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Witness: C. Kenneth Vogl
Sponsoring Party: Union Electric Company
Type of Exhibit: Direct Testimony
Case No.: ER-2007-0002
Date Testimony Prepared: July 5, 2006

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2007-0002

DIRECT TESTIMONY

OF

C. KENNETH VOGL

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a AmerenUE

St. Louis, Missouri
July, 2006

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DIRECT TESTIMONY

OF

C. KENNETH VOGL

CASE NO. ER-2007-0002

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is C. Kenneth Vogl. My business address is 101 South Hanley, Suite 900, St. Louis, Missouri 63105.

Q. By whom are you employed and in what capacity?

A. I am a Consultant with Towers Perrin. I serve as an actuary and employee benefits consultant to a number of clients in the firm's St. Louis office. Towers Perrin provides global human resource consulting and related services that help organizations effectively manage their investment in people. Employee benefits is one of many areas in which Towers Perrin offers client services.

Q. Please describe your educational background, work experience and duties of your position.

A. I received a Bachelor of Science degree in mathematics from the University of Missouri-Columbia in 1988 and a Doctorate of Philosophy in mathematics from Washington University in 1994. I completed the examination requirements for designation as a Fellow of the Society of Actuaries and received such designation in August 2000. I completed both the examination and experience requirements for designation as an Enrolled Actuary under the Employee Retirement Income Security Act of 1974 (ERISA) and received such designation in 1998.

I have been employed with Towers Perrin as a consulting actuary since 1995. From 1994 to 1995, I was employed by William Mercer, another human resources consulting firm, in St. Louis. I have substantial technical and consulting experience with regard to employee benefit plans — including the design, funding, accounting, and communication of pension and postretirement welfare programs.

II. PURPOSE AND SUMMARY OF TESTIMONY/BACKGROUND

Q. What is the purpose of your direct testimony in this proceeding?

A. The purpose of my direct testimony is to identify and discuss the primary factors that drove an increase over the past few years in Financial Accounting Standard No. 87 (FAS 87) pension expense and the changes in Financial Accounting Standard No. 106 (FAS 106) other postretirement benefits (OPEBs) expense for Union Electric Company d/b/a/ AmerenUE (AmerenUE), as well as other companies or firms that sponsor qualified pension plans and postretirement benefit plans.

AmerenUE is proposing to establish a procedure to ensure that the costs for pensions and OPEBs, including any increases or decreases in those costs that occur after this case, will ultimately be reflected in the rates charged to customers. Another purpose of my direct testimony is to describe this procedure and illustrate how it ensures that ratepayers will not be over- or under-charged for pension or OPEB costs. A summary of my testimony is included as Attachment A.

III. FAS 87 EXPENSE

Q. Please explain FAS 87 pension expense.

A. FAS 87 is an accounting standard issued by the Financial Accounting Standards Board (FASB) in December 1985 relating to employers' accounting for pensions. Since 1973, FASB has been the designated organization in the private sector for establishing standards of financial accounting and reporting. Those standards govern the preparation of financial reports and are officially recognized as authoritative by the Securities and Exchange Commission (SEC).

FAS 87 requires employers to recognize the cost of their pension plan(s) on an accrual basis rather than a cash basis. In other words, pension cost is recognized over the period during which benefits are earned, i.e., during the working years of the employees who will receive the pension benefit. The standard also contains detailed rules and other guidance that govern the determination of the accrual costs. Pension expense is also referred to as pension cost.

The FAS 87 pension expense is equal to the sum of the following components:

- Service cost – The value of the benefits earned, or accrued, during the current year based on the applicable benefit formula for each participant.
- Interest cost – The interest on the pension plan liability for the year. This amount increases pension expense.

- Return on assets – The expected return on assets for the year. This amount reduces pension expense. Note that the difference between the actual return on assets and the expected return on assets is a gain or loss that will be recognized in future pension expense.
- Amortization – The change in liability due to plan changes, changes in actuarial assumptions used to value plan liabilities, and/or experienced gains or losses may be subject to amortization.

The amortization period is not to exceed the average future service of active employees.

In summary, the FAS 87 pension expense can be described as: (1) the value of benefits earned during the year (i.e., service cost), plus (2) a charge or credit depending on the funded status of the plan (i.e., interest cost less return on assets), plus (3) a charge or credit to recognize special asset and liability changes (i.e., amortization).

