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STATE OF MISSOURI

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PUBLIC SERVICE COMMISSION

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TRANSCRIPT OF PROCEEDINGS

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Evidentiary Hearing

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November 21, 2008

Jefferson City, Missouri

10

Volume 15

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13 In the Matter of Union Electric )

Company d/b/a AmerenUE's Tariffs )

14 To Increase Its Annual Revenues ) Case No ER-2008-0318

For Electric Service )

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MORRIS L WOODRUFF, Presiding,

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DEPUTY CHIEF REGULATORY LAW JUDGE

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JEFF DAVIS, Chairman,

CONNIE MURRAY,

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ROBERT M CLAYTON III,

TERRY JARRETT,

21

KEVIN GUNN,

COMMISSIONERS

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24 REPORTED BY

25 KELLENE K FEDDERSEN, CSR, RPR, CCR

Amade Exhibit No. 765  
Case No(s) ER-2008-0318  
Date 12-12-08 Rptr KF

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1 Q -- in that case was awarded?

2 A No I could check that during the break

3 It was 2001 or 2002

4 Q It was a 2001 case?

5 A I'll check for you

6 COMMISSIONER JARRETT. Thank you I have

7 no further questions

8 JUDGE WOODRUFF Chairman Davis?

9 QUESTIONS BY CHAIRMAN DAVIS

10 Q Good morning, Dr Morin

11 A Good morning, sir

12 Q Do you recall what the ROE awarded to the  
13 various Ameren subsidiaries was in the recent Illinois  
14 rate cases?

15 A No, I do not

16 Q Obviously we've had a lot of talk about  
17 DCF Do you have an opinion as to whether the quarterly  
18 DCF should be employed or not?

19 A Yes I typically rely on the annual DCF  
20 model, even though dividends are paid quarterly, and the  
21 reason for that is a very subtle one If you're on a  
22 forward test year and you use the quarterly DCF model,  
23 you're being overgenerous to the utility And the best  
24 way to explain that is with an example that if you put  
25 \$1,000 in the bank and next year it accrues to let's say

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1 \$1,100 because you've made 10 percent, the Commission  
2 would apply an ROE on 1,100 rather than a 1,000 in the  
3 case of a forward-looking rate base. So in the case of  
4 forward-looking and forward test year jurisdictions I tend  
5 to use the annual model.

6 In the case of a historical jurisdiction,  
7 as is the case in Missouri, I would probably use a  
8 quarterly DCF model. I did not in this case because I  
9 guess I'm becoming a little bit more conservative over  
10 time, and I just felt conservative was indicated at this  
11 point in time. But the quick answer to your question is  
12 yes, particularly in a historical test year.

13 Q Traditionally, I mean, even if you had  
14 employed a quarterly DCF model, you're looking at --

15 A 20 basis points more on the DCF estimates.

16 Q You think -- you think it's higher, 20 is  
17 that --

18 A Definitely, yes. There's a whole chapter  
19 in my book that compares the two models for various growth  
20 rates, various stock prices, various dividend, and instead  
21 of 10 percent, it would be 10 2 percent, or instead of  
22 10 5, it will be 10 7. It's kind of like if you're going  
23 to the bank and you get, you know, 10 percent on your  
24 money compounded annually, and the bank across the street  
25 is compounded quarterly, the 10 percent will be become

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1 10 2 percent at the bank that compounds quarterly

2 Q And I was thinking it would be more along  
3 the lines of five basis points

4 A I think that was a wrong impression  
5 Definitely is 20 basis points Chapter 14 in my book  
6 It's called Quarterly DCF Model

7 Q I own the book

8 A Well, if you have insomnia, it will  
9 definitely cure you, especially the chapter on quarterly  
10 timing It's 20 basis points, but I did not use this

11 Q Right Okay Is there anything else that  
12 you want to add that you think is important that we should  
13 know?

14 A Yeah We're going through a very difficult  
15 time right now, so I would err on the side of conservatism  
16 rather than -- and meaning the side on a supportive or  
17 reasonable ROE right now because this company is looking  
18 at a huge, huge capital budget that's fairly  
19 nondiscretionary

20 And I think it's important to restore the  
21 company's capital attractability and solidify its bond  
22 rating, and we don't want to see a downgrade from Fitch,  
23 and I think a reasonable supportive rate order would  
24 contribute a lot to the company's financial health and  
25 then ratepayers

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1                   But I think a lot of my concerns have been  
2 discussed here with the lines of the questions that you've  
3 pursued, and I think you should examine the possibility of  
4 a generic ROE in the situation to avoid all this

5           Q           Do you really think that a generic ROE  
6 proceeding would end it?

7           A           Yes    I think it would solve it

8           Q           End what now?

9           A           It would end -- well, you'd have to suffer  
10 once every five years or once every three years listening  
11 to all the experts and so forth, and then decide once and  
12 for all on the ROE benchmark, and then you'd have peace of  
13 mind for expediency and less costs for three years to five  
14 years    And I'm assuming that everybody would sign off on  
15 this and would be happy with the benchmark, but it would  
16 be hell to pay for that generic proceeding    You'd have to  
17 listen to the same kind of stuff we're doing today.

18          Q           In questioning from I believe it was the  
19 Attorney General's Office, I believe you characterized any  
20 company with more than a billion dollar market cap as a  
21 large cap, is that correct?

22          A.          Correct    The Ibbotson/Morning Star  
23 Valuation Yearbook uses that as a cutoff point to define  
24 small caps and large caps, and I think that's a useful  
25 cutoff point.

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1 Q. Where would a mid cap fall?

2 A Mid cap, 500 million to a billion These  
3 are arbitrary, you know

4 Q Right, because it's my understanding  
5 that -- that others use different -- different thresholds  
6 that, you know, under a billion would be a small cap,  
7 under 300 million would be a micro cap

8 A. Micro cap

9 Q 1 to 10 billion would be a mid cap,  
10 anything over 10 billion would be a large cap?

11 A My cutoff is 1 billion, but I don't have a  
12 problem with your cutoff The S&P 500 is about what you  
13 suggest, 10 billion cutoff It was. I don't know if it  
14 is anymore

15 Q. All right And obviously in preparing your  
16 testimony in this case, you reviewed Ameren's fuel  
17 adjustment proposal?

18 A Yes

19 Q. Okay And so you felt comfortable making  
20 the 10.9 percent ROE recommendation with a 95 percent pass  
21 through?

22 A. No My 10 9 percent is predicated on the  
23 adoption of the fuel clause

24 Q Right It's predicated on adoption of the  
25 fuel clause, but it's a 95 percent pass through fuel

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1 clause?

2 A. I don't have a problem with that.

3 Q Okay

4 A. You couldn't split hairs any more, whether

5 it was 80 or 90 or 95 or 100. It would be very hard to

6 quantify that into basis points.

7 Q Okay

8 A. Bond rating agencies tend to think all on

9 nothing basically.

10 Q Okay

11 A. Although they do favor sort of mainstream

12 one on one or close to one on one pass throughs

13 Q Okay So is it fair for me to have gotten

14 the impression earlier, though, that it's your opinion

15 that 50 percent didn't cut it?

16 A. You're quite right. You read through my

17 mind. I don't think it would cut it with the rating

18 agencies. They would be much more concerned 50/50 than

19 they would be one on one. That would produce some

20 volatility in the earnings stream, more risk and so forth.

21 CHAIRMAN DAVIS Okay No further

22 questions, Judge

23 THE WITNESS: Thank you, Chairman

24 JUDGE WOODRUFF All right We'll come

25 back, then, for recross based on questions from th