

Exhibit No.:
Issues: Overview of Company Position
Witness: Gary L. Rainwater
Sponsoring Party: Union Electric
Type of Exhibit: Rebuttal Testimony
Case No.: EC-2002-1
Date Testimony Prepared: May 10, 2002

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. EC-2002-1

REBUTTAL TESTIMONY

OF

GARY L. RAINWATER

ON

BEHALF OF

**UNION ELECTRIC COMPANY
d/b/a AmerenUE**

Exhibit No. 122
Date 7/10/02 Case No. EC-2002-1
Reporter KRM

St. Louis, Missouri
May, 2002

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1 A. I am responsible for all operations of the Company. Each line function,
2 including generation, transmission and distribution as well as all staff functions report
3 directly to me. In turn, I am the only person who directly reports to our CEO, Charles W.
4 Mueller.

5 **Q. What is the purpose of your testimony?**

6 A. I would like to provide the Commission a senior management point of
7 view on the Staff's proposal, its implications for our Company and its implications for the
8 State of Missouri.

9 As President of AmerenUE, I am the person who is responsible for the
10 performance of our Company; performance for both shareholders and customers. In that
11 regard, I can offer the Commission a unique perspective on this case, not as an expert in
12 ratemaking, but as the manager who will ultimately make the policy level decisions that
13 implement the Commission's order.

14 I would also like to point out to the Commission that this case is viewed as
15 a watershed event, not only by our Company, but by all utilities in Missouri. This is a
16 case that has energy policy implications for our entire state and should be judged by the
17 Commission in that context.

18 **Q. How would you characterize the Staff's proposal in this case?**

19 A. I am at a loss for words to describe it. The Staff would cut AmerenUE's
20 rates by up to \$285 million. Staff has arrived at this amount, in part, by proposing that
21 our return on equity be set lower than the allowed return on equity of any other utility
22 company in the United States. I might be able to understand such a proposal if

1 AmerenUE had not performed well for its customers. That simply is not the case. Our
2 Company's performance record for customers is one of the best in the United States.

3 As a business manager, I have found that rewarding good performance
4 encourages better performance. Punishing bad performance is also sometimes necessary.
5 But punishing good performance can only be counterproductive. It sends all the wrong
6 signals. In this case, Staff is proposing to punish our Company for its good performance.
7 As you will also see from the testimony filed by several of our unions' business
8 representatives, our union employees are deeply concerned about the Staff's proposal, as
9 well.

10 **Q. How would you sum up AmerenUE's recent performance?**

11 **A.** I am proud of our Company's performance, proud of our employees and
12 proud of all that they have achieved. I believe that our record of cost reduction and
13 service improvement is unmatched in the utility industry and should be commended
14 rather than punished.

15 Consider our record for managing costs. Our Company's last rate increase
16 occurred in 1987, more than 15 years ago. Since 1987, we have made four permanent
17 rate reductions - in 1990, 1993, 1995 and 1998. Since 1995, we have also provided
18 customers more than \$425 million of rate reductions and sharing credits under our
19 alternative rate plans.

20 The result of this decade-and-a-half long focus on cost management is that
21 AmerenUE's Missouri electric rates now rank among the lowest in the nation; 18% below
22 average U.S. electric rates. In fact, the Bureau of Labor Statistics reports that St. Louis

1 enjoys the second lowest electric rates of any major metropolitan area in the nation. Only
2 the City of Seattle has lower rates.

3 While Staff seems to presume that these cost reductions have occurred by
4 accident, I can assure you that is not the case. They are the direct result of the hard work
5 of our employees, and in some cases the blood, sweat and tears of our employees.
6 During these years, Ameren has significantly reduced staffing levels. These reductions in
7 people and costs were agonizing and difficult. They would not have been undertaken
8 without the Commission's fair rate treatment of our Company throughout that period.
9 Staff now proposes to reverse the Commission's record of fair rate treatment and destroy
10 any future incentive to continue improving our Company's productivity.