Q. How has FAS 87 expense behaved over the past few years?

A. Generally, there has been a steady increase in FAS 87 expense for all companies that sponsor pension plans over the past few years. This is true for AmerenUE as well. Nearly all of the increase can be explained by two economic conditions:

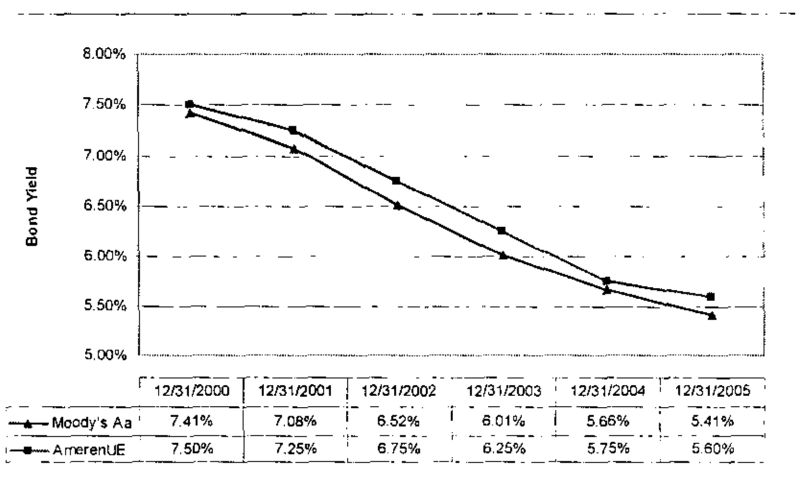
- declining interest rates; and
- lower than expected investment returns from 2000 – 2002.

The declining interest rates translate into lower discount rates used for measuring the pension plan liabilities. Using a lower discount rate increases plan liabilities, which increases FAS 87 expense. The lower investment returns translate into fewer assets than expected. These lower-than-expected investment returns have created pension deficits, meaning plans are not fully funded, which also increases FAS 87 expense.

Q. Please comment on the declining interest rates.

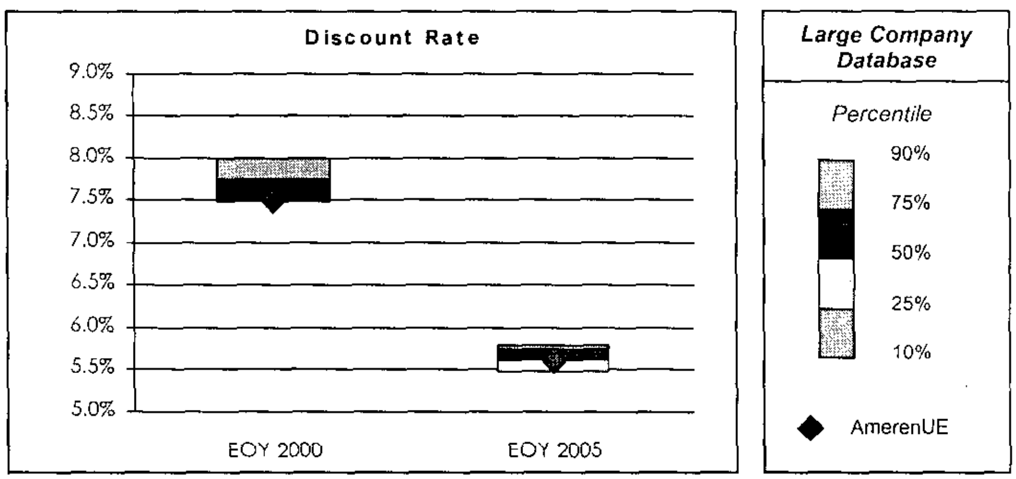
A. The discount rate used for FAS 87 expense purposes is the rate at which the pension obligations could be effectively settled as of the date the obligations are measured. In other words, the discount rate is the yield, after allowing for call and default risk, on high-quality bonds that could be purchased to entirely offset the anticipated pension obligations. Comments issued by the SEC suggest that Moody's Aa bonds are considered high-quality. As a result, the yield on Moody's Aa bonds has generally been viewed as a reasonable proxy for the discount rate assumption.

The chart below shows the Moody's Aa bond yield since 2000 along with the assumed discount rate in AmerenUE's pension plan:



The chart clearly shows a gradual decline since 2000, with both the Moody's Aa bond yield and the discount rate used in AmerenUE's plan dropping roughly 200 basis points over the period.

A distribution showing discount rates used by other companies shows a drop in their discount rates similar to AmerenUE's experience. As seen in the chart below, the median discount rate for other companies was 7.50% at the end of 2000, and 5.63% at the end of 2005, which results in a 187 basis point drop in the discount rate over the six-year period. Note that AmerenUE set its discount rate at the median at both December 31, 2000 and December 31, 2005.



