Exhibit No.: 750
Issue(s): Fuel Adjustment Clause
Class Cost Allocations
Residential Rate Design
Sponsoring Party: AARP

BEFORE THE PUBLIC SERVICE COMMISSION OF MISSOURI

DIRECT TESTIMONY OF RONALD J. BINZ

ON BEHALF OF AARP

Union Electric Company d/b/a AmerenUE
Case No. ER-2007-0002

Filed: December 29, 2006

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Q What is your name and address?

A My name is Ronald J. Binz. My business address is 333 Eudora Street, Denver, Colorado 80220-5721.

Q On whose behalf are you testifying in this case?

A I am testifying on behalf of AARP, a nonprofit, nonpartisan membership organization for people aged fifty and over. AARP provides information and resources; advocates on legislative, consumer, and legal issues; assists members to serve their communities; and offers a wide range of products and services to its members. Nationally, AARP has over thirty-six million members, including more than 778,000 members in Missouri.

Q What is your occupation?

A I am President of Public Policy Consulting, a firm specializing in energy and telecommunications regulatory matters. I provide consulting services to a variety of public-sector and private-sector clients in the energy and telecommunications industries, primarily in the regulatory arena. These have included consumer organizations, senior citizen groups, agricultural utility consumers, homebuilders, state agencies, commercial customer groups, telecommunications carriers, resellers and local governments. My consulting practice dates to 1979, except for the years 1984-1995 when I served as Colorado Consumer Counsel.

In my role as Consumer Counsel for the State of Colorado, I represented the interests of residential, small business and agricultural consumers of telecommunications

and energy before the Colorado Public Utilities Commission, the Federal Communications Commission (FCC), the Federal Energy Regulatory Commission (FERC), the courts and legislative bodies.

While Consumer Counsel I served as the President of the National Association of State Utility Consumer Advocates (NASUCA) for two years and chaired the organization's Telecommunications Committee for three years. In those roles, and as President of the Competition Policy Institute, I have testified fourteen times before Congressional committees on energy and telecommunications matters.

These have included consumer organizations, senior citizen groups, agricultural utility consumers, homebuilders, state agencies, telecommunications resellers and local governments.

I am a frequent speaker and presenter at industry, regulatory and legislative conferences and symposia. I am a member of the Harvard Electricity Policy Group and recently served on two advisory commissions to the Federal Communications Commission. My *curriculum vitae* is attached as Appendix A to this testimony.

Q What is your educational background?

A I received a B.A in Philosophy from St. Louis University in 1971. I received an M.A in Mathematics from the University of Colorado in 1977. I entered the Masters Program in Economics in 1980 and completed 27 hours of graduate work. I was researching my Masters Thesis on Regulated Industries in 1983 when I was appointed to the Public Utilities Commission by Colorado Governor Richard Lamm.

Q What is the purpose of your testimony in this case?

A I was asked by AARP to review the proposals of Union Electric Company d/b/a AmerenUE ("AmerenUE" or "Company") in three areas: 1) the proposed Fuel Adjustment Clause ("FAC"); 2) the option for treating off-system energy sales within this adjustment mechanism; and 3) the Company's proposed class cost allocation and residential rate design. In this testimony I examine the Company's proposals in these areas and make recommendations to the Commission.

Q How is your testimony organized?

A First, I present an introduction to the testimony and a summary of my findings and recommendations for the Commission. Second, I summarize the Company's proposals for class cost allocation and rate design, for a Cost Adjustment Mechanism (Fuel Adjustment Clause or FAC) and for an optional means for treating off-system energy sales. Third, I discuss the role and impact of cost adjustment mechanisms in utility rate making and offer an alternative approach to the Company's proposal for the Commission's consideration. Fourth, I recommend three modifications to AmerenUE's cost allocation methodology and present an alternative rate design for residential electric rates in Missouri. Finally, I summarize my findings and recommendations.

I. Introduction and Summary of Testimony

Q Mr. Binz, why is this case important to AARP members in Missouri?

A From my discussions with AARP, I understand that AARP is the nation's largest membership organization representing the interests of Americans aged 50 and older and

is concerned about the health, safety and financial security of older Americans. AARP advocates for affordable and accessible energy services on the federal and state levels.

AARP knows that electricity service is crucial to health and personal welfare, especially for older Americans: the ability to have air conditioning during the summer and heat during the winter at affordable rates is absolutely necessary. AARP understands that the loss of affordable utility services would have devastating consequences.

