

August 25, 2000

VIA HAND DELIVERY



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

Re: MPSC Case No. EM-96-149

Dear Mr. Roberts:

Enclosed for filing on behalf of Union Electric Company, d/b/a AmerenUE, the Staff of the Missouri Public Service Commission, and the Office of the Public Counsel, please find an original and eight (8) copies of the **Stipulation and Agreement** in the above matter.

Kindly acknowledge receipt of these filings by stamping a copy of the enclosed letter and returning it to me in the enclosed self-addressed envelope.

Very truly yours,

James J. Cook / ah

James J. Cook
Managing Associate General Counsel

JJC/dhb
Enclosures

cc: Ms. Shelly Register
Parties on Attached Service List

FILED³

AUG 25 2000

Missouri Public
Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED³
AUG 25 2000

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 Company; (2) The Transfer of Certain Assets,) Case No. EM-96-149
Real Estate, Leased Property, Easements, and)
Contractual Agreements to Central Illinois Public)
Service Company and (3) In Connection Therewith,)
Certain Other Related Transactions)

STIPULATION AND AGREEMENT

COMES NOW the Staff of the Missouri Public Service Commission ("Staff"), the Office of the Public Counsel ("OPC") and Union Electric Company d/b/a AmerenUE ("AmerenUE" or "Company"), in resolution of the quantification of first year sharing credits resulting from the second AmerenUE Experimental Alternative Regulation Plan ("2nd EARP") authorized by the Commission in its Report And Order in Case No. EM-96-149; and in resolution of the matter raised by the Staff in its complaint case EC-2000-795, the signatories state as follows:

EM-96-149

1. On April 25, 2000, the Staff and the OPC filed pleadings with the Commission in which the Staff and OPC noted several areas of disagreement with the Company concerning the calculation of earnings and sharing credits for the first sharing period of the 2nd EARP. Both Staff and OPC noted in their filings that discussions with the Company were continuing, in an effort to resolve as many areas of disagreement as possible.
2. On May 17, 2000, the Commission issued an Order Directing Filing of Direct

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Testimony and Proposed Procedural Schedule, directing Staff and OPC to file direct testimony concerning their areas of disagreement on or before May 30, 2000.

3. On May 30, 2000, the Staff and OPC filed testimony concerning their areas of disagreement, as well as a proposed procedural schedule.

4. On June 9, 2000, the Company filed its "Notice in Response to the Staff Report Respecting First Sharing Period of Second Experimental Alternative Regulation Plan and to the OPC Notice of Areas of Disagreement." Along with that pleading, the Company filed a "Corrected Final Earnings Report" for the period in question. This corrected report reflected two changes in the Company's previously filed calculation.

5. Subsequent to these filings, the parties made various other filings concerning the procedural schedule to be adopted by the Commission. Before a decision could be rendered by the Commission, the Company notified the Commission that a settlement in principle had been reached, and requested that the procedural schedule decision be held in abeyance.

EC-2000-795

6. On May 30, 2000, the Staff filed a complaint with the Commission, pursuant to Section 7.f.vi of the Stipulation And Agreement in Case No. EM-96-149. That filing identified various proposed adjustments to the Company's earnings calculation which the Staff claimed resulted from manipulation of earnings by the Company to reduce amounts to be shared with customers.

7. On June 2, 2000, the Commission issued its Notice of Complaint, (Case No. EC-2000-795) as a result of the Staff's May 30, 2000 filing.

8. On June 16, 2000, the Company filed its Answer to the Complaint.

Stipulation

9. As indicated above, the Company, Staff and OPC continued to engage in discussions, in an attempt to resolve the differences among them, and on July 11, 2000 notified the Commission that they had reached an agreement in principle. This document memorializes that agreement. The adjustments listed below are adjustments to the Company's Corrected Earnings Report, dated June 9, 2000. The adjustments listed below are agreed to by the signatories to this Stipulation for this particular sharing period only, except as noted below concerning Income Taxes and the Targeted Separation Plan. The adjustments respecting Income Taxes were explained in the Company's filing of June 9, 2000. The effect of the Targeted Separation Plan on subsequent sharing periods is addressed below.