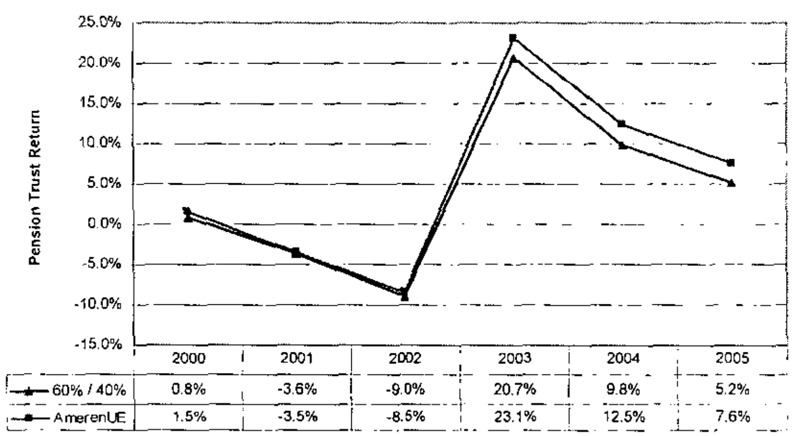
Please note that the information in the above chart is taken from the Towers Perrin Large Company Benchmark Database, which includes over 200 companies in 30 or more different industries. The information has been gathered from the publicly disclosed annual report of each company.

Q. Please comment on the FAS 87 expense impact of using a lower discount rate.

A. To put the change in discount rate into perspective, a 100 basis point change in the discount rate used for 2005 would impact AmerenUE's 2005 FAS 87 expense by approximately $24.4 million.

Q. Please discuss the lower-than-expected investment returns from 2000 – 2002 and comment on their impact on a pension plan's FAS 87 expense.

A. The chart below shows how assets in qualified pension plan trusts performed since 2000. Because companies invest their trust assets differently, I have shown the returns for a typical trust (invested 60% stock / 40% fixed income). AmerenUE's actual experience is also shown in the chart.



Note that AmerenUE's investment mix is roughly 60% stock / 40% fixed income, and its experience has been consistent with the typical trust returns shown above.

In calculating FAS 87 expense, most companies are currently assuming their pension trusts will earn an 8% – 9% return for the year. Any difference between this assumption and the actual trust return is an investment gain or loss that will be recognized in future FAS 87 expense. AmerenUE's investment gains/losses since 2000 have been:

Year	Assumed Return Percent	Actual Return Percent	Investment Gain / (Loss) Percent	Investment Gain / (Loss) Amount
2000	8.5%	1.5%	-7.0%	$ (55.0) M
2001	8.5%	-3.5%	-12.0%	(97.8) M
2002	8.5%	-8.5%	-17.0%	(131.2) M
2003	8.5%	23.1%	14.6%	96.9 M
2004	8.5%	12.5%	4.0%	51.6 M
2005	8.5%	7.6%	-0.9%	(5.4) M

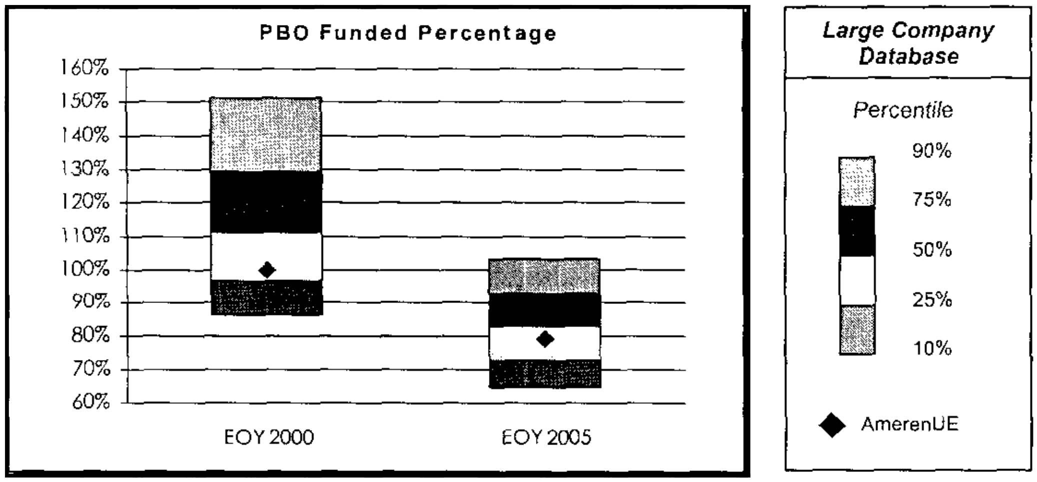
Since many companies smooth investment experience over a period of up to five years (AmerenUE smoothes over four years), the full impact of the experience from any given year is not recognized in FAS 87 expense for up to five years. For example, the $51.6 million investment gain from 2004 will decrease AmerenUE's annual FAS 87 expense by $9.5 million, which will be partially reflected during 2005-2007, and fully reflected by 2008.

