

June 8, 2000

VIA FEDERAL EXPRESS

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

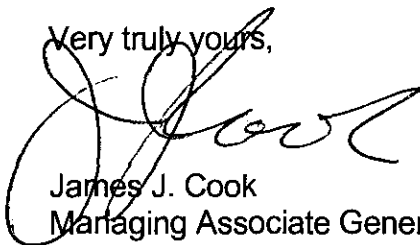
Re: MPSC Case No. EM-96-149

Dear Mr. Roberts:

Enclosed for filing on behalf of Union Electric Company, d/b/a AmerenUE, in the above matter, please find an original and eight (8) copies of 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.**

Kindly acknowledge receipt of this filing 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
Managing Associate General Counsel

JJC/db
Enclosures

cc: Ms. Shelly Register
Parties on Attached Service List

FILED²

JUN 09 2000

Missouri Public
Service Commission



BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED²
JUN 09 2000

Missouri Public
Service Commission

In the Matter of the Monitoring 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, Real Estate, Leased Property, Easements, and)
Contractual Agreements to Central Illinois Public)
Service Company; and (3) In Connection Therewith,)
Certain Other Related Transactions)

Case No. EM-96-149

**UNION ELECTRIC COMPANY'S NOTICE IN RESPONSE TO THE STAFF
REPORT RESPECTING FIRST SHARING PERIOD OF SECOND UNION
ELECTRIC COMPANY EXPERIMENTAL ALTERNATIVE REGULATION
PLAN AND TO THE OPC NOTICE OF AREAS OF DISAGREEMENT**

Union Electric Company ("UE") respectfully submits this Notice in Response to the Staff Report Respecting First Sharing Period of Second Union Electric Company Experimental Alternative Regulation Plan ("Staff Report") and to the Notice of Areas of Disagreement submitted by the Office of the Public Counsel ("OPC Notice"), both filed on April 25, 2000, to briefly advise the Commission of an important step UE is taking to protect its customers who are entitled to a sharing credit for the First Sharing Period of the second Experimental Alternative Regulation Plan ("EARP") while the proceedings initiated by these actions of the Staff and OPC are pending.

1. With this Notice, UE is filing a Corrected Final Earnings Report for this period, pursuant to which the sharing credit for this period totals approximately \$14.9 million. A revision of our original report was necessary based on two errors identified by the Staff with respect to our calculation of income taxes. First, Staff discovered an incorrect deduction for tax exempt interest, which had been caused by the incorrect labeling of this item in General Ledger. Secondly, the Staff correctly pointed out that the calculation done by UE for deferred income taxes for dismantling or removal costs, though

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consistent with UE's current handling of this item for income tax purposes, was not the approach followed by UE at the time the EARP was agreed to by the signatories. That original approach, therefore is what is included in, and so required by, the EARP's Reconciliation Procedure for calculating the sharing credit. With these corrections, UE's accounting for its operations during this sharing period is now fully in compliance with the terms of the EARP, that is, it follows UE's traditional accounting practices for income taxes as adopted by the EARP, which in turn are consistent with this Commission's precedents.

Nevertheless, as evidenced by the Staff Report and the OPC Notice, the Staff and OPC have raised a number of issues concerning our accounting for this period that do not constitute an error on UE's part. The areas of disagreement set out by the Staff Report and the OPC Notice, if pursued before the Commission as proposed adjustments, will in turn trigger important legal issues not previously brought to the attention of the Commission in this proceeding. These issues could involve both the operation of the EARP and the extent it continues to bind the parties. However, as both the Staff and OPC also note, discussions concerning these issues are on-going, and we are hopeful that these discussions will be productive, at least in reducing the issues that the Staff or OPC wishes to pursue, if not in completely settling these issues.

2. We are now approaching one year since the close of the First Sharing Period of the second EARP, and, in light of the positions taken by the Staff and OPC, it is not clear whether extended proceedings before the Commission and the courts will be necessary before that credit is actually paid. UE does not believe its customers should be prejudiced by these developments, and so has decided to place the \$14.9 million credit

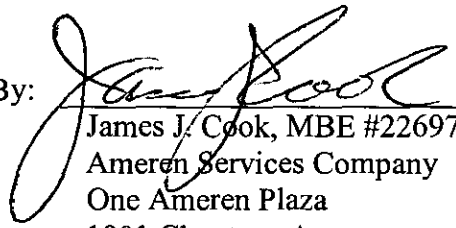
we believe is due in an interest bearing account, which is currently earning interest at the rate of **6.25 %**. If, at the conclusion of the proceedings triggered by the Staff and OPC, UE's customers are still entitled to receive at least that credit, they will also receive the after-tax interest that credit has earned while these proceedings were pending. If, because of legal rulings in those proceedings this credit is no longer due, both the credit and the related interest will be returned to UE. In this way, UE's customers will not the lose the time value of the credit to which we believe they are entitled.

Dated: June 8, 2000

Respectfully submitted,

AmerenUE

By:



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

CORRECTED FINAL EARNINGS REPORT
(JUNE 8, 2000)

	<u>TOTAL ELECTRIC</u>	<u>MISSOURI JURISDICTIONAL</u>
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	(27,397)	(24,000)
Prepayments	13,491	11,818
Less:		
Income Tax Offset (Staff Method)	62,173	56,630
Interest Expense Offset (Staff Method)	15,174	13,712
Customer Advances	8,168	8,117
Customer Deposits	11,011	11,011
 Accumulated Deferred Income Taxes:		
Account 190	80,491	71,148
Account 282	(887,451)	(786,281)
 (A) Total Rate Base	 \$ 4,281,333	 \$ 3,868,821
 (B) Net Operating Income	 \$ 446,106	 \$ 409,946
 (C) Return on Rate Base ((B) / (A))	 <u>10.420%</u>	 <u>10.596%</u>
 (D) Return Portion Related to Debt & Preferred	 2.975%	 2.975%
 (E) Return Portion Related to Common Equity ((C) - (D))	 7.445%	 7.621%
 (F) Equity Percentage of Capital Structure	 <u>56.676%</u>	 <u>56.676%</u>
 (G) Achieved Cost of Common Equity ((E) / (F))	 <u>13.136%</u>	 <u>13.447%</u>

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

CORRECTED FINAL EARNINGS REPORT
(JUNE 8, 2000)

	<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	(5,835)	(3,242)
Labor Allocation	216,914	192,099
Total Administrative & General Expenses	<u>211,079</u>	<u>188,857</u>
Total Operating & Maintenance Expenses	<u>993,426</u>	<u>870,236</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	191,464	175,239
Missouri State Income Tax	31,602	30,603
Other States' Income Taxes	1,062	0
Total Income Taxes	<u>224,128</u>	<u>205,842</u>
Net Operating Income	<u>\$ 446,106</u>	<u>\$ 409,946</u>

UNION ELECTRIC COMPANY
12 MONTHS ENDED JUNE 30, 1999

CORRECTED FINAL EARNINGS REPORT
(JUNE 8, 2000)

ALLOCATION FACTORS

	<u>TOTAL ELECTRIC</u>	<u>MISSOURI JURISDICTIONAL</u>
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%	87.60%
Callaway Post Operational	100.00%	94.37%
EPRI	100.00%	91.49%