

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

In the Matter of the Application of Union Electric)
Company, d/b/a Ameren Missouri for Approval of)
Decommissioning Cost Estimate for Callaway)
Energy Center and Funding Level of Nuclear)
Decommissioning Trust Fund.)

File No. EO-2012-0070

**STAFF MEMORANDUM RECOMMENDATION IN SUPPORT OF
NON-UNANIMOUS STIPULATION AND AGREEMENT**

COMES NOW the Staff of the Missouri Public Service Commission (“Staff”), by and through the Missouri Public Service Commission’s (“Commission”) Staff Counsel’s Department, and files the attached Staff Memorandum recommendation (“Appendix A”) in support of the Non-Unanimous Stipulation And Agreement respecting the Application of Union Electric Company, d/b/a Ameren Missouri (“Ameren Missouri” or “Company”) for approval of its decommissioning cost estimate for the Callaway Energy Center and the funding level of the nuclear decommissioning trust fund. In support thereof, the Staff states as follows:

1. On September 1, 2011, Ameren Missouri’s filed its Application for approval of its decommissioning cost estimate for Callaway Energy Center and continuation of the funding level of its nuclear decommissioning trust fund at the current \$6,758,605 annual amount, and also requested the Commission: 1) approve Attachments 1 and 2 of the Application, which are Ameren Missouri’s estimate of decommissioning costs and the funding level necessary for said costs; and 2) specifically find that the annual funding level contributed to the nuclear decommissioning trust fund is included in Ameren Missouri’s current cost of service for rate-making purposes and is based on the underlying assumptions contained in Attachments 1 and 2, as summarized in the Application.

2. Although past Ameren Missouri decommissioning trust fund cases requested additional findings, the stipulations and agreements reached with the Company have required the Commission to find only: (1) the current decommissioning costs for the nuclear unit are included in the utility's cost of service and are reflected in its current rates for ratemaking purposes, (2) the current cost study meets the requirements of 4 CSR 240-2.185(3), and (3) identify the jurisdictional demand allocator. In past decommissioning cases and initially in this decommissioning case, Staff has taken the view that limiting the Commission to acknowledging the aforementioned items was appropriate due to the uncertainty of the numerous assumptions required to determine whether the current level of funding was appropriate, i.e., the Commission should not be making findings as to what are "reasonable" financial / economic / investment projections and approving them as "reasonable." However, in this case, Ameren Missouri advised Staff that since the filing of the last stipulation and agreement, the Nuclear Regulatory Commission ("NRC") has been closely scrutinizing nuclear decommissioning trust fund rate-of-return assumptions pursuant to 10 CFR §50.75(e)(1)(ii). Consequently, Ameren Missouri related that it needs the Commission to issue an Order approving the expected annual rates of return, in addition to the items the Commission usually addresses in its Order approving an Ameren Missouri decommissioning trust fund stipulation and agreement.

3. Staff has considered Ameren Missouri's nuclear decommissioning trust fund expected returns to be aggressive in past decommissioning trust fund cases, but in past decommissioning trust fund cases Ameren Missouri has not needed explicit Commission approval of expected return parameters in order to satisfy the NRC's concerns and Staff had not taken issue with these specific parameters, considering that there were many other factors which could affect the reasonableness of the required contribution amount. In order to address Staff's

concern about the aggressiveness of Ameren Missouri's return assumptions, since Ameren Missouri needs explicit approval of the expected return parameters in order to satisfy the NRC, Ameren Missouri has agreed to use Ameren's pension consultant's capital market return expectation information for purposes of developing expected portfolio returns for Ameren Missouri's nuclear decommissioning trust fund. Staff has not taken issue with these specific parameters, considering that there are many other factors, namely the possible longer investment horizon if Ameren Missouri receives an operating license extension, which could affect the reasonableness of the required contribution amount. Staff believes past stipulation and agreements were clear that the signatories were not recommending the Commission approve specific parameters in the economic analyses as reasonable, but rather receive the economic analyses into evidence and accept the annual contribution amount as reasonable, considering the uncertainty of the many other factors and variables. However, as Ameren Missouri has related, it needs explicit approval of not only the annual contribution amount, as previously, but also the expected return parameters in order to satisfy the NRC.