Q. What are the other factors that impacted FAS 87 expense over the past few years?

A. To a lesser extent, the other factors that have had some impact on AmerenUE's FAS 87 expense over the past few years were the normal operation of the plan (e.g., growth in pension liabilities due to the passage of time), liability experience (e.g., more or less turnover than assumed, higher or lower salary increases than assumed), and plan changes.

Q. In aggregate, how have the decreasing interest rates and recent investment experience impacted FAS 87 expense?

A. In general, the decreasing interest rates and recent investment experience have led to a decline in the funded status of almost all pension plans. The chart below shows the distribution of pension plans' funded percentages as of the end of 2000 and the end of 2005. AmerenUE's actual funded percentage is also shown.



Again, the information in the above chart is taken from the Towers Perrin Large Company Benchmark Database.

The chart above shows AmerenUE's experience has been fairly consistent with that of other companies. The distribution of other companies' funded percentages indicates the median pension plan funded percentage has dropped 25% – 30% over the last six years. AmerenUE's funded percentage has dropped 20% over the same period.

Also note that the decline in the funded status of pension plans has led to more employer contributions to pension trusts. Whether required or elective, many companies are making contributions to help improve their plan's funded position. AmerenUE, for example, contributed roughly $180 million to its pension trust in 2004 and $55 million in 2005. These contributions have reduced the ongoing level of FAS 87 expense by approximately $20 million.

IV. FAS 106 EXPENSE

Q. Please explain FAS 106 expense.

A. FAS 106 is an accounting standard issued by FASB in December 1990 relating to employers' accounting for postretirement benefits other than pensions. FAS 106 requires employers to recognize the cost of providing postretirement benefits on an accrual basis. It requires the cost to be recognized over the period during which benefits are earned, i.e., during the working years of the employees to full eligibility date. The standard also contains detailed rules and other guidance that govern the determination of the accrual costs.

The FAS 106 expense is equal to the sum of the following components. Note that these components are very similar to those used to calculate FAS 87 expense.

- Service cost – The value of the benefits earned, or accrued, during the current year.
- Interest cost – The interest on the plan liability for the year. This amount increases FAS 106 expense.
- Return on assets – The expected return on assets for the year. This amount reduces FAS 106 expense. Note that the difference between the actual return on assets and the expected return on assets is a gain or loss that will be recognized in future FAS 106 expense.
- Amortization – The change in liability due to plan changes, changes in actuarial assumptions used to value plan liabilities, and/or experienced gains or losses may be subject to amortization. The amortization period is not to exceed the average future service of active employees.

In summary, the FAS 106 expense can be described as: (1) the value of benefits earned during the year (i.e., service cost), plus (2) a charge or credit depending on the funded status of the plan (i.e., interest cost less return on assets), plus (3) a charge or credit to recognize special asset and liability changes (i.e., amortization).

Q. How has FAS 106 expense behaved over the past few years?

A. Similar to FAS 87 expense, there has been a steady increase in FAS 106 expense for companies over the past few years. Some companies have reduced FAS 106 expense by amending their plans to shift more of the postretirement medical costs to current and future retirees. This is also true for AmerenUE. Nearly all of the change in FAS 106 expense can be explained by the following:

- declining interest rates;
- lower than expected investment returns from 2000 – 2002;
- higher than expected annual increases in medical costs;
- plan changes which increase cost sharing for current and future retirees; and
- introduction of Medicare Part D.

The declining interest rates translate into lower discount rates used for measuring the OPEB liabilities. Using a lower discount rate increases plan liabilities, which increases FAS 106 expense. The lower investment returns translate into fewer assets than expected, which increases FAS 106 expense. The higher than expected increases in medical costs result in higher current and projected medical costs used to determine the OPEB liability, which increases the OPEB liability and the FAS 106 expense. Shifting some of the current and future cost of postretirement medical benefits to retirees results in lower projected medical costs for the employer, which lowers the OPEB liability and FAS 106 expense. Finally, under Medicare Part D, many companies are eligible for reimbursement by the U.S. government for a portion of the cost of their postretirement medical plan, which would lower FAS 106 expense.

Q. Please comment on the declining interest rates and their impact on the AmerenUE FAS 106 expense.

A. The selection of the discount rate to use for FAS 106 is similar to the process used to select the FAS 87 discount rate. For this reason, AmerenUE has generally used the same discount rate for FAS 106 and FAS 87. For example, the FAS 106 discount rate has been the same as the FAS 87 discount rate at each of the six measurement dates shown previously (December 31, 2000 through December 31, 2005). Therefore, the recent decline in discount rate that was addressed above for FAS 87 expense also applies to the FAS 106 expense.