The Company is proposing a very large base rate increase for customers in Missouri – an overall increase of $360 million, or 18% for the average customer. Although the Company proposes to limit the increase to 10% for residential customers, this is still a substantial increase. Not surprisingly, this proposal will be attacked by representatives of other customer classes, so AARP must consider that residential customer could be at risk for an increase larger than 10%.

My testimony is designed to ensure that, whatever level of rates the Commission decides to award the Company, the residential customer class bears only its fair share. For that reason, AARP is interested that the class cost allocation adopted in this case be fair and that the rate design methodology apportions costs among residential customers fairly.

Finally, AmerenUE is proposing to modify substantially the manner in which it collects its rates by instituting a Cost Adjustment Mechanism called the Fuel Adjustment Clause or FAC. As I discuss later in the testimony, a FAC will significantly affect the Company's incentives. This has implications for rates in the future, another item of concern for AARP.

Q Please summarize your conclusions and recommendations to the Commission.

A After reviewing the Company's testimony and exhibits, I have developed the following findings and recommendations for the Commission:

The AmerenUE FAC Proposal

- No FAC should be approved for AmerenUE. In general, regulators should avoid using "automatic" cost adjustment mechanisms for rate regulated companies. While there are valid arguments for and against their use, I think the balance weighs against cost adjustment mechanisms in most cases.

- Cost adjustment mechanisms should be used only for utility costs that meet three qualifications:

    - They represent a significant portion of a utility's costs;
    - They fluctuate significantly;
    - The costs are outside the utility's control.

  The costs examined in this case meet the first of these criteria: fuel and purchased power costs comprise a significant portion of AmerenUE's total electric costs. However, these costs only partially meet the second and third criteria.

- If, despite the objections of consumer representatives, the Commission decides to adopt any cost adjustment mechanism for AmerenUE in Missouri, then it should be designed to retain as many of the desirable incentives of cost of service regulation as possible. These include valuable incentives for the utility to operate efficiently and to manage its power costs.

- If the Commission decides to approve an FAC for AmerenUE in Missouri, it should be constructed so that some significant fraction of AmerenUE's energy costs remains at risk. Such a feature is critical to maintain the correct incentives for the Company. An FAC recently adopted in Wyoming contains some desirable features that this Commission should consider.

- In its alternative proposal for treating off-system energy sales, AmerenUE provides the Commission (perhaps inadvertently) with an

approach that can be used for the FAC. The Company commends this mechanism to the Commission as one way to allow relatively automatic adjustments to the revenue to be included.

- If the Commission decides to adopt a sharing mechanism for treating margins from off-system sales, the base level of revenue credits should be set on the basis of the best evidence of the likely future value. The Commission should not set the base amount below the likely future margins, the approach advocated by AmerenUE.

- If the Commission adopts an incentive-based Cost Adjustment Mechanism of any kind, it should consider directing the parties to negotiate the details of implementation of the mechanism in line with principles the Commission would include in its order.

Cost Allocation and Rate Design

- The cost allocation methodology used by AmerenUE – the 4-NCP AED method – should not be used to allocate production demand costs. There are superior allocation methods that consider the coincident peak of the customer classes, something the AmerenUE method ignores.

- The Commission should reject the "zero-intercept" methodology used by AmerenUE to allocate distribution costs. The method shifts revenue requirements from commercial customers onto residential customers and inflates the monthly customer charge.

- The costs assigned to the residential customer charge should not exceed the sum of those costs of metering and billing plus the customer service lateral. These are costs are directly related to the number of customers on the AmerenUE system.

- The Commission should adopt a rate design developed by AARP and presented in this testimony. The rate design lowers the monthly service charge and is more equitable to smaller consumers within the residential class. The AARP-recommended rates also produce a more desirable relationship between summer and winter rates.

II. The AmerenUE Proposals

Q What is AmerenUE seeking in this case with respect to increased revenues?

A The Company is seeking an increase in annual base electric revenues of $360 million, an increase of about 17.7% over the revenues produced by existing rates. The rate increase is being contested by several other parties, including the Commission staff, the Office of the Public Counsel and the Missouri Attorney General each of whom is recommending a *reduction* in base rates.

Q What is the Company proposing for cost allocation and rate design?

A The Company filed a class cost of service study that indicates how its proposed increase would be spread to the various customer classes. The study produces an increase for each customer class required to bring that class's earned rate of return to the Company's average target rate of return. However, the Company does not strictly apply the results of study for class cost allocation. Instead, the Company is proposing to limit the rate increase to the residential to a 10% increase in base rates, with the shortfall spread to other customer classes other than lighting customers.