- a. Environmental Accrual – The Company agrees to remove \$2,000,000 from expense for the first sharing period of the second EARP.
- b. Targeted Separation Plan (TSP) – The Company agrees to defer inclusion of \$5,468,000 of the cost of the TSP until the next sharing period. The Staff agrees that this amount will in fact be included as an expense in the calculation of the Company's ROE for the second sharing period of the 2nd EARP.
- c. Injuries and Damages – The Staff agrees not to pursue an adjustment in this area for the first sharing period of the 2nd EARP.
- d. Legal Accrual, Advertising and Territorial Agreements – The Staff agrees not to pursue an adjustment in each of these areas for the first sharing period of the 2nd EARP and the Company agrees to increase the sharing credits to be received by ratepayers by \$1,000,000 as a result.

- e. Income Taxes – The Company has already agreed to adjust its sharing calculation for the first sharing period of the 2nd EARP irrespective of these settlement discussions. As part of the complete resolution of the quantification of sharing credits for the first sharing period of the 2nd EARP, the Company agrees that the revisions reflected in the calculation of Income Taxes that it filed on June 9, 2000 will apply to the calculation of Income Taxes for the second and third sharing periods of the 2nd EARP.

With respect to the adjustments recommended by OPC, the Company will proceed as follows:

- f. Strategic planning cost – The Company will accept this adjustment of \$978,913 to its earnings calculation.
- g. Genco Operating Model – The Company will accept an adjustment of \$70,678 to its earnings calculation.
10. A Settlement Final Earnings Report, reflecting these adjustments, is attached hereto as Attachment 1.
11. None of the parties to this Stipulation And Agreement shall be deemed to have approved or acquiesced in any question of Commission authority, accounting authority order principle, cost of capital methodology, capital structure, decommissioning methodology, ratemaking principle, valuation methodology, cost of service methodology or determination, depreciation principle or method, rate design methodology, cost allocation, cost recovery, or prudence, that may underlie this Stipulation And Agreement, or for which provision is made in this Stipulation And Agreement.
12. This Stipulation And Agreement represents a negotiated settlement. Except as

specified herein, the signatories to this Stipulation And Agreement shall not be prejudiced, bound by, or in any way affected by the terms of this Stipulation And Agreement: (a) in any future proceeding; (b) in any proceeding currently pending under a separate docket; and/or (c) in this proceeding should the Commission decide not to approve this Stipulation And Agreement in the instant proceeding, or in any way condition its approval of same.

13. The provisions of this Stipulation And Agreement have resulted from negotiations among the signatories and are interdependent. In the event that the Commission does not approve and adopt the terms of this Stipulation And Agreement in total, it shall be void and no party hereto shall be bound, prejudiced, or in any way affected by any of the agreements or provisions hereof.

14. The Staff shall file suggestions or a memorandum in support of this Stipulation And Agreement and the other parties shall have the right to file responsive suggestions or prepared testimony.

15. If requested by the Commission, the Staff shall have the right to submit to the Commission an additional memorandum addressing the matters requested by the Commission. Each party of record shall be served with a copy of any memorandum and shall be entitled to submit to the Commission, within five (5) days of receipt of the Staff's memorandum, a responsive memorandum, which shall also be served on all parties. All memoranda submitted by the parties shall be considered privileged in the same manner as are settlement discussions under the Commission's rules, shall be maintained on a confidential basis by all parties, and shall not become a part of the record of this proceeding or bind or prejudice the party submitting such memorandum in any future proceeding or in this proceeding whether or not the Commission approves this Stipulation And Agreement. The contents of any memorandum provided by any

party are its own and are not acquiesced in or otherwise adopted by the other signatories to this Stipulation And Agreement, whether or not the Commission approves and adopts this Stipulation And Agreement.