To put the change in discount rate into perspective, a 100 basis point change in the discount rate used for 2005 would impact AmerenUE's 2005 FAS 106 expense by approximately $4.8 million.

Q. Please comment on the lower than expected investment returns from 2000 – 2002 and discuss their impact on FAS 106 expense.

A. In calculating FAS 106 expense, most companies are currently assuming their OPEB trusts, like their pension trusts, will earn an 8% – 9% return for the year on a pre-tax basis. Any difference between this assumption and the actual trust return is an investment gain or loss that will be recognized in future FAS 106 expense. AmerenUE's investment gains/losses since 2000 have been:

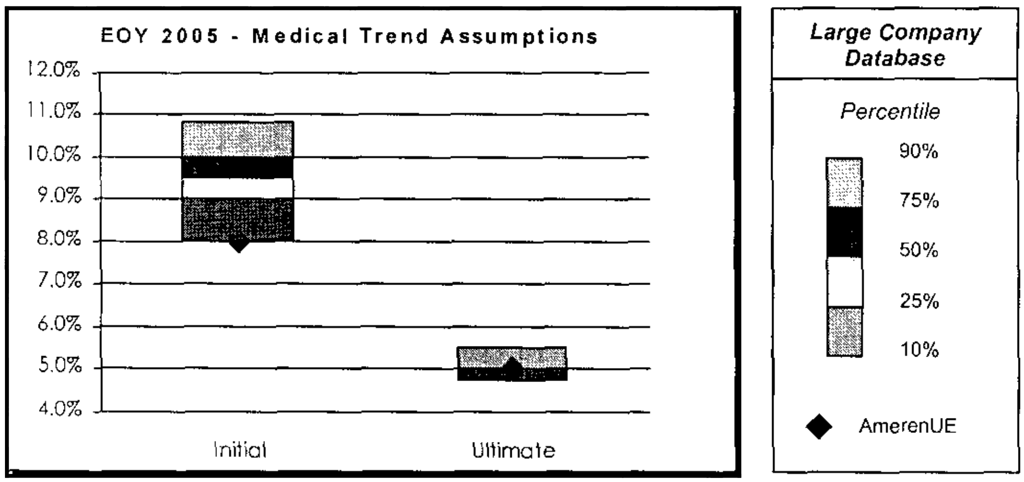
Year	Assumed Return Percent	Actual Return Percent	Investment Gain / (Loss) Percent	Investment Gain / (Loss) Amount
2000	8.5%	-1.4%	-9.9%	$ (14.9) M
2001	8.5%	-5.7%	-14.2%	(28.6) M
2002	8.5%	-7.6%	-16.1%	(36.1) M
2003	8.5%	17.9%	9.4%	17.8 M
2004	8.5%	7.3%	-1.2%	(1.7) M
2005	8.5%	6.5%	-2.0%	(3.5) M

Since many companies smooth investment experience over a period of up to five years (AmerenUE smoothes over four years), the full impact of the experience from any given year is not recognized in FAS 106 expense for up to five years. For example, the $17.8 million investment gain from 2003 will decrease AmerenUE's annual FAS 106 expense by $3.1 million, which will be partially reflected during 2004-2006, and fully reflected by 2007.

Q. Please comment on the higher than expected increases in medical costs and their impact on the AmerenUE FAS 106 expense.

A. The medical trend assumption is a key assumption used to determine the liability and expense for OPEB plans. This represents the rate at which the current cost of medical claims is assumed to increase in the future. The current environment (i.e., high medical inflation during the past several years) suggests the use of two different rates when determining the medical trend assumption: initial and ultimate. The initial trend assumption represents the expectation of the current year's increase in medical costs. The ultimate trend assumption represents a long-term expectation of the increase in medical costs. In valuing the postretirement medical plan, the trend assumption begins at the initial rate and gradually decreases, typically by 0.5%-1.0% per year, to the ultimate rate.

The chart below shows how the medical trend assumptions for AmerenUE compare to the other large companies in the Towers Perrin Large Company Benchmark Database.



As illustrated above, both the initial and ultimate trend assumptions for AmerenUE are in line with those used by other organizations.

When the actual increase in medical claims for retirees is greater than assumed, an actuarial loss occurs. This increases FAS 106 expense in the following year. For example, prior to changing the plan in 2002, if a 5% loss on medical claims occurred for AmerenUE (e.g., medical costs increase by 14% when the initial valuation assumption was 9%), there would have been an increase in annual FAS 106 expense of $4.6 million. (The 2002 plan change and its impact on the FAS 106 expense will be discussed in more detail later in my testimony.)