Among many features of the class cost of service study, there are two salient features: 1) the study uses the Average and Excess Demand (4-NCP) methodology to allocate generation demand costs; and 2) the study uses the "zero-intercept" method to classify and allocate a portion of distribution costs as customer-related.

This Company's class cost of service study is also used to design rates for the various customer classes. For residential customers the study results in a monthly customer service charge of $8.22, an increase from the existing level of $7.25. All costs

not recovered in the customer service charge are collected in the per-kilowatt-hour charge for residential customers. The study yields a summer month energy charge of $0.0895 per kWh, up from the current rate of $0.0764 per kWh. The winter month energy charge for the first 750 kWh in a month was increased to $0.0557 from the existing level of $0.0540; for kWh in excess of 750, the energy charge was increased to slightly, to $0.0373 per kWh from $0.0370.

The following table summarizes the existing and proposed rate elements for the Residential customer class.

Rate Design Proposed by AmerenUE

Residential	Present	AmerenUE Proposed
Summer (June-September)		
Basic Charge	$ 7.25	$ 8.22
All kWh	$0.0764	$0.0895
Winter (October-May)		
Basic Charge	$ 7.25	$ 8.22
Per kWh <750	0.054	$0.0557
Per kWh >750	0.037	$0.0373

Q How do these price changes affect customer bills at various usage levels?

A The following table shows the percentage change in monthly bills for customers at various usage levels. Since the rate structures are different for the summer and winter seasons, the table shows bills in each season separately.

Summer

Monthly Billing

kWh	Present Rates	AmerenUE Proposed	Change	Percent
0	$7.25	$8.22	$0.97	
100	$14.89	$17.17	$2.28	15.3%
300	$30.17	$35.07	$4.90	16.2%
500	$45.45	$52.97	$7.52	16.5%
753	$64.78	$75.61	$10.83	16.7%
1,000	$83.65	$97.72	$14.07	16.8%
1,500	$121.85	$142.47	$20.62	16.9%
2,000	$160.05	$187.22	$27.17	17.0%
3,000	$236.45	$276.72	$40.27	17.0%
4,000	$312.85	$366.22	$53.37	17.1%
5,000	$389.25	$455.72	$66.47	17.1%

Winter

Monthly Billing

kWh	Present Rates	AmerenUE Proposed	Change	Percent
0	$7.25	$8.22	$0.97	
100	$12.67	$13.79	$1.12	8.8%
300	$23.51	$24.93	$1.42	6.0%
500	$34.35	$36.07	$1.72	5.0%
753	$48.01	$50.11	$2.10	4.4%
1,000	$57.05	$59.32	$2.27	4.0%
1,500	$75.35	$77.97	$2.62	3.5%
2,000	$93.65	$96.62	$2.97	3.2%
3,000	$130.25	$133.92	$3.67	2.8%
4,000	$166.85	$171.22	$4.37	2.6%
5,000	$203.45	$208.52	$5.07	2.5%

Both of these tables are attached to this testimony as Exhibit RJB-4.

Q What other proposals are made by AmerenUE in this case?

In its filing, the Company is proposing to institute a cost allocation mechanism called the FAC. The mechanism is designed to track the Company's expenses related to fuel and purchased power and will flow through to customers any differences between the level of these costs collected in base rates and the costs actually incurred in the future.

The FAC will be updated quarterly, based on fuel costs and purchased power costs incurred in the quarter prior to the most recent quarter. Since actual expenses may be higher or lower than the base rate level, the FAC rate increment applied to customer bills may be positive or negative. The FAC also contains a true-up mechanism to account for under-collection of over-collection of target costs subject to the mechanism. The FAC is also designed to permit the Commission, if it chooses, to flow through variations in the level of margins from the Company's off-system energy sales.

Concerning off-system energy sales, AmerenUE describes two proposals for accounting for these revenues in its rates. The first method is straightforward: the base rate revenue requirement would be credited with $183 million, the estimated test year level of margins for off-system energy sales. The second method includes a smaller level of revenues in base rates ($120 million), and proposes to use a tapered percentage sharing mechanism for margins in excess of $120 million. The customers' share of the margin in excess of the base amount would be flowed through the FAC. The following table, which repeats information contained in the testimony of AmerenUE witness Schukar describes the alternative treatment of margins from off-system sales.

