May 3, 1984

UNITED STATES OF AMERICA
NUCLEAR REGULATORY COMMISSION

BEFORE THE COMMISSION

In the Matter of	)	
	)	
UNION ELECTRIC COMPANY	)	Docket No. STN 50-483 OL
	)	
(Callaway Plant, Unit 1)	)	

AFFIDAVIT OF C. W. MUELLER

City of St. Louis)
) ss.
State of Missouri)

C. W. Mueller, being duly sworn, deposes and says as follows:

1. I am Vice President - Finance of Union Electric Company (UE). I am responsible for planning our capital structure, negotiation and completion of UE's financings, management of the investment of UE's pension funds, and in connection with such responsibilities, have frequent contact with investment bankers, commercial bankers, pension fund managers, security analysts, rating agencies, institutional investors and individual security holders. My department is also responsible for cash management banking relationships, stockholder activities, dividend disbursements, Dividend Reinvestment and Stock Purchase Plan and Employee Stock Ownership Plan of UE. My business address is Union Electric Company, P. O. Box 149, St. Louis, Missouri 63166. I have personal knowledge of the matters

stated herein and believe them to be true and correct. I make this affidavit in response to the Joint Intervenors' Motion for Leave to File Supplemental Contention (Motion) and the Supplemental Contention of Joint Intervenors (Supp. Contention) both dated April 18, 1984.

2. This affidavit will establish that Joint Intervenors' allegations about the financial integrity of UE are totally unfounded. In fact, UE's financial health since March, 1982, has improved and continues to improve, particularly as a result of the near completion and startup of the Callaway Plant. UE expects to load fuel before the end of May and place Callaway in commercial operation in late 1984 or early 1985.

3. The Joint Intervenors' contention that UE is financially insecure is based on assertions that UE's reliance on lenders and investors for funds is excessive and puts UE in a precarious financial situation see Supp. Contention at 3-5; and that external sources of funds may not be readily available in the future, since UE must operate under burdensome financing restrictions and, consequently, creditors and investors may be slow to invest in UE. Id. at 5-8. Joint Intervenors also allege that these conditions make UE excessively dependent upon rate relief from the Missouri Public Service Commission (MPSC), the absence of any serious problems at the Callaway Plant, and an upward trend in the consumption of electricity. Id. at 8-9. Responses to these assertions follow.

Financial Integrity, Reliance on Investors and Availability of Funds

4. UE is near the end of its major construction program, the Callaway Plant, and UE's overall need for construction funds is expected to decline substantially after 1984. UE expects to provide all of its funding for constructon needs during the next five years (1985-1989) through internal sources of funds, even with the proposed phase-in of rates for Callaway. In addition, construction funds for 1984 are already assured through various guarantees and agreements with commercial banks. With the completion of the Callaway Plant, the proportion of Allowance for Funds During Construction in UE's earnings will also decline significantly.

Hence, UE's financial integrity has improved substantially since March 24, 1982, and further improvement is expected by 1985 and beyond. In fact, as detailed below, UE's present capacity to raise external funds, which is in excess of $1.5 billion, assures that sufficient funds are available to safely complete construction, provide for operating costs and ultimately decommission the Callaway Plant .

5. Contrary to Joint Intervenors' assertions, UE is not now and in the future will not be operating under excessively burdensome financing restrictions. It is true that, for the fiscal year ending December 31, 1982, UE's indenture coverage was at the ratio of 2.26, which permitted UE to issue an additional $126 million of bonds (assuming 13 1/2% annual interest rate). See Supp. Contention at 5 (citation of UE Form 10-K). However,

these figures compare with the much improved indenture coverage of 2.74 as of December 31, 1983 which would have allowed UE to issue $434 million of additional bonds (13% interest rate assumed - UE Form 10-K for 1983, p. 4). As of March 31, 1984, the indenture coverage had improved even more to 2.86, which would allow UE to issue $487 million of additional bonds at the rate of 13 1/2%.

6. Similarly, as of December 31, 1982, UE's preferred stock dividend coverage ratio was 4.69, which permitted UE to issue an additional $288 million of preferred stock (assuming a 12 1/2% annual dividend rate). See Supp. Contention at 6 (citation to UE Form 10-K). By December 31, 1983, the preferred stock ratio had improved to 5.42 which would have permitted UE to issue $488 million of preferred stock (12% dividend rate assumed - UE Form 10-K for 1983, p. 4). At March 31, 1984, UE had the ability to raise even more preferred equity capital when compared to 1982, as evidenced by a preferred stock ratio of 5.80, which permits UE to issue $530 million of preferred stock at the rate of 12 1/2%.

7. Joint Intervenors also contend that creditors and investors may be slow to invest in UE. This contention is not supported by the facts. Since March 24, 1982. the date the NRC's financial qualification rule was amended to exclude public utility companies, UE has raised approximately $500 million of long term funds from the public in the capital markets and has received additional firm bank commitments for revolving credit loan agreements in the amount of $400 million. As of this date,

such bank commitments which are unused and available total $340 million.

