate design was adopted in 1990 as an alternative to the very rate design Wal-Mart prefers. All investor owned utilities in Missouri currently employ the hours-use rate design.

G. What methodology should the Commission use to allocate off-system sales revenues among customer classes?

The Company allocated off-system sales revenues based on their respective energy (KWh) allocators, which is consistent with the method the Commission approved in File No. ER-2010-0036. The *Report and Order* in that case states, in relevant part, "the Commission finds that AmerenUE's class cost of service study, modified to allocate revenues from off-system sales on the basis of class energy requirements, is the most reliable of the submitted studies."

H. What methodology should the Commission use to allocate income tax expense among customer classes?

The Commission should allocate income taxes on the basis of net plant. The reason Ameren Missouri has income to be taxed is because the Company earns a return on its invested capital. In a rate case, net rate base represents the amount of invested capital on which the Company is authorized to earn a return. Because the Class Cost of Service Study (“CCOSS”) allocates net plant to customer classes based on net rate base, and because income taxes are a direct function of earned return on investment, it follows that both earned return and income taxes should be allocated to customer classes based on each class’ responsibility for net rate base.

I. What methodology should the Commission use to allocate fuel and purchased power costs among customer classes?

The Company allocated fuel and purchased power based on their respective energy (KWh) allocators, which is consistent with the method the Commission approved in File No. ER-2010-0036. The *Report and Order* in that case states, in relevant part, “the Commission finds that AmerenUE’s’s class cost of service study, modified to allocate revenues from off-system sales on the basis of class energy requirements, is the most reliable of the submitted studies.”

20. Depreciation

A. What amount of depreciation expense, including for the Meramec Energy Center requirement, should be included in Ameren Missouri’s revenue requirement?

The depreciation expense recommended by Ameren Missouri witness John Spanos in his direct testimony should be included in the revenue requirement.² Except with respect to Accounts 364 and 369 addressed below, all parties, except Office of the Public Counsel (“OPC”), including the only two parties (Staff and the Company) who performed depreciation

² Depreciation expense for one account changed slightly from that recommended in Mr. Spanos’ direct testimony as a result of a reallocation of depreciation reserve recommended by Staff, and with which the Company agreed.

studies, agree on the level of depreciation expense to be included in the revenue requirement. OPC's opposition to the level of depreciation for the Meramec Plant is completely unsupported, as outlined in the surrebuttal testimony of Ameren Missouri witness Matt Michels.

B. What amount of depreciation expense should be included in Ameren Missouri's revenue requirement for Accounts 364 and 369 (minor account 1)?

The depreciation expense recommended by Ameren Missouri witness John Spanos in his direct testimony for these two accounts should be included in the revenue requirement. Staff's recommendation has no basis, and is arbitrary, in that Staff has artificially capped the net salvage percentages applicable to these accounts, contrary to the net salvage percentages that result from proper application of the Company's historical retirement data. Contrary to the Staff's claims, the Commission has never ruled that such an arbitrary approach is appropriate, and indeed such an arbitrary approach violates the accrual method of depreciation accounting which the Commission has repeatedly indicated is the appropriate method to determine net salvage.

21. Economic Development Rate Design Mechanisms

A. Should the Commission expand the application of Ameren Missouri's existing Economic Development Riders?

No, the Commission should not expand the application of Ameren Missouri's existing Economic Development Riders at this time. More research should be done before expanding the Company's economic development riders. Ameren Missouri supports the formation of a collaborative to explore the issues raised in this case further.

B. Should the Commission modify Ameren Missouri's existing Economic Development Riders to require recipients to participate in the Company's energy efficiency programs?

The Commission should not modify Ameren Missouri's existing Economic Development Riders to require recipients to participate in the Company's energy efficiency

programs. While Ameren Missouri is not opposed to the concept, there are issues related to this proposed change that need to be explored further before any changes are implemented.

C. Should the Commission open a docket to explore the role economic development riders across regulated industries (i.e. water, electric, natural gas) and/or to further explore issues raised by parties in this case and issues the Commission inquired about at the beginning of the case?

Ameren Missouri supports opening a docket to explore the role economic development riders across regulated industries and to further explore issues raised by the Commission and other parties. Such a docket would allow all regulated utilities and interested stakeholders to participate and share ideas. In addition, there may be best practices beyond tariff changes that can be shared.

22. MEEIA Low Income Exemption

Should the Commission approve an exemption of MEEIA charges for low income customers? If so, should the cost of exemption be paid by only residential customers or all customers?

The Commission should approve the MEEIA exemption as contemplated by the MEEIA statute and as proposed by Ameren Missouri. The costs of the exemption should be spread to all other customers, which as pointed out in the rebuttal testimony of Bill Davis, will result in an increase of approximately \$0.06 a month.