Level of Off-System Sales Margins (in millions of $)	Customer Share	AmerenUE Share	Effective Share for Customers
$0 - $120	100%	0%	100%
$121 - $180	80%	20%	100% - 93%
$181 - $360	50%	50%	92% - 72%
Over $360	100%	0%	72% or more

III. Analysis of the FAC Proposal

Q Do you recommend that the Commission adopt an energy cost adjustment mechanism for AmerenUE?

A. In general, I do not recommend that Commissions establish "automatic" cost adjustment mechanisms for regulated companies. While there are valid arguments for and against their use, I think the balance weighs against cost adjustment mechanisms in most cases. There are several reasons for my position.

First, a cost adjustment mechanism tends to dull the incentives to efficiency that cost of service regulation provides to utilities. To see why, consider that a firm operating in a competitive market is not able to change prices to accommodate changes in costs, at least not unilaterally – not until the market price changes. Pressure from cost increases requires a competitive firm to become more productive in order to maintain its profitability.

It has long been recognized that "regulatory lag" in cost of service regulation mimics this process in a competitive market. It can benefit customers and the utility alike by supplying the incentives that competition provides in other industries.

There are certainly specific situations in which regulators might usefully consider adopting cost recovery mechanisms to speed up utility cost recovery or to simplify regulatory practices. However, I do not think the situation of AmerenUE in Missouri is one of those cases. Those situations are usually triggered by the very poor financial health of a utility or the need to ease the burden on regulators.

Indeed, fuel adjustment clauses originated during a period when increases in certain expense items were badly hurting utility earnings and regulators were being swamped with "pancaked" rate cases. As I will explain further below, those may be valid reasons for using cost allocation mechanisms, as long as regulators understand the trade-offs and find that the benefits obtained from using such mechanisms outweigh the damage done to the utility's incentives.

The most important thing to remember when considering whether to adopt a cost adjustment mechanism is that moving away from traditional regulatory treatment comes with a potentially large cost. In my opinion, cost adjustment mechanisms are often adopted by regulators not because of the incentives they provide, but in spite of them.

Q Please discuss your other reasons for opposing implementation of most cost adjustment mechanism.

My second reason is that cost adjustment mechanisms tend to skew choices the regulated company must make by rearranging its economic incentives. A utility is continuously faced with short-term and long-term decisions about fuel and power purchases, whether to "build or buy," etc. To the extent that an adjustment mechanism is a "thumb on the scale" for some choices in preference to others, it may induce the

Company to make choices it might not otherwise make, to the detriment of the Company's customers.

My third concern with cost adjustment mechanisms relates to their fairness. Cost adjustment mechanisms shift the balance of risk between utilities and their customers; more generally, they change the balance of equities embodied in cost of service regulation. Cost adjustment mechanisms are usually applied only to costs that trend upward over time. It would be a rare utility that would propose a cost mechanism to track decreasing costs. By removing an upward-trending cost and tracking it with a cost adjustment mechanism, the balance of fairness in ratemaking is changed.

Q. What policy questions should the Commission examine in determining whether to approve a cost adjustment mechanism as proposed by AmerenUE in this case?

A. At the outset, I suggest the Commission should address at least these three basic policy questions:

- What is the purpose of a FAC in Missouri? What feature of regulation needs repair?
- How does the FAC modify the equities of cost of service regulation as it is currently practiced?
- How does the FAC affect the incentives facing AmerenUE? How can the Commission retain the desirable aspects of current regulation?

Q What types of cost are typically considered candidates for recovery through cost adjustment mechanisms?

The AmerenUE proposal is to establish a cost adjustment mechanism for changes in fuel costs (including fuel transportation costs) and purchased power. More generally, it is well established in utility regulation that cost adjustment mechanisms should apply only to costs that meet three criteria:

- They represent a significant portion of a utility's costs;
- They fluctuate significantly;
- The costs are outside the utility's control.

Q. Are fuel and purchased power costs a significant portion of AmerenUE's revenue requirement?

A. Yes, they are. Fuel costs and purchased power costs are large fraction of the Company's proposed revenue requirement in the case pending before the Commission at the current time.

Q. Do the Company's power costs fluctuate?

A While it might be argued that these costs will trend upward over time, I am unaware of any evidence that fuel and purchased power costs in Missouri are expected to fluctuate significantly in the intermediate future. The Company has not offered any evidence in support of the FAC proposal that shows the Company's power costs are expected to change rapidly in Missouri.

