Commissioners

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JEFF DAVIS

TERRY M. JARRETT

KEVIN GUNN

Missouri Public Service Commission

POST OFFICE BOX 360
JEFFERSON CITY MISSOURI 65102
573-751-3234
573-751-1847 (Fax Number)
http://www.psc.mo.gov

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General Counsel

April 15, 2009

Chairman Robert M. Clayton, III
Missouri Public Service Commission
200 Madison Street, Suite 900
Jefferson City, MO 65101

RE: Letter from Senator Joan Bray
Callaway 2 Studies and Analyses
Case Nos. EW-2009-0275
EO-2009-0126

Dear Chairman Clayton:

In my letter to you on Thursday, March 5, 2009 I indicated that Staff was meeting with AmerenUE that day by speakerphone to discuss with AmerenUE personnel AmerenUE's Callaway 2 financing model, the results of which had been provided to Staff on Wednesday, February 25, 2009. I related that before Staff attempted to address item 3 in your February 26, 2009 letter to me, Staff wanted to talk with AmerenUE about similarities and differences between AmerenUE's Callaway 2 financing model being used for the CWIP legislation and the AmerenUE model used for its February 5, 2008 Electric Utility Resource Planning case filing at the Commission. As I noted in my March 5, 2009 letter, these two models / analyses of AmerenUE appear to not be the same. As a consequence, Staff planned to supplement its March 5, 2009 response after the phone call meeting with AmerenUE. The speakerphone call meeting occurred with AmerenUE, and Staff is providing this supplemental response to item 3, which is repeated below. The delay in getting this information to you has in part been due to Staff verifying with AmerenUE that AmerenUE does not deem certain numbers in AmerenUE's analysis to need to be treated by Staff as confidential, and in part has been due to the extremely busy schedule of Staff in rate cases, rulemakings, resource planning cases, etc. As in my first letter response to you, I will repeat your outstanding inquiry, and then provide Staff's response.

3. As mentioned in the Senator's letter, it is my understanding that staff and other parties have received information from AmerenUE relating to Callaway 2. If the information has been deemed "non-proprietary," please provide staff's analysis of the data, assess the conclusions made and provide any conclusions or recommendations of the staff. If the

information has been deemed confidential, please provide in a public document as much of staff's analysis of data as possible in a format staff deems appropriate, if that is possible. If you need to consult with AmerenUE about the treatment of confidential information, please do so.

Supplemental Item 3 Response (None of the following Staff response contains information that AmerenUE deems to be confidential): Staff met by speakerphone with AmerenUE on Thursday, March 5, 2009 regarding its Callaway 2 financing model which was provided to the Staff on Wednesday, February 25, 2009. The model / analysis is premised on a less than 100% ownership by AmerenUE of a new nuclear unit, i.e., an AmerenUE 900 MW ownership share of a 1600 MW unit. AmerenUE stated that the purpose of its analysis is to identify the rate increases associated with the inclusion of CWIP in rate base for a 900 MW portion of a 1600 MW Callaway 2 nuclear unit. AmerenUE indicated that a Callaway 2 unit would not be built by it unless 700 MW, more than 40% of the unit, is sold to other entities. AmerenUE identified two major differences between its analysis and the OPC's White Paper study. First, OPC premised its analysis on AmerenUE's share of a 1600 MW Callaway 2 unit being a 100% ownership share, which was AmerenUE's Preferred Resource Plan filed with the Commission in Case No. EO-2007-0409, versus the 900 MW share contained in the AmerenUE model / analysis provided to the Legislature. Second, AmerenUE used a higher revenue base than OPC to calculate the percentage of its rate increases for Callaway 2. OPC based its percentage of increase on the amount of base revenue requested by AmerenUE in its last rate case. AmerenUE based its percentage of increase on an estimate of revenues reflecting projected future rate increases and growth in usage. AmerenUE's projected revenues appear to be unreasonably high. The amount of 2008 revenues used by AmerenUE in its analysis is approximately $600 million more than the $2,248 million reflected by the Commission in Missouri retail revenues in the Commission's January 2009 rate increase Report And Order in Case No. ER-2008-0318. An explanation for the $600 million difference is that this number is likely, in large part, off-system sales, which are sales to other than Missouri retail customers and were included by AmerenUE in its analysis. AmerenUE projected its revenues will be $5,310 million by 2017, i.e., AmerenUE projected it will experience an increase in revenues on average of $273 million each year from 2008 to 2017.

Upon learning of AmerenUE's analysis regarding Callaway 2 for the proposed CWIP legislation, Staff had concerns that the analysis did not meet the requirements of the Commission's electric utility resource planning rules. Under the Commission's electric utility resource planning rules, when an electrical corporation has a new preferred resource plan, it is required to provide that plan to the Commission. AmerenUE did not provide this new analysis to the Commission until February 25, 2009 when prodded to do so by the Legislature. Staff has contacted AmerenUE regarding Staff's concerns respecting AmerenUE's compliance with the Commission's electric utility resource planning rules.