23. Street Lighting

A. Can the Commission mandate or require that the Company sell its street lights to the Cities?

The Commission does not have the statutory authority to force an involuntary sale of the Company's property. In addition, forcing an involuntary sale, by tariff or otherwise, would be directly contrary to the public policy expressed by §71.525 RSMo, which (subject to very limited exceptions not applicable to Cities) prohibits municipalities from condemning the used or useful

property of a public utility. The Commission should not facilitate the Cities' attempt to take Company property since the Cities could not lawfully take that property from the Company.

A. Should the Commission approve a revenue-neutral adjustment between customer-owned and Company-owned lighting rates?

Over a sufficient time period to avoid rate shock, Ameren Missouri believes a revenue-neutral adjustment between customer-owned and Company-owned lighting rates is a prudent course of action for the Commission to consider. The Company's lighting class as a whole has rates that closely reflect its underlying costs; yet its customer-owned lighting rates are significantly below its underlying costs. Setting rates to match the cost of service for the two lighting rate schedules would require a shift of about \$3.9 million as an increase to customer-owned lighting and a decrease to company-owned lighting. Because the customer-owned lighting revenue requirement is much smaller than the company-owned lighting revenue requirement, the \$3.9 million shift would roughly double the rates for customer-owned lighting and reduce the rates for company-owned lighting by about 11%. Moving to rates within the lighting class that are more reflective of costs would reduce the rates for the company-owned lighting customers, which account for large majority of the lighting customers, including the cities of Ballwin and O'Fallon.

B. Should the Commission eliminate the termination fees from the Ameren Missouri-owned lighting rate?

The Commission should not eliminate the termination fee from the Ameren Missouri-owned lighting rate. The purpose of the termination fee is to give customers pause before requesting that a light be removed or that lighting service be eliminated without sufficient reason, since those requests can have significant impacts on the Company and its customers. Said

another way, the \$100 is not designed to represent the full cost of the facilities affected by the request; rather it is an intentional barrier to prevent uneconomic allocation of resources.

24. LED Street Lighting

Should the Commission order Ameren Missouri to continue to study the cost-effectiveness of replacement of all or parts of existing company-owned street lights with LED lights, and, no later than twelve (12) months following the Commission's Report and Order in this case, to file either proposed LED lighting tariffs or an update to the Commission on when it will file a proposed LED lighting tariff to replace existing company-owned street lights?

No. The Company is already required to provide Staff with an economic analysis of LED street lights and the annual report stands on its own. Ameren Missouri's analyses have thoroughly discussed issues related to LED street lights. To the extent the economic analysis changes and other implementation barriers are removed, the report will reflect those updates. The Company will submit its next LED street lighting update before the end of 2015, which is at least 6 months earlier than the expected 12-month anniversary of the Report and Order in this rate case.

25. Other Tariff Issues

Should the Commission order the Company to eliminate the 7(M) lighting class (Municipals Incandescent Street Lighting)?

Yes, the Commission should order the Company to eliminate the 7(M) lighting class. There no longer are any active customers in the Rate Schedule 7(M) rate classification, and incandescent street lights are no longer being installed.

26. Supplemental Service

Should the Commission eliminate or modify the terms of Ameren Missouri's Supplemental Service tariff (a/k/a Rider E)?

The Commission should not implement changes in Rider E in this case because there is not enough time to perform the detailed analysis necessary to determine if such changes are

warranted. Any analysis performed will also need to consider the bill impacts to existing customers taking service under Rider E. However, the Company is willing to investigate those issues and be prepared to address this issue in Ameren Missouri's next rate case. There is no harm waiting until the next rate case because there is only one customer taking service under Ameren Missouri's Supplemental Service tariff today. In addition, there have been no charges billed under the Supplemental Service rider, nor does Ameren Missouri have any pending inquiries related to Combined Heat and Power interconnections.

27. Ameren Services Allocations

A. What level of Ameren Services Company allocations should be included in the Company's revenue requirement?

Costs allocated to Ameren Missouri by Ameren Services Company (AMS) should be adjusted by \$4.8 million over the test year levels. This adjustment is attributable to additional O&M expenses, and these increased costs are primarily attributable to additional Information Technology and Transmission requirements of Ameren Missouri, as explained in the testimony of witness Bob Porter. Although there were concerns raised by Staff and MIEC that these additional costs were attributable to the divestiture of Ameren Energy Resources, Ameren Missouri believes that these concerns have been allayed by information produced in this proceeding. Ameren Missouri agrees with the proposal of Staff to disallow \$78,000 in test year operating expenses related to a non-recurring study performed by the Company.