11 **Q. Have your Company's cost reductions come at the expense of service**
12 **quality to your customers?**

13 A. No, in fact just the opposite has occurred. In recent years, we have
14 invested aggressively in improving our responsiveness to customer outages. We have
15 redesigned and expanded our call center. We have brought on line the nation's first fully
16 automated meter reading, outage analysis and outage response system. These efforts
17 have allowed us to better monitor and significantly reduce our outage times. As a result,
18 a recent University of Michigan study ranks AmerenUE's customer satisfaction ratings
19 among the best of all electric utilities in the nation.

20 Again, these results have not occurred by accident; they are the direct
21 result of an innovative and sound regulatory system that provided the cash flows and
22 earnings necessary to enable investment in our business. That regulatory framework was

1 created by this Commission's alternative rate plans implemented in 1995 and 1998. And
2 again, Staff has proposed destroying the process that enabled the improvement.

3 **Q. Are you satisfied with the improvements that AmerenUE has made in**
4 **customer service?**

5 A. I am never satisfied. In fact this is an increasing focus for our Company.
6 In my first six months as President of AmerenUE, I worked with other senior officers to
7 update our Company's strategic plan. A key part of that plan is a statement of "values"
8 for our Company, and a key part of our value system is the concept of "stewardship."

9 Simply stated, what stewardship means to us is that we have an inherent
10 duty to improve on all elements of this business that are entrusted to our care. That
11 means, in part, to continuously improve quality of service to our customers. We believe
12 this will become increasingly important as our economy and our customers' lifestyles
13 become ever more dependent on electricity. We also believe that this kind of stewardship
14 is a key ingredient to a sound energy policy in our State and that the Commission should
15 encourage such policies.

16 **Q. What is your view of Staff's proposals from an energy policy or**
17 **stewardship point of view?**

18 A. I do not believe the Staff has even considered these concepts. If it had, it
19 would surely not propose an allowed return significantly below that authorized by any
20 Commission in any state. It surely would not propose delaying recovery of investments
21 significantly longer than other states. These policies would have a disastrous impact on
22 energy infrastructure investment in Missouri. They would make it virtually impossible

1 for our Company, or any company, to continue investing to improve service, regardless
2 of their desire to do so.

3 I believe the Staff's only motivation in this case is to justify the largest rate
4 reduction it can, regardless of the validity of its arguments, and regardless of the
5 consequences. In that regard, the Staff's proposal is extremely shortsighted and
6 misguided. Staff sorely needs senior policy direction and leadership. I believe that only
7 the Commission itself can provide that leadership.

8 **Q. What alternative would AmerenUE propose?**

9 A. The Company respectfully requests that the Commission adopt the new
10 incentive based Alternative Regulation Plan ("Alt Reg Plan") as set forth in the rebuttal
11 testimony of Warner Baxter. However, since Staff's proposal is based upon traditional
12 cost-of-service ratemaking, we also found it necessary to rebut Staff's testimony with
13 respect to its proposal.

14 **Q. How will AmerenUE present its case?**

15 A. My testimony will be followed by Mr. Warner Baxter, Senior Vice
16 President Finance and Chief Financial Officer of AmerenUE. Mr. Baxter will present a
17 summary of our rebuttal of the Staff's case, summarize UE's cost of service analysis, and
18 present the proposed new Alt Reg Plan. In addition, Mr. Baxter's testimony will
19 introduce the Company's witnesses.

20 Our witnesses include internal AmerenUE employees who know our
21 operations in detail, and so can explain the flaws in the picture of AmerenUE the Staff
22 has presented. In addition, we have assembled an array of leading experts in utility
23 regulation and policy, finance, and related fields to assist the Commission as it evaluates

1 this case. I urge you to engage these witnesses in a dialog on the important issues before
2 you, question them closely, and explore your concerns with them. This case is a
3 watershed event in regulatory policy in Missouri, and has great significance not only to
4 our Company, but to our customers, our employees and to Missouri's economy. Energy
5 for Missouri at just and reasonable rates is not guaranteed by the simple-minded
6 ratcheting down of today's rates as the Staff proposes. I respectfully urge you to reject
7 the Staff's complaint.

8 **Q. Does this conclude your testimony?**

9 **A. Yes, it does.**

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

The Staff of the Missouri Public Service Commission,)

Complainant,)

vs.)

Case No. EC-2002-1

Union Electric Company, d/b/a)

AmerenUE,)

Respondent.)