Of course, increases over time in any cost category do not necessarily indicate that a Commission should institute a "recovery mechanism." To the extent that increases

in cost cannot be offset by productivity gains, increased sales, etc., the utility always has the alternative to file to increase rates. This type of pressure on a utility to become progressively more efficient is actually a *good thing*: good for customers and companies alike.

Q. Are variations in fuel and purchased power costs within the control of AmerenUE?

A. It is true that AmerenUE cannot affect two determinants of its power costs: wholesale market prices and the weather. On the other hand, there are other determinants of fuel and power costs that AmerenUE can influence or even control in the short-run and long-run. Here is a partial list of drivers for fuel and purchased power over which the Company exercises control or significant influence:

- Basic choices in the utility's resource plan
- The ratio of owned generation and purchased power
- Terms of wholesale contracts
- Efficiency of system operations
- Transmission system design and operation
- Degree and type of fuel risk in purchase decisions
- Hedging activities
- Demand side choices
- Advocacy for beneficial rate design proposals

Thus we see that the Company is neither passive nor powerless in the face of changing fuel and power costs. The Company shapes its power cost future by the numerous choices it makes in these areas. The Commission should tread carefully when

changing the way it regulates these activities and the basic incentives provided to AmerenUE.

Q. What about the effect of an FAC on AmerenUE's incentives?

A. In many ways, regulation may have its greatest effect, not through limits on prices in the short run, but rather through the incentives it creates for utilities in the longer run. It is important to consider some of the signals that will flow from approval of the FAC.

The Commission is undoubtedly aware of the debates about incentives that cost regulation provides: examples include the Averch-Johnson effect for capital investment levels; the connection between cost regulation and quality of service; and the incentives inherent in price cap regulation.

For better or for worse, the presence of regulation in a market shapes the behavior of the market participants. While utility regulators might want to limit their role to being a substitute for the competition that is missing in these industries, it is rarely possible to limit regulation's effects that way. The question is usually not how to eliminate stray incentives in decisions but, instead, which ones to accept.

AmerenUE has operated in Missouri without a power cost adjustment mechanism since at least 1979. In my view, this has created a desirable risk/reward proposition for consumers and for the Company.

Under the current regulatory regime for AmerenUE in Missouri, fundamental decisions such as whether to "build or buy," whether and how to hedge power costs, choices of fuel acquisition strategies, and even rate design choices are shaped by the fact that differences between projected and actual power costs accrue to the benefit or detriment

of shareholders between rate cases. A FAC mechanism alters in a fundamental way the risk analysis that AmerenUE executive will consider when making those decisions. As I will explain later in this testimony, if the Commission decides to adopt some form of a FAC in this case, it should try to retain as many of the desirable incentives of standard regulation as possible when designing the FAC.

Q What is AARP's overall position on the FAC?

A For the reasons I have articulated above, AARP opposes implementation of an FAC or other "pass-through" mechanisms, primarily because of the damage such clauses do to the utility's incentives to be efficient. In addition, counsel for AARP has informed me that AmerenUE's ability to request an FAC in this case is still subject to objections relating to AmerenUE's failure to file an FAC tariff along with the tariffs that initiated this rate case and that these arguments will be further explored in legal briefs. For these reason, my testimony addressing modifications to the proposed FAC should not be taken as a waiver of AARP's primary recommendation that the Commission reject the FAC or its legal objections related to the filing of an FAC in this case.

Q Is it necessary for the Commission to adopt an FAC in order to ensure that AmerenUE recovers its costs?

A No. It is a common misconception that utility regulation is a "cost-plus" exercise and that a regulator's duty is to ensure that companies "recover" their costs. This is factually incorrect. Under cost of service regulation, past costs are not "recovered;" they are simply used as a guide to the future costs that new rates attempt to match. In fact, "recovering" past costs, absent a specific exception, is retroactive ratemaking. An FAC

distorts the traditional ratemaking equation and essentially inoculates a future rate request of a utility from a claim of retroactive ratemaking with respect to the subject costs.

The "regulatory bargain" in Missouri is similar to that in many other states: a utility's rates are set on the basis of a reasonable projection of future costs. The traditional ratemaking method uses an adjusted "test year" to estimate the required future revenues by estimating the future costs and future level of profit required. To the extent that actual costs are lower or higher than these estimated costs, a utility's shareholders are better off (or worse off) for a period of time. If a utility can justify changing its base rates, it files a case and the Commission renders a decision. If the Commission (or another party) believes rates are systematically too high going forward, that party can file to reduce rates, and the Commission renders a decision.