B. Should the Commission open a separate docket to further examine Ameren Services Company's costs after this rate case is over?

While Ameren Missouri does not oppose Staff's proposal for a review of Ameren's Cost Allocation Manual, Ameren Missouri rejects OPC witness Ted Robertson's proposal to open a separate docket to further examine Ameren Service Company's costs. Such an action is

unnecessary. AMS allocated costs are costs within the entire pool of costs in Ameren Missouri's financial statements and are included in the overall audits and regulatory review of Ameren Missouri's costs. These are not a separate set of costs outside of the normal review in a rate case. Data regarding all AMS labor and IT support costs allocated to Ameren Missouri, for example, is subject to Staff audit in every rate case, including this one. OPC conducted no discovery on this issue in this rate case, and OPC offers no testimony challenging any particular AMS cost allocation. Accordingly, there is nothing to compel a separate docket to examine AMS costs.

28. Net Base Energy Costs

At what level should net base energy costs be set in this case?

The net base energy costs sponsored by Company witnesses Mark Peters and Jaime Haro should be adopted, using the Company's true-up figures.

29. Labadie ESPs

A. Should the Company's investment in the electrostatic precipitators ("ESPs") installed at the Labadie Energy Center be included in the Company's rate base?

Ameren Missouri installed ESPs on Labadie Energy Center Units 1 and 2 to bring those units into compliance with Mercury and Air Toxics Standards ("MATS") prescribed by the federal government. The ESPs have satisfied all in-service criteria prescribed by Staff, and are currently used and useful in providing service to the Company's customers. Ameren Missouri's investment in the ESPs should be included in the rate base used to set the Company's rates in this case.

B. Should Ameren Missouri's rate base be reduced by \$408,048 because of damage to collector plates used in the Labadie ESP project?

There is no reasonable basis to support reducing Ameren Missouri's rate base because of damage to collector plates during installation of ESPs on Labadie Energy Center Units 1 and 2.

Due to an unexplained failure in a storage mechanism, 96 collector plates fell and were damaged beyond repair. The mechanism and methods Ameren Missouri used to store the collector plates were recommended by the manufacturer, who described them as “the best practices for handling [the collector plates] without causing damage.” The Company was not negligent in the way it handled or stored the collector plates, and the fact they were destroyed despite Ameren Missouri’s best efforts is not a basis for excluding the value of the plates from the rate base used to set rates in this case.

30. Fuel Adjustment Clause (“FAC”)

- A. *Did the Company fail to comply with the “complete explanation” provisions of 4 CSR 240-3.161(3)(H) and (I) and, if so, would this justify the elimination of the Company’s fuel adjustment clause?*

No, the Company has fully complied with the “complete explanation” provisions of the Commission’s rules, as discussed in detail in the rebuttal testimony of Ameren Missouri witness Lynn Barnes. The Commission has previously ruled that far less detail than the Company has consistently provided, including in this case, constitutes a complete explanation within the meaning of the rules. It is impossible for the Company to have failed to have provided a complete explanation given the Commission’s prior ruling. Moreover, the Commission’s Staff has indicated that the Company’s filings, which if anything are even more detailed in this case than in its last five rate cases, complies with the rules. No party, until OPC in this case, has ever contended otherwise.

Even if the Company somehow did not comply with the “complete explanation” provisions of the rules (which the Company specifically denies), this would not justify the elimination of its FAC. Such a result would be inherently and patently unfair given the Commission’s prior ruling, its Staff’s prior statement that the Company’s filings do comply and

the total lack of any hint in any other case that the significant detail provided by the Company is somehow insufficient within the meaning of the rules.

B. Did the Company fail to provide information on the magnitude, volatility and the Company's ability to manage the costs and revenues that it proposes to include in its FAC and, if so, would this justify the elimination of the Company's fuel adjustment clause?

No. Not only has nothing material changed respecting the volatility and uncertainty, magnitude and ability to control the fuel and purchased power and off-system sales (and associated transportation) that is tracked in the Company's FAC, but when claims that things have changed were made, the Company provided significant evidence that those costs and revenues are indeed volatile and uncertain, are large and are beyond the Company's control. OPC has provided absolutely no objective evidence to the contrary.

C. If the FAC continues should the sharing percentage be changed to 90%/10%?

No. OPC's recommendation in this case, made by now-OPC employee Lena Mantle, is no different than Ms. Mantle's recommendation in the Company's last rate case (Case No. ER-2012-0166) when she was a member of the Staff, which the Commission rejected. All of the deficiencies in Ms. Mantle's recommendation to change the sharing percentage in that case (to 85%/15%) apply with equal force in this case. All of the harms that would occur from a change in the sharing percentage where there is absolutely no justification to do so remain. OPC has provided not one shred of objective evidence that a change in the sharing percentage is needed to create an incentive for the Company to properly manage its net energy costs.