The Staff also shall have the right to provide, at any agenda meeting at which this Stipulation And Agreement is noticed to be considered by the Commission, whatever oral explanation the Commission requests, provided that the Staff shall, to the extent reasonably practicable, provide the other parties with advance notice of when the Staff shall respond to the Commission's request for such explanation once such explanation is requested from the Staff. The Staff's oral explanation shall be subject to public disclosure, except to the extent it refers to matters that are privileged or protected from disclosure pursuant to any Protective Order issued in this case.

16. If the Commission does not unconditionally approve this Stipulation And Agreement without modification, and notwithstanding its provision that it shall become void thereon, neither this Stipulation And Agreement, nor any matters associated with its consideration by the Commission, shall be considered or argued to be a waiver of the rights that any party has to a hearing on the issues presented by the Stipulation And Agreement, for cross-examination, or for a decision in accordance with Section 536.080 RSMo 1994 or Article V, Section 18 of the Missouri Constitution, and the parties shall retain all procedural and due process rights as fully as though this Stipulation And Agreement had not been presented for approval, and any testimony or exhibits that have been offered or received in support of this Stipulation And Agreement shall thereupon become privileged as reflecting the substantive content of settlement discussions and shall be stricken from and not be considered as part of the administrative or evidentiary record before the Commission for any further purpose whatsoever.

17. In the event the Commission accepts the specific terms of the Stipulation And Agreement, the signatories waive their respective rights to cross-examine witnesses; their respective rights to present oral argument and written briefs pursuant to Section 536.080.1 RSMo 1994; their respective rights to the reading of the transcript by the Commission pursuant to Section 536.080.2 RSMo 1994; and their respective rights to judicial review pursuant to Section 386.510 RSMo 1994. This waiver applies only to a Commission Report And Order respecting this Stipulation And Agreement issued in this proceeding, and does not apply to any matters raised in any subsequent Commission proceeding, or any matters not explicitly addressed by this Stipulation And Agreement.

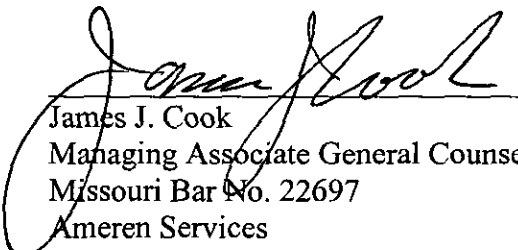
WHEREFORE the Staff, the Office of the Public Counsel and AmerenUE hereby request that the Commission approve the instant Stipulation And Agreement and direct AmerenUE to effectuate a one time credit to its Missouri electric retail customers of \$20,214,000.

Dated: August 25, 2000


Respectfully submitted,

UNION ELECTRIC COMPANY
d/b/a AmerenUE

STAFF OF THE MISSOURI
PUBLIC SERVICE COMMISSION



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UNION ELECTRIC COMPANY
12 MONTHS ENDED JUNE 30, 1999
(IN THOUSANDS OF DOLLARS)

EARNINGS REPORT
Per Stipulation and Agreement

	TOTAL ELECTRIC	MISSOURI JURISDICTIONAL
Plant in Service	\$ 8,360,024	\$ 7,518,671
Reserve for Depreciation	3,362,667	3,006,005
Net Plant	4,997,357	4,512,666
Add:		
Fuel and Materials & Supplies	201,368	172,940
Cash Working Capital	(27,432)	(24,000)
Prepayments	13,491	11,803
Less:		
Income Tax Offset (Staff Method)	63,002	57,453
Interest Expense Offset (Staff Method)	15,171	13,709
Customer Advances	8,168	8,117
Customer Deposits	11,011	11,011
Accumulated Deferred Income Taxes:		
Account 190	80,491	71,149
Account 282	(887,451)	(786,281)
(A) Total Rate Base	\$ 4,280,472	\$ 3,867,987
(B) Net Operating Income	\$ 451,324	\$ 415,186
(C) Return on Rate Base ((B) / (A))	10.544%	10.734%
(D) Return Portion Related to Debt & Preferred	2.975%	2.975%
(E) Return Portion Related to Common Equity ((C) - (D))	7.569%	7.759%
(F) Equity Percentage of Capital Structure	56.676%	56.676%
(G) Achieved Cost of Common Equity ((E) / (F))	13.355%	13.690%