AFFIDAVIT OF GARY L. RAINWATER

STATE OF MISSOURI)

) ss

CITY OF ST. LOUIS)

Gary L. Rainwater, being first duly sworn on his oath, states:

1. My name is Gary L. Rainwater. I work in St. Louis, Missouri, and I am employed by Ameren Corporation as President and Chief Operating Officer. I am also President and Chief Operating Officer of Union Electric Company.

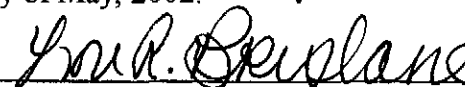
2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Union Electric Company d/b/a AmerenUE consisting of 7 pages and Appendix A which have been prepared in written form for introduction into evidence in the above-referenced docket.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.



Gary L. Rainwater

Subscribed and sworn to before me this 1 day of May, 2002.



Notary Public

My commission expires: 2/9/04

LOU A. BRISLANE
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County

My Commission Expires. Feb. 9, 2004

EXECUTIVE SUMMARY

Gary L. Rainwater

President and Chief Operating Officer – Ameren Corporation

I have a unique perspective on this proceeding. I am charged with ensuring that every facet of Ameren lives up to its obligations to its customers, its shareholders, the Commission and the public. As such, my testimony will provide the Commission with senior management's point of view on the Staff's proposal, its implications for our Company and its implications for the State of Missouri. Stepping back from the details, I will address the Company's performance over the past six years under the Experimental Alternative Regulation Plan ("EARP"). I will then comment on the Staff's submission. Ultimately, I hope to convey to the Commission why utility consumers and the Company alike will be best served by our proposed Alternative Regulation Plan ("Alt Reg Plan"), which takes a long-term view of, and a market-driven approach to, securing adequate electricity supplies at reasonable rates for Missouri ratepayers today and tomorrow. At this point, it is sufficient to say that I strongly believe that over the last six years AmerenUE has not just been a good utility, it's been an outstanding utility.

Over the past six years, incentive regulation has brought our Missouri electric customers some of the lowest rates and best customer service in the nation. Under the EARP, AmerenUE has invested its earnings in much needed development and infrastructure which has directly resulted in improved reliability and customer satisfaction. Our job, however, has just begun. We estimate that AmerenUE will need to

expend nearly \$3 billion in infrastructure investments over the next five years in order to continue this trend.

Although it is certainly this Commission's obligation to set "just and reasonable" rates, I believe AmerenUE's current rates are just that. AmerenUE's rates are significantly lower than the regional and national averages and are also among the lowest in Missouri. We have been able to accomplish this through the hard work of our employees as well as the incentives provided by the EARP. In addition, I believe that a determination of "just and reasonable" does not mean the lowest possible rates today but, instead, imposes upon this Commission the obligation to balance all stakeholders' interests and also look forward to the future energy needs for the State of Missouri. Adoption of a new Alt Reg Plan will allow AmerenUE to invest in the energy infrastructure needs for the future of Missouri energy consumers.

The Staff's recommendation which is premised only on the short-term, stands in stark contrast to these general principles. It will only result in lower rates today at the unavoidable cost of significantly higher rates tomorrow and for a long time to follow. Without adequate revenues, AmerenUE will simply have to reduce or delay much needed infrastructure investments, including the addition of new generating capacity to meet Missouri's growing energy demand. This is not sound energy policy.

I believe the Staff's only motivation in this case is to justify the largest rate reduction it can, regardless of the validity of its arguments and regardless of the consequences. In that regard, the Staff's proposal is extremely shortsighted and misguided. Staff sorely needs senior policy direction and leadership. I believe that only the Commission itself can provide that leadership.

Accordingly, AmerenUE proposes, and respectfully requests that this Commission adopt, a new Alt Reg Plan consistent with the terms set forth in the testimony filed by Warner Baxter. This proposal includes an immediate refund and rate reduction for our customers. It also provides a commitment of more than \$1.5 billion for much needed infrastructure investment. This proposed EARP is also unique in that it earmarks significant funds for our low-income customers. It also set aside significant amounts for economic development within our service territory. All in all, it is a plan that is in the best interest of our customers.