Missouri utilities have functioned since 1979 without the advantage of an FAC and none to my knowledge has alleged that regulation is impossible without an FAC. The new law passed by the Missouri general assembly (SB 179) authorizes, but does not require, the Commission to approve an FAC. Importantly, SB 179 also contemplates that the Commission may modify a proposed adjustment mechanism to provide "incentives to improve the efficiency and cost-effectiveness" of the utility's fuel and purchased power procurement activities.

Q Mr. Binz, before discussing your recommendations concerning AmerenUE's FAC proposal, please discuss the rate treatment of off-system energy sales as a component of a FAC mechanism.

A To begin with, AmerenUE proposes to include the margins from off-system sales as an "above-the-line" item, ensuring that these substantial profits are counted towards the Company's regulated revenue requirement. This is a continuation of current Commission practice that recognizes these unregulated sales and the related margins are made possible only through the use of generating plants and fuel stocks paid for by ratepayers. Through the testimony of its witness Shawn Schukar, the Company estimates that the sales margins will be $183 million in the first year of new rates. The Company proposes to credit this amount – $183 million – against the revenue requirement in the case.

Q What is the alternative proposal presented by AmerenUE?

In his testimony, AmerenUE Chief Financial Officer Warner L. Baxter describes an optional approach to the handling of off-systems sales margins in which amounts above a base level (proposed to be $120 million) would be shared between customers and the utility in a percentage that varies with the size of the variance from the base level. The proposal is also discussed in the testimony of AmerenUE witness Shawn Schukar. The following chart from Mr. Schukar's testimony summarizes this option.

Level of Off-System Sales Margins (in millions of $)	Customer Share	AmerenUE Share	Effective Share for Customers
$0 - $120	100%	0%	100%
$121 - $180	80%	20%	100% - 93%
$181 - $360	50%	50%	92% - 72%
Over $360	100%	0%	72% or more

Mr. Baxter argues that this sharing proposal

> ...provides important, yet balanced incentives to the Company to improve its plant operations and lower its costs in a safe and reliable manner.

He adds that the sharing mechanism

> ...addresses a significant uncertainty associated with determining the appropriate level of off-system sales margins to include in base rates by establishing a baseline target that is likely to be achieved under most circumstances, thereby mitigating the possibility that the baseline amount will not be achieved due to uncontrollable, volatile market conditions or uncertain operating conditions.

To paraphrase, Mr. Baxter is arguing that the sharing structure he recommends is a way to pass through volatile sales margins to customers while maintaining incentives for the company to be efficient.

The margin-sharing proposal is tied to the FAC proposal in the testimony of AmerenUE's witness Martin J. Lyons, Jr. He identifies a factor called "SMS" (the customer share of margins from off-system sales) in the FAC that can be used to flow through the customer share of off-system sales margins above a base amount contained in rates.

Q Is AmerenUE proposing to use the margin-sharing mechanism as part of the FAC in this case?

A Not exactly. Although the margin-sharing proposal is addressed by three AmerenUE witnesses, Mr. Schukar says that the Company is not actually proposing it and that the Company's rate filing assumes that $183 million in off-system sales is credited to

rates with no sharing mechanism. Mr. Lyons states that "the mechanism discussed above could be implemented as part of the resolution of this case."

Q What is your opinion of the AmerenUE margin-sharing proposal and its connection to the FAC proposal?

A I have two comments. First, the base amount and sharing percentages must be revised before the proposal should have any interest for consumers. To see why, note that AmerenUE projects the most likely level of off-system sales margins is $183 million. If this level is achieved under AmerenUE's sharing proposal, customers would be credited with only $169.5 million of the $183 million ($120 million base plus 80% of $60 million plus 50% of $3 million). The Company would keep $13.5 million.

This is clearly inferior to the current Missouri practice (and AmerenUE's primary proposal) in which base rates would be credited with the full $183 million. In a sense, AmerenUE would be getting a "bonus" of $13.5 million merely for achieving the level of off-system sales margins that the Company itself has projected as the most likely. (Stated another way, customers would "break even" with the alternative sharing proposal only if AmerenUE achieved margins of $210 million, in which case the shared amount would be $183 million.)

The following chart compares the Company's proposal in this case ($183 million in revenue credits against cost of service) versus this sharing plan.