UNION ELECTRIC COMPANY
12 MONTHS ENDED JUNE 30, 1999
(IN THOUSANDS OF DOLLARS)

EARNINGS REPORT
Per Stipulation and Agreement

	<u>TOTAL ELECTRIC</u>	<u>MISSOURI JURISDICTIONAL</u>
Operating Revenues	\$ 2,117,032	\$ 1,899,198
Operating & Maintenance Expenses:		
Production:		
Fixed Allocation	97,723	85,566
Variable Allocation	512,012	434,954
Directly Assigned	(2,496)	(2,082)
Total Production Expenses	<u>607,239</u>	<u>518,438</u>
Transmission Expenses (Fixed)	16,066	14,068
Distribution Expenses (Distr. Plant)	93,076	87,059
Customer Accounting Expenses (Direct)	57,256	53,808
Customer Serv. & Info. Expenses (Direct)	5,665	5,209
Sales Expenses (Direct)	3,045	2,797
Administrative & General Expenses:		
Directly Assigned	(14,353)	(11,760)
Labor Allocation	216,914	192,099
Total Administrative & General Expenses	<u>202,561</u>	<u>180,339</u>
Total Operating & Maintenance Expenses	<u>984,908</u>	<u>861,718</u>
Depreciation & Amortization Expense:		
Fixed Allocation	68,322	59,823
Labor Allocation	9,578	8,482
Directly Assigned	175,360	160,601
Total Depreciation & Amortization Expense	<u>253,260</u>	<u>228,906</u>
Taxes Other than Income Taxes:		
Fixed Allocation	52,356	45,843
Variable Allocation	1,394	1,184
Labor Allocation	4,308	3,816
Directly Assigned	142,054	133,425
Total Taxes Other than Income Taxes	<u>200,112</u>	<u>184,268</u>
Income Taxes:		
Federal Income Taxes	194,307	178,072
Missouri State Income Tax	32,045	31,048
Other States' Income Taxes	1,076	0
Total Income Taxes	<u>227,428</u>	<u>209,120</u>
Net Operating Income	<u>\$ 451,324</u>	<u>\$ 415,186</u>

**UNION ELECTRIC COMPANY
12 MONTHS ENDED JUNE 30, 1999**

**EARNINGS REPORT
Per Stipulation and Agreement**

ALLOCATION FACTORS

	TOTAL ELECTRIC	MISSOURI JURISDICTIONAL
Fixed	100.00%	87.56%
Variable	100.00%	84.95%
Nuclear	100.00%	87.49%
Distribution	100.00%	94.44%
Mo. Distribution Plant	100.00%	99.49%
Labor	100.00%	88.56%
Net Plant	100.00%	90.30%
Operating Revenues	100.00%	89.71%
Operating Expenses	100.00%	87.49%
Callaway Post Operational	100.00%	94.37%
EPRI	100.00%	91.49%

**UNION ELECTRIC COMPANY
MISSOURI ELECTRIC
FIRST YEAR SHARING CREDIT FOR THE SECOND PLAN
BASED ON TWELVE MONTHS ENDING JUNE 30, 1999
PER STIPULATION AND AGREEMENT
(IN THOUSANDS OF DOLLARS)**