8. Thus, from the above three items alone, UE's current financing capability is $943 million greater than it was at the end of 1982. ($361 million bonds (see 5 above), $242 million preferred (see 6 above), and $340 million bank credit loan agreements (see 7 above)).

9. In addition, UE's Dividend Reinvestment Plan is performing well, and is expected to raise approximately $60 million during 1984 without any additional public common stock offering. Further, no sale of preferred stock in 1984 is anticipated.

10. The only public financing contemplated for 1984 is a $170 million tax-exempt pollution control bond issue for which firm bank letter of credit guarantees already have been obtained. These guarantees assure a high bond rating and financial market acceptance of this issue, and further evidence the banks' belief in UE's financial integrity.

11. Another clear indication of UE's increasing financial integrity is its higher common equity ratio as a proportion of total capitalization since 1982. As of March 31, 1982, this ratio was 34.1%. As of March 31, 1984, the ratio was 36.9%. Moreover UE expects the common equity ratio to increase during 1984 without any public sale of common stock.

12. Within the past sixty days, the three nationally recognized bond rating agencies (Moody's, Standard & Poor's, and Duff & Phelps) have reviewed and affirmed our present ratings.

The agencies have also verbally stated that there had been no further deterioration since their last review and, in fact, the financial statistics of UE are improving significantly, and that upon the completion of construction of the Callaway Plant, and upon satisfactory treatment by the MPSC of our pending rate case, an upgrade in ratings would likely be in order.

13. In addition, UE has just received commitments from four banks to provide an additional $100 million of financing via bank letters of credit under our nuclear fuel financing agreement. This financing will provide for all nuclear fuel financing needs through approximately 1986.

14. The above financing capacities for bonds, preferred stock, revolving credit agreements, nuclear fuel financing agreement and issuance of a reasonable amount of common stock, provide UE with a present financing capacity in excess of $1.5 billion. This figure excludes consideration of any bank lines of credit, commercial paper or additional revolving credit agreements or letters of credit. This $1.5 billion is a substantial figure when compared to anticipated annual operating costs of approximately $100 million or anticipated decommissioning costs.

15. As of December 31, 1982, approximately $1.8 billion had been spent at Callaway (in total) and, based on a $2.85 billion expected cost for the project, it was anticipated that in excess of $1 billion additional would need to be expended. At March 31, 1984, only approximately $100 million of direct capital investments remain to be made at the Callaway Plant. In

addition, there will be approximately $200 million of financing costs. Thus, remaining costs for Callaway Plant construction are only $300 million. (Almost all of this investment will be made in 1984, with very small expenditures on Callaway in 1985).

16. With respect to overall UE construction financing, projected 3-year cash construction expenditures, as of December 31, 1982, were in excess of $800 million, but as of December 31, 1983, were only approximately $550 million. These comparisons reflect a reduced need for financial market access.

17. Contrary to the suggestion of Joint Intervenors, and notwithstanding the planned phase-in of rates, in 1985 and 1986 (and even for the entire five years 1985-1989) UE expects to provide internally all of the funds needed for its total construction program.

Other Allegations of Joint Intervenors

18. Contrary to the suggestion of Joint Intervenors, there is a clear need for the additional generating capacity which the Callaway Plant represents. Without Callaway, UE's reserve margin would fall to 9.1% in 1985, which is significantly below the industry minimum reserve standard. With Callaway, UE's reserve margin will be 27.4% in 1985, a reasonable level in a year when a new unit is added, especially in light of the nature of UE's system. Accordingly, notwithstanding Joint Intervenors' opposition before the MPSC, UE expects to obtain a favorable decision that the costs of the Callaway plant will be included in the rate base.

19. Contrary to the suggestion of Joint Intervenors, management has been prudent in the construction of the Callaway Plant. Callaway is one of the better planned and managed nuclear power projects in its time frame as evidenced by comparing its costs and construction duration with other units being constructed by other utilities building their first nuclear units in this same period. Thus, notwithstanding Joint Intervenors' opposition before the MPSC, UE expects it will obtain a favorable decision that the costs of construction will be allowable as a part of the rate base because the money has been spent prudently.

20. UE's forecast for the consumption of electricity is an increase of 2.1% per year. This conservative estimate during a period of economic recovery does not support Joint Intervenors' contention of strong dependence by UE on growth in consumption. In any event, the financial capability described above would not be significantly affected by any possible shortfall in UE's predicted growth in electric consumption. On the other hand, our financial capability would be enhanced should our growth assumptions prove conservative.

21. With regard to UE's ability to withstand outages of Callaway, UE plans to carry replacement power cost insurance.

C. W. Mueller

Subscribed and sworn to before me this 3rd day of May, 1984.

Mary C. Guinn

MARY C. GUINN
NOTARY PUBLIC—STATE OF MISSOURI
ST. LOUIS CITY
MY COMMISSION EXPIRES JUNE 16, 1986