The chart below shows the actual increases in medical claims at AmerenUE since 2000 for retirees both under and over age 65. I have also provided the average medical cost increases for large companies contained in the Towers Perrin 2005 Health Care Cost Survey.

	Average Cost Increases					
	2000	2001	2002	2003	2004	2005
Survey Experience						
Retirees under age 65	10%	17%	13%	17%	15%	9%
Retirees age 65 and older	24%	18%	19%	19%	13%	9%
AmerenUE Experience						
Retirees under age 65	9%	6%	10%	19%	12%	7%
Retirees age 65 and older	17%	13%	14%	12%	14%	8%

As seen in the chart, AmerenUE has experienced annual increases similar to the increases experienced by many other large employers. The chart also shows that annual increases in medical costs have generally been well in excess of the 8%-11% used by many companies for their initial trend assumptions in recent years.

Q. Has AmerenUE made any plan changes to mitigate some of these recent FAS 106 expense increases?

A. Yes. Effective October 1, 2002, the postretirement medical plan was amended for employees retiring after 1991. The plan amendment resulted in shifting some of the cost of the postretirement medical plan from the employer to the retiree. The most significant change to come from the plan amendment was the introduction of an employer cap for employees retiring after October 1, 2002. The employer cap limits the amount of cost to the employer each year. In other words, once medical costs reach a certain amount (the employer cap), all costs above that amount are to be paid for by the retiree. Note that the employer cap varies by individual and is based on age and years of service at retirement.

The change to the postretirement medical plan resulted in a reduction in FAS 106 expense. The amount of the reduction was estimated to be $38.5 million annually beginning in Fiscal 2003. In addition to the reduction in FAS 106 expense, this plan amendment reduced the impact that medical inflation has on the FAS 106 expense. In other words, since employer medical costs are limited by the cap, higher than expected medical inflation that increases the total cost above the cap will not impact AmerenUE's cost. For example, after the plan change, a 5% loss on medical claims will now result in an increase in FAS 106 expense of only $2.9 million.

Q. How has FAS 106 expense been impacted by Medicare Part D?

A. The introduction of Medicare Part D has made AmerenUE eligible to be reimbursed for some of its cost by the U.S. government. Because the prescription drug benefits provided by AmerenUE to retirees age 65 and older are generally better than those provided by Medicare Part D, AmerenUE is eligible to receive a subsidy from the government to reduce its plan cost.

The estimated annual savings in FAS 106 expense due to the Medicare Part D subsidy is $7.6 million for AmerenUE.

V. PROPOSED PROCEDURE FOR REGULATORY TREATMENT OF FAS 87 AND FAS 106 EXPENSE

Q. Please explain why it is necessary to establish a special procedure to ensure ratepayers are not over- or under-charged for the pension and OPEB benefits.

A. The amount that AmerenUE collects in rates for pensions and OPEBs is determined based on its costs in a test year, which is a recent 12 month period established by the Public Service Commission prior to the effective date of its new rates. These rates are effective until there is another rate filing, when costs are adjusted based on then-current levels. However, any increases or decreases in AmerenUE's costs that occurred in interim years are not reflected in the rates set in the rate proceeding that may apply for several years after new rates take effect. AmerenUE may collect too little in rates to cover its actual pension and OPEB costs, or the customers may pay more than is necessary to cover AmerenUE's actual costs.

This mismatch between actual cost and the cost collected in rates can be very large, as shown in sections III and IV, and is primarily driven by factors outside the company's control, such as changes in interest rates and volatile investment experience. Consequently, it is necessary to establish a procedure that will ensure that increases or decreases in AmerenUE's costs will be included in rates (as either a charge or a credit) at the time of the next rate filing. Over time, the amounts collected in rates will then equal the true cost of AmerenUE's pensions and OPEBs.

Q. Are there any other external factors that would make the use of a tracking mechanism desirable for ratemaking over the long-term?

A. Yes, the FASB announced at the end of 2005 a two-phase project to review the recognition of pension (FAS 87) and OPEB (FAS 106) costs. Phase I, which was described in an exposure draft issued on March 31, 2006, and is expected to be effective for fiscal years ending after December 15, 2006, will focus on the balance sheet impact of both pension and OPEB plans. Phase II, which will be the subject of discussion over the next several years, will focus on the annual expense impact of both pension and OPEB plans. It appears that in both phases one of the FASB's goals is to require recognition of liabilities and costs on a market value basis. These changes will likely result in increased volatility of costs. AmerenUE's goal is to adopt a specific, long-term procedure for pension and OPEB cost reimbursement that will mitigate the impact on rates and earnings of volatility due to the expected changes.