D. *What transmission charges should be included in the FAC?*

Just as the Commission ruled in File No. ER-2012-0166, transmission charges for power purchased from the MISO³ energy market, from other power producers, and to make sales of energy to the MISO energy market or others should be included in the FAC, as they are today and as they have been since the inception of the Company's FAC. MIEC's opposition completely ignores the fact that Ameren Missouri sells the megawatt hours it produces to the MISO market, and buys the megawatt hours it must acquire to serve its load from the MISO market. As a consequence, Ameren Missouri is assessed transmission charges that it cannot avoid. These transmission charges remain volatile and uncontrollable, just as the Commission ruled in File No. ER-2012-0166.

E. *If the FAC continues, what costs and revenues should be included in the Company's FAC:*

The costs and revenues detailed in the Company's FAC tariff, which as proposed in this case is materially unchanged from the tariff approved by the Commission in Case No. ER-2012-0166, should continue to be included in the FAC. The Company has agreed to remove one account reference (for an account the costs of which have never been included in the FAC) that had mistakenly been listed in the tariff (account 575), and has agreed to remove one other account (account 924, relating to replacement power insurance), as requested by the Staff (and supported by OPC as well). The Company also agrees that additional MISO schedules or charge types (reflecting both costs and revenues for purchased power and transmission) that have been added by MISO and about which proper notice under the tariff's terms was given by the Company should be listed in the final FAC tariff implemented in this case.

1. *Should only fuel and purchased power costs, transportation of the fuel*

³ Midcontinent Independent System Operator, Inc.

commodity, transmission associated with purchased power costs and off-system sales revenues be included?

OPC's definition of "fuel and purchased power costs, transportation of the fuel commodity, transmission associated with purchased power costs and off-system sales revenues" in fact does not properly include all such cost and revenues and should be rejected. Costs and revenues allowed under the FAC tariff, as proposed, should continue to be included in the FAC.

2. *If costs and revenues other than those listed in item 1 above are included in the FAC, should cost or revenue types in which the Company has incurred less than \$360,000 in the test year be included, and what charges and revenues from MISO should be included?*

No. OPC has provided no justification; no facts; no objective evidence whatsoever for its arbitrary exclusion of otherwise properly includable costs and revenues.

3. *Should transmission revenues continue to be included in the FAC?*

Yes. Transmission revenues belong in the FAC, just as do transmission charges.

31. Noranda Rate Proposal

A. *Is Noranda experiencing a liquidity crisis such that it is likely to cease operations at its New Madrid smelter if it cannot obtain relief of the sort sought here?*

1. *If so, would the closure of the New Madrid Smelter represent a significant detriment to the economy of Southeast Missouri, to local tax revenues, and to state tax revenues?*
2. *If so, can the Commission lawfully grant the requested relief?*
3. *If so, should the Commission grant the requested relief?*

Noranda is not experiencing such a liquidity crisis. For reasons quite similar to those outlined by Ameren Missouri witness Robert Mudge in File No. EC-2014-0224, Mr. Mudge (and Ameren Missouri witness Dr. David Humphreys) explains in this case why Noranda has posited nothing more than a worst-case scenario in a failed attempt to prove what it did not prove in File No. EC-2014-0224. Just as was true in that case, Noranda is seeking a huge

ratepayer subsidy, without proper justification that if granted would make it the lowest cost producer of aluminum in the entire United States. Indeed, Noranda's financial condition now is materially better than it was when it failed, only a few months ago, to meet its burden to show that it should be afforded the relief it seeks.

Moreover, granting the requested relief would be unduly discriminatory. Under Missouri and United States Supreme Court precedent, rates cannot be set to meet the claimed financial needs of a particular person or entity and instead must be set based upon the characteristics of service that the person or entity possesses. A subsidy of this type should be provided, if at all, by action of the General Assembly.

The Commission should not grant the relief sought by Noranda for all of the same reasons given in its *Report and Order* in File No. EC-2014-0224, and for the additional reasons reflected in Ameren Missouri's testimony in this case.

B. Would rates for Ameren Missouri's ratepayers other than Noranda be lower if Noranda remains on Ameren Missouri's system at the reduced rate?

Any rate subsidy provided to Noranda will necessarily increase rates to other customers. Revenue under Noranda's proposal would be approximately \$272 million less than the revenue that would be realized by selling the same power into the market; thus, Noranda's proposal would be detrimental to other customers.