	6/30/99
MISSOURI RATE BASE	\$ 3,867,987
TOTAL RETURN ON RATE BASE	10.734%
EARNED RETURN ON COMMON EQUITY	13.690%
50% SHARING FOR EARNED RETURN > 12.61% = 14.00%	
$[(13.690\% - 12.61\%) * 50\% * \$3,867,987 \text{ (RB)} * 0.56676 \text{ (C.E. \%)}]$	\$ 11,838
TOTAL 50% SHARING INCLUDING INCOME TAXES (.6231)	\$ 19,214
90% SHARING FOR EARNED RETURN > 14.00% = 16.00%	
$[(14.000\% - 14.00\%) * 90\% * \$3,867,987 \text{ (RB)} * 0.56676 \text{ (C.E. \%)}]$	\$ -
TOTAL 90% SHARING INCLUDING INCOME TAXES (.6231)	\$ -
100% SHARING FOR EARNED RETURN > 16.00%	
$[(16.000\% - 16.00\%) * 100\% * \$3,867,987 \text{ (RB)} * 0.56676 \text{ (C.E. \%)}]$	\$ -
TOTAL 100% SHARING INCLUDING INCOME TAXES (.6231)	\$ -
TOTAL SHARING INCLUDING TAXES (EXCLUDES GROSS RECEIPTS TAX)	\$ 19,214
 PLUS ADJUSTMENT FOR LEGAL ACCRUAL, ADVERTISING & TERRITORIAL AGREEMENTS	 1,000
	\$ 20,214

**UNION ELECTRIC COMPANY
CAPITAL STRUCTURE AND
EMBEDDED COST OF DEBT AND PREFERRED
AT JUNE 30, 1998 AND 1999
FIRST YEAR SHARING CREDIT OF THE SECOND PLAN
(JUNE 8, 2000)**

BEGINNING OF SHARING PERIOD (JUNE 30, 1998)

	(I) CAPITAL STRUCTURE DOLLARS	(II) %	(III) EMBEDDED COST	(IV) WGTD AVG COST
COMMON STOCK EQUITY*	\$2,415,630,944	55.334%	N/A	N/A
PREFERRED STOCK	155,197,000	3.555%	5.775%	0.205%
LONG-TERM DEBT	1,794,739,172	41.111%	6.978%	2.869%
TOTAL CAPITALIZATION	<u>\$4,365,567,116</u>	<u>100.000%</u>		
RETURN PORTION RELATED TO DEBT AND PREFERRED				<u>3.074%</u>

END OF SHARING PERIOD (JUNE 30, 1999)

	(V) CAPITAL STRUCTURE DOLLARS	(VI) %	(VII) EMBEDDED COST	(VIII) WGTD AVG COST
COMMON STOCK EQUITY*	\$2,497,618,986	58.019%	N/A	N/A
PREFERRED STOCK	155,197,000	3.605%	5.775%	0.208%
LONG-TERM DEBT	1,652,029,074	38.376%	6.953%	2.668%
TOTAL CAPITALIZATION	<u>\$4,304,845,060</u>	<u>100.000%</u>		
RETURN PORTION RELATED TO DEBT AND PREFERRED				<u>2.876%</u>

RETURN PORTION RELATED TO DEBT AND PREFERRED
AVERAGE BEGINNING AND END OF SHARING PERIOD

2.975%

AVERAGE COMMON STOCK EQUITY*
BEGINNING AND END OF SHARING PERIOD (%)

56.676%

*Since common dividends payable at the end of a quarter and preferred dividends payable during the subsequent quarter are removed from common equity in their entirety during the first month of every quarter, the balance for common stock equity for the end of the first or second month in each quarter (if used as the beginning or end of the sharing period) should be adjusted from actual book value. The balance for the end of the first month in the quarter should be adjusted by adding back two-thirds of the quarterly preferred and common dividend. The balance for the end of the second month in the quarter should be adjusted by adding back one-third of the quarterly preferred and common dividend.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served via first class U.S. mail, postage prepaid, on this 25th day of August, 2000, on the following parties of record:

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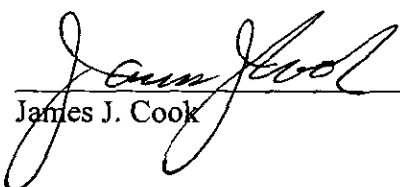
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