Q. In summary, how will the proposed procedure work?

A. Essentially, the proposed procedure will:

- Ensure that the amount collected in rates for pension and OPEB, based on the FAS 87 and FAS 106 costs recognized by the Company for financial reporting purposes, will be funded to the trusts; and
- Ensure that all amounts contributed by the Company to the pension and Voluntary Employee Beneficiary Association (VEBA) trusts are recoverable in rates.

Q. Please explain the mechanics of the operation of the proposed procedure.

A. The proposed procedure is fully described in Schedule CKV-E1. I will illustrate the procedure by way of an example.

<u>Example</u>: Assume the following:

a. Total pension costs included in the rates set in this case are $40 million beginning in year 1. These costs are based on AmerenUE's actual costs for year 0.

b. The costs incurred in years after year 0 are $50 million per year for years 1 through 4, and $35 million for year 5.

c. AmerenUE files for a rate increase to be effective in year 6.

<u>Results of proposed procedure for Example</u>:

The proposed procedure would accumulate the deficit amount collected in rates of $10 million (i.e., $50 million - $40 million) per year for the first four years, offset by $5 million in year five, for a total of $35 million. This amount would be included in a regulatory asset to be amortized beginning at the time of the next rate case. Since the test year would be year 5, the net cost of service included in rates beginning in year 6 would be $42 million, determined by:

a. The new test year cost of $35 million; plus

b. Amortization of the $35 million regulatory asset over 5 years, or $7 million per year.

Therefore, at the end of five years, AmerenUE would have collected $200 million in rates ($40 * 5), funded $235 million to the trust, and accumulated a $35 million regulatory asset representing the amount to be collected from ratepayers. In addition, the $35 million regulatory asset will increase the rate base.

This procedure will be followed for both FAS 87 and FAS 106, with separate regulatory assets and liabilities maintained for FAS 87 and FAS 106 purposes.

VI. PROPOSED LEVELS OF FAS 87 AND FAS 106 EXPENSE TO BE INCLUDED IN RATES

Q. What are the amounts of pension and OPEB cost that you have provided?

A. The total FAS 87 and FAS 106 costs for a year are determined and provided with an allocation to AmerenUE's operations, if necessary. The current levels for 2006 are shown in the following chart.

Current 2006 Annual FAS 87 and FAS 106 Expense
(in millions)

AmerenUE		Ameren Services	
FAS 87 Pension	**FAS 106 OPEB**	**FAS 87 Pension**	**FAS 106 OPEB**
$ 38.3	$ 35.8	$ 27.3	$ 21.8

Note that these amounts are being shown before any other necessary allocations.

VII. SUMMARY

Q. Please briefly summarize your testimony.

A. AmerenUE's FAS 87 expense has been increasing over the past few years. Its FAS 106 expense would have increased even more if it were not for the Company's decision to shift costs to retirees, which lowered FAS 106 expense. I have outlined the key reasons for these increases and shown that AmerenUE's practices and assumptions are in line with other companies; specifically, experiencing lower discount rates, lower-than-expected investment returns, and higher-than-expected medical costs. The lower discount rates and higher medical costs (which increase liabilities), and the lower-than-expected investment returns (which result in fewer plan assets than expected), have lowered the funded status of the pension and OPEB plans. As a result, AmerenUE, similar to the majority of other companies, has experienced significant increases to its FAS 87 and FAS 106 expense over the past few years.

AmerenUE is proposing to establish a procedure that will ensure the amounts collected from ratepayers for pensions and OPEBs are the same as the costs it recognizes for shareholder reporting purposes and funds to the plan. The proposed procedure will accomplish this, and ratepayers will neither be undercharged nor overcharged for these costs. Without such a procedure, these largely uncontrollable and volatile increases or decreases in AmerenUE's costs that occur between rate cases will never be reflected in the rates paid by its customers.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a AmerenUE for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in the Company's Missouri Service Area.	)))))	Case No. ER-2007-0002

AFFIDAVIT OF C. KENNETH VOGL

STATE OF MISSOURI)
) **ss**
CITY OF ST. LOUIS)

C. Kenneth Vogl, being first duly sworn on his oath, states:

1. My name is C. Kenneth Vogl. I work in the City of St. Louis, Missouri, and I am employed by Towers Perrin.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Union Electric Company d/b/a AmerenUE consisting of 21 pages plus Schedule CKV-E1 and Attachment A, all of 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.

C Ken Vogl
C. Kenneth Vogl

Subscribed and sworn to before me this 5th day of July, 2006.