4. Staff's concern about Ameren Missouri's nuclear decommissioning trust fund expected returns being too aggressive has been somewhat alleviated with the Ameren Missouri's Revised 05/29/2012 Economic Analysis, which is attached to the Non-Unanimous Stipulation And Agreement as Appendix A. Staff found the updated expected return parameters to be within a range of reasonableness, even though they are at the high end of return estimates provided to Ameren by its pension consultant, Towers Watson. Staff believes the expected return parameters used in Ameren Missouri's Revised 05/29/2012 Economic Analysis are at the high end of the range of reasonableness. If Ameren Missouri receives the NRC's approval to extend the current

operating license from its current 2024 expiration date to 2044,¹ Staff currently anticipates a potential reduction to Ameren Missouri's required annual contribution amounts, even if the expected return is reduced from the high end of the range of reasonableness.

WHEREFORE, as a result of Staff's review and investigation of Ameren Missouri's Application, Staff has entered into the Non-Unanimous Stipulation And Agreement with Ameren Missouri, and recommends that the Commission should:

- a. Approve the Non-Unanimous Stipulation And Agreement;
- b. Receive into evidence this Non-Unanimous Stipulation And Agreement, the 2011 Cost Study filed on September 1, 2011, and the Revised 05/29/2012 Economic Analysis attached thereto as Appendix A;
- c. Approve the expected nominal return on plan assets of 7.338% through 2023, which assumes a 65% allocation to equity securities with an expected 9.000% nominal return and a 35% allocation to bonds with an expected 4.250% nominal return, provided as part of the Revised 05/29/2012 Economic Analysis;
- d. Approve the 5.338% annual real rate of return through 2023, which is based on the weighted average return of 7.338% minus the CPI inflation of 2.000%;
- e. Find, pursuant to the Non-Unanimous Stipulation And Agreement, that Ameren Missouri's Missouri retail jurisdiction annual decommissioning expense accruals and trust fund payments shall continue at the current level of \$6,758,605;
- f. Find, in order for the Callaway decommissioning fund to continue to utilize the sinking fund method of decommissioning funding, that the current decommissioning costs for Callaway are included in Ameren Missouri's current

¹ Ameren Missouri made application to the NRC by letter dated December 15, 2011 for renewal of its operating license NPF-30 for Callaway for an additional 20 years. Originally, the projected date for a decision on Callaway relicensing, if there was no NRC hearing, was December 2013. On June 8, 2012, the United States Court of Appeals for the District of Columbia Circuit (D.C. Circuit) vacated and remanded the NRC's 2010 Update to its Waste Confidence Decision concerning storage and disposal of spent nuclear fuel from commercial reactors and the NRC's regulatory implementation of the 2010 Update of the Waste Confidence Decision through a new Temporary Storage Rule. On August 7, 2012, the NRC in the Ameren Missouri Callaway relicensing docket, among various other licensing and relicensing dockets, issued a Memorandum and Order stating, in part, that although it will not issue licenses dependent upon an Update of the Waste Confidence Decision or a new Temporary Storage Rule until the D.C. Circuit's remand is appropriately addressed, "[t]his determination extends just to *final* license issuance; all licensing reviews and proceedings should continue to move forward." (Emphasis in original).

Missouri cost of service and are reflected in its current rates for ratemaking purposes;

- g. Recognize that Ameren Missouri's 2011 Cost Study meets the requirements of 4 CSR 240-3.185(3);
- h. Approve, pursuant to 4 CSR 240-20.070(4)(C), the use of a jurisdictional demand allocator of 100.00%.

Respectfully submitted,

/s/ Steven Dottheim

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing *Staff Memorandum Recommendation In Support Of Non-Unanimous Stipulation And Agreement* have been transmitted electronically to all counsel of record this 24th day of September, 2012.

/s/ Steven Dottheim