Staff agrees with the rate increases for CWIP in rate base contained in the AmerenUE analysis, given the parameters of the study. But the analysis needs a narrative explanation to prevent a less than highly sophisticated reader from making the wrong assumptions or reaching the wrong conclusions. Most readers looking at the AmerenUE analysis provided to Staff will likely assume that the 10.99% shown for the year 2017 is the total increase in rates for CWIP over current rates approved by the Commission in January 2009 since that is the only frame of reference most readers would have without detailed knowledge about the model. In reality, the 10.99% increase in rates shown for CWIP is in addition to other projected rate increases that AmerenUE included in its analysis. AmerenUE's study results are based on AmerenUE filing rate increase cases and receiving authorization to raise customer rates due to capital additions other than Callaway 2 and increases in operating costs projected for the 6-year Callaway 2 construction period. Staff calculates that the annual CWIP revenues in the AmerenUE analysis for the assumed 6-year construction period as a percent of the base annual revenues approved in January 2009 by the Commission in AmerenUE's recent rate increase case are: 2012 - 3% CWIP compared to 2009 revenues of $2,248 million; 2013 - 7% CWIP compared to 2009 revenues of $2,248 million; 2014 - 11% CWIP compared to 2009 revenues of $2,248 million; 2015 - 15% CWIP compared to 2009 revenues of $2,248 million; 2016 - 19% CWIP compared to 2009 revenues of $2,248 million; and 2017 - 23% CWIP compared to 2009 revenues of $2,248 million. Also, it should be remembered that the Callaway 2 piece that would be going into rates as a result of SB 228 is only the CWIP piece before the plant goes into commercial operation, i.e., the capital costs, not the construction costs. However, it appears that SB 228 is written such that even though construction costs do not go into rates until the plant goes into commercial operation, certain levels of construction costs and CWIP are required to be treated as prudent by the Commission.

AmerenUE's plan to sell 700 MW of Callaway 2 is a significant development in the examination of the objective of creating conditions in Missouri to finance a new nuclear plant. At first glance this might be thought of as making the task of AmerenUE financing Callaway 2 easier, but that is not likely the case. The OPC study is predicated on the assumption that AmerenUE is the only entity's financing which must be addressed by the Commission in order to get the plant built. AmerenUE's Callaway 2 project is different on this point from what it presented to the Commission last year during the resource planning process. Under this more recent AmerenUE analysis, the ownership premise has changed. Focus on a process that enables solely AmerenUE to finance its portion of a nuclear unit is inadequate to provide assurance that Callaway 2 will be built. The fate of the unit now hinges on finding unspecified buyers of 700 MW, which is over 40% of a 1600 MW Callaway 2 unit. These unspecified buyers may need extraordinary help to finance their share of the new unit. The determination of the factors needed to finance a new nuclear unit in Missouri requires an expanded analysis of whether such buyers will likely be able to finance their ownership shares and, if so, what statutory or other help, they may need, if any, in order to do so. On the other hand, if AmerenUE has co-owners in Callaway 2, some existing facilities at the Callaway 1 generating station will become plant serving Callaway 2 in addition to Callaway 1, i.e., common plant to both Callaway 1 and Callaway 2. The non-AmerenUE co-owners of Callaway 2 will pay AmerenUE for their share of the Callaway 1 facilities that are common plant to Callaway 2, which will reduce to some extent the size of the rate increases now contained in AmerenUE's model for Callaway 2. AmerenUE's study did not consider the monies it would receive from the owners of the 700 MW of Callaway 2 for the Callaway 1 facilities that will become common plant if a second unit is added to the existing site.

Finally, AmerenUE on Thursday, March 5, 2009 provided Staff a copy of the two-page summary document respecting AmerenUE's Callaway 2 financing model that it provided to members of the Missouri Senate and the House. Based upon a quick perusal comparing this two page document and the Callaway 2 financing analysis which Staff received on February 25, 2009, the numbers appear to be different. Staff has not been able to reconcile the differences.

The principal members of the Staff who contributed to this response are Robert E. Schallenberg, John A. Rogers, and Lena M. Mantle.

Very truly yours,

Wess A. Henderson
Executive Director
Missouri Public Service Commission
(573) 751-7435 (Phone)
(573) 751-0429 (Facsimile)
wess.henderson@psc.mo.gov

cc: Senator Joan Bray
Commissioner Connie Murray
Commissioner Jeff Davis
Commissioner Terry M. Jarrett
Commissioner Kevin Gunn
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