Mary M. Sullivan
Notary Public

My commission expires:

Notary Public Notary Seal State of Missouri

MARY M. SULLIVAN
St. Charles County
My Commission Expires
March 24, 2008

EXECUTIVE SUMMARY

C. Kenneth Vogl

Consultant, Towers Perrin

* * * * * * * * * *

My testimony addresses two key issues related to pension and OPEB expense.

First, I identify and discuss the primary reasons for increases in FAS 87 pension expense and FAS 106 OPEB expense over the past few years. These reasons are listed below:

- Declining interest rates – Lower interest rates translate into lower discount rates. A lower discount rate increases both the pension and OPEB plan liabilities. The increase in liabilities worsens the funded status of both plans, which increases FAS expense.
- Lower than expected investment returns from 2000-2002 – Trust returns for this period were much lower than the assumed returns for each year. This resulted in fewer assets than expected, which worsened the funded status of the pension and OPEB plans, and ultimately increased FAS expense.
- Higher than expected annual increases in medical costs – Medical inflation has been very high over the past several years (i.e., 10%-20% annual increases). This has caused OPEB plan liabilities to increase, thereby worsening the plan's funded status and increasing expense.

I note the above reasons for increases in pension and OPEB expense were experienced by the majority of other organizations offering these types of plans. AmerenUE's experience has been similar to other companies' experience.

I also describe other changes made by AmerenUE to help offset some of the increase in expenses (e.g., plan amendment to shift some OPEB cost to retirees, reflection of Medicare Part D).

In addition I propose a procedure for the regulatory treatment of pension and OPEB expense. This proposed procedure will ensure that ratepayers are not over- or under-charged for these benefits. This is done by creating a tracking amount (regulatory asset/liability) that continually tracks the mismatch between the actual cost of pension and OPEB benefits and the cost collected in rates for these benefits. This tracking amount is then built into the next rate case. Therefore, over time, the amounts collected in rates will equal AmerenUE's true cost of providing pension and OPEB benefits.

Schedule CKV-E1

AmerenUE Proposed Procedure

The intent of this procedure is to:

A. ensure that the amount collected in rates is based on the FAS 87 and FAS 106 cost recognized by the Company for financial reporting purposes; and

B. ensure that all amounts contributed by the Company to the pension and VEBA trusts per item 3 below are recoverable in rates.

To accomplish these goals, the following items are part of this procedure:

1. The Company's FAS 87 and FAS 106 costs recognized for financial reporting purposes will also be recognized in rates.

2. The Company will fund the amount of its FAS 87 and FAS 106 costs annually to the pension and VEBA trusts.

3. The Company will be allowed rate recovery for contributions made to the pension trust in excess of the FAS 87 expense for the following reasons: the minimum required contribution is greater than the FAS 87 expense level, avoidance of Pension Benefit Guaranty Corporation (PBGC) variable premiums, and avoidance of a charge to other comprehensive income. To track any such excess contributions, a regulatory asset will be established and will be included in rate base. This regulatory asset will be amortized over five years at the time of the next rate case.

4. A regulatory asset or liability will be established on the Company's books to track the difference between the level of FAS 87 or FAS 106 expense during the rate period and the level of expense built into rates for that period. If the FAS 87 or

FAS 106 expense during the period is more than the expense built into rates for the period, the Company will establish a regulatory asset, but only to the extent that such expense is not used to reduce a regulatory liability maintained pursuant to item 5. If the FAS 87 or FAS 106 expense during the period, adjusted for any amount of such expense used to reduce a regulatory liability maintained pursuant to item 5, is less than the expense built into rates for the period, the Company will establish a regulatory liability. If the FAS 87 or FAS 106 expense becomes negative, the regulatory liability will increase by the difference between the level of expense built into rates for that period and $0. Since this is a cash item, the regulatory asset or liability will be included in rate base and amortized over 5 years at the time of the next rate case.

5. If the FAS 87 or FAS 106 expense becomes negative, the Company will set up a regulatory liability to offset the negative expense. The regulatory liability will increase by the amount of negative expense, or decrease by the amount of positive expense, in each subsequent year. Positive expense in such subsequent year will be used to reduce this regulatory liability before being used to establish a regulatory asset pursuant to item 4. If the cost is negative at the time of the next rate case, the amount included in rates will be zero. If the cost is positive at the time of the next rate case, the positive expense will not be included in rates until the regulatory liability has been reduced to $0. This regulatory liability is a non-cash item and should be excluded from rate base in future years.

6. Any future FAS 87 or FAS 106 prepaid asset will not be included in Rate Base in any future rate case. The regulatory assets/liabilities identified in this procedure will address all rate base amounts for pensions and OPEBs.