C. Would it be more beneficial to Ameren Missouri's ratepayers other than Noranda for Noranda to remain on Ameren Missouri's system at the requested reduced rate than for Noranda to leave Ameren Missouri's system entirely?

Revenue under Noranda's proposal would be approximately \$272 million less than the revenue that would be realized by selling the same power into the market; thus, Noranda's proposal would be detrimental to other customers.

D. Is it appropriate to redesign Ameren Missouri's tariffs and rates on the basis of Noranda's proposal, as described in its Direct Testimony and updated in its Surrebuttal Testimony?

- 1. If so, should Noranda be exempted from the FAC?*
- 2. If so, should Noranda's rate increases be capped in any manner?*
- 3. If so, can the Commission change the terms of Noranda's service obligation to Ameren Missouri and of Ameren Missouri's service obligation to Noranda?*
- 4. If so, should the resulting revenue deficiency be made up by other ratepayers in whole or in part?*
- 5. If so, how should the amount of the resulting revenue deficiency be calculated?*
- 6. If so, can the resulting revenue deficiency lawfully be allocated between ratepayers and Ameren Missouri's shareholders?*
 - i. How should the revenue deficiency allocated to other ratepayers be allocated on an interclass basis?*
 - ii. How should the revenue deficiency allocated to other ratepayers be allocated on an intra-class basis?*
- 7. If so, what, if any, conditions or commitments should the Commission require of Noranda?*

Ameren Missouri does not believe it is appropriate to redesign the Company's rates as proposed by Noranda.

E. What is Ameren Missouri's variable cost of service to Noranda?

- 1. Should this quantification of variable costs be offset by an allowance for Off-System Sales Margin Revenue?*
- 2. What revenue benefit or detriment does the Ameren Missouri system receive from provision of service to Noranda at a rate of \$32.50/MWh?*

The Company believes it is not appropriate to base rates charged to Noranda on Ameren Missouri's variable cost of providing service. Even so, revenue under Noranda's proposal would

be approximately \$272 million less than the revenue that would be realized by selling the same power into the market; thus, Noranda's proposal would be detrimental to other customers.

F. Should Noranda be served at a rate materially different than Ameren Missouri's fully distributed cost to serve them? If so, at what rate?

Noranda should not be served at a rate that is materially different from Ameren Missouri's fully distributed cost to serve the New Madrid smelter. To do so would constitute unlawful rate discrimination.

G. Is it appropriate to remove Noranda as a retail customer as proposed by Ameren Missouri in Rebuttal Testimony?

Ameren Missouri's proposal is that Noranda and Ameren Missouri mutually agree to terminate the current contract for service to Noranda. In addition, Noranda and Ameren Missouri would have to agree to price and terms of a new wholesale contract.

1. Can the Commission cancel the Certificate of Convenience and Necessity that was granted for Ameren Missouri to provide service to Noranda and, if so, would the cancellation of the CCN be in the public interests?

Yes, assuming Ameren Missouri and Noranda mutually agree to terminate the current contract for service to Noranda. This is in the public's interest because Ameren Missouri's other customers cannot be expected to perpetually subsidize Noranda's rate in a "lower-of-cost-or-market" pricing regime. In addition, Ameren Missouri would no longer bear an obligation to serve Noranda and would therefore no longer need to acquire resources necessary to serve Noranda.

2. Can the Commission grant Ameren Missouri's proposal since notification regarding the impact of the proposal on its other customers' bills was not provided to Ameren Missouri's customers?

There is no requirement that such notice be provided.

3. If the Commission grants Ameren Missouri's proposal, should the costs and revenues flow through the FAC?

Yes, the revenues from Noranda as a wholesale customer should be treated like revenues from other wholesale contracts.

4. *Can Ameren Missouri and Noranda end their current contract without approval of all of the parties to the Unanimous Stipulation and Agreement in the case in which Ameren Missouri was granted the CCN to serve Noranda?*

The only remaining operative provision of the contract between Ameren Missouri and Noranda is that Ameren Missouri cannot seek a termination of the CCN that would be effective earlier than May 31, 2020, and Noranda cannot exercise its rights under Section 91.026 earlier than that date. Ameren Missouri and Noranda can mutually agree to modify these obligations.

Respectfully submitted,

By: /s/ L. Russell Mitten
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**ATTORNEYS FOR UNION ELECTRIC COMPANY
d/b/a/ AMEREN MISSOURI**

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the above and foregoing document was sent via electronic mail on this 19th day of February, 2015, to all parties of record in File No. ER-2014-0258.

/s/ L. Russell Mitten