

Exhibit No.:
Issues: Capital Structure
Witness: Michael G. O'Bryan
Sponsoring Party: Union Electric Co.
Type of Exhibit: Direct Testimony
Case No.: ER-2010-_____
Date Testimony Prepared: July 24, 2009

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2010-_____

DIRECT TESTIMONY

OF

MICHAEL G. O'BRYAN

ON

BEHALF OF

UNION ELECTRIC COMPANY

d/b/a AmerenUE

**St. Louis, Missouri
July, 2009**

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1 **DIRECT TESTIMONY**
2 **OF**
3 **MICHAEL G. O'BRYAN**
4 **CASE NO. ER-2010-_____**

5 **I. INTRODUCTION**

6 **Q. Please state your name and business address.**

7 A. My name is Michael G. O'Bryan. My business address is One Ameren
8 Plaza, 1901 Chouteau Avenue, St. Louis, Missouri.

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

10 A. I hold the position of Senior Capital Markets Specialist in Corporate
11 Finance for Ameren Services Company ("Ameren Services").

12 **Q. Please summarize your educational background and professional**
13 **experience.**

14 A. Prior to accepting my current position at Ameren Services, I was
15 employed by A.G. Edwards in St. Louis, Missouri as a Vice President in Investment
16 Banking. I focused on business development and transaction execution with both
17 investor-owned utilities and public power entities. I was also involved in structuring and
18 analyzing fixed-income transactions for clients.

19 Upon receiving my undergraduate degree, I took a position at
20 A.G. Edwards in Investment Banking as a Research Assistant and then Analyst, focusing
21 on the investor-owned utilities sector. I was responsible for transaction support and
22 marketing as well as general financial analysis of clients, capital markets transactions and
23 mergers and acquisitions. I was later promoted to Senior Analyst where I focused to a
24 greater degree on business development and the execution of clients' transactions. I then

1 moved into Debt Capital Markets concentrating solely on fixed-income execution and
2 business development for clients in several different industries. I graduated *cum laude*
3 with a Bachelor of Science degree in Business Administration with a concentration in
4 Finance from the University of Missouri – Columbia in 1992. I later earned an MBA
5 from Saint Louis University's John Cook School of Business in 1998.

6 **Q. What are your responsibilities in your current position with Ameren**
7 **Services?**

8 A. In my current position, I am involved in Ameren's corporate financing,
9 cost of capital, financial analysis and modeling activities as well as monitoring capital
10 markets and bank credit markets to stay current on rates, structures and opportunities. I
11 communicate regularly with investment bankers and debt capital markets personnel to
12 obtain market intelligence. I also closely follow the actions of the rating agencies for
13 trends and changes in ratings methodology largely for internal ratings maintenance
14 purposes.

15 **II. PURPOSE AND SUMMARY OF TESTIMONY**

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

17 A. The purpose of my direct testimony is to recommend an overall fair rate of
18 return for Union Electric Company d/b/a AmerenUE's ("AmerenUE" or "Company")
19 electric utility business. I determine AmerenUE's capital structure, embedded cost of
20 long-term debt, cost of short-term debt and embedded cost of preferred stock. I also
21 calculate the overall fair rate of return applied to rate base which is utilized in
22 AmerenUE's filing in this case. I do so by using the fair rate of return applicable to the

1 common equity component of AmerenUE's capital structure as developed by AmerenUE
2 witness Dr. Roger A. Morin in his direct testimony submitted in this case.

3 **Q. Have you prepared or has there been prepared under your direction**
4 **and supervision any schedules relating to overall fair rate of return in this**
5 **proceeding?**

6 A. Yes, I am sponsoring Schedules MGO-E1 through MGO-E4 for that
7 purpose. These schedules are based upon the last twelve months ended March 31, 2009.
8 The schedules are designated as follows:

9 Schedule MGO-E1 Capital Structure / Weighted Average Cost of Capital
10 Schedule MGO-E2 Embedded Cost of Long-Term Debt
11 Schedule MGO-E3 Cost of Short-Term Debt
12 Schedule MGO-E4 Embedded Cost of Preferred Stock

13 **III. METHODOLOGY AND REASONING**

14 **Q. How did you calculate the overall fair rate of return or weighted**
15 **average cost of capital for AmerenUE?**

16 A. In order to derive AmerenUE's overall fair rate of return, I multiplied the
17 relative weighting or proportion of each component of AmerenUE's capital structure by
18 the cost developed for that component. I then summed these weighted costs by
19 component to arrive at AmerenUE's overall fair rate of return or weighted average cost of
20 capital.

21 **Q. What is the primary standard for determining a fair rate of return?**

22 A. The primary standard used in the determination of a fair rate of return is
23 the cost of capital. This cost, the overall rate of return or weighted average cost of

1 capital, must produce sufficient earnings/cash flow when applied to AmerenUE's rate
2 base at book value to enable the Company to accomplish the following:

- 3 1) maintain the financial integrity of its existing invested
4 capital;
5 2) maintain its creditworthiness; and
6 3) attract sufficient capital on competitive terms to continue to
7 provide a source of funds for continued investment and
8 enable the Company to meet the needs of its customers.

9 **Q. Why must AmerenUE meet these requirements?**

10 A. Beyond the fact that these three standards are effectively mandated by the
11 landmark Bluefield and Hope U.S. Supreme Court decisions,¹ meeting these
12 requirements is necessary in order for AmerenUE to effectively meet the electric utility
13 services requirements of its customers and provide an adequate and reasonable return to
14 its investors, debt holders and equity holders alike. The assets owned by AmerenUE are
15 employed in meeting its customers' electric utility services requirements. These assets
16 exist and are available for this purpose only because investors have entrusted their funds
17 with AmerenUE and deemed an investment in the securities issued by the Company to be
18 sound and capable of providing a competitive return.

19 AmerenUE must maintain its creditworthiness in order to continue to
20 attract capital on a competitive basis. This is important to assure future opportunities for
21 AmerenUE to replace capital and various securities which must be refinanced in the
22 future at reasonable cost. Also, the ability of AmerenUE to attract new capital on

¹ Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923) and Federal Power Commission v. Hope Natural Gas Company, 320 U.S. 391 (1944).

1 competitive terms is critical in order for the Company to continue to replace and upgrade
2 facilities used to meet the electric utility services needs of its customers and finance
3 investment related to meeting environmental compliance standards.

4 **IV. CAPITAL STRUCTURE AND COSTS OF CAPITAL**

5 **Q. Please describe the capital structure of AmerenUE.**

6 A. As outlined on Schedule MGO-E1, the capital structure of AmerenUE on
7 March 31, 2009 consisted of 51.008% long-term debt, no short-term debt, 1.600%
8 preferred stock and 47.392% common equity.

9 **Q. How were the balances of the components of AmerenUE's capital**
10 **structure determined?**

11 A. The balance of long-term debt, \$3,651,044,928, is the total carrying value
12 of the Company's long-term debt using the net proceeds method. The net proceeds
13 method calculates the carrying value by taking the indebtedness principal amount
14 outstanding and subtracting the unamortized discount, issuance expenses and any loss on
15 reacquired debt.

16 The zero balance of short-term debt is the last twelve-month average net
17 short-term debt – see Schedule MGO-E3. This approach measures the average monthly
18 short-term debt balance, less Construction Work in Progress (“CWIP”), over the last
19 twelve months ended March 31, 2009. It recognizes that short-term debt balances can
20 fluctuate substantially during the year and includes in the Company's capital structure
21 only that portion of short-term debt which may represent permanent capital, i.e. the extent
22 to which short-term debt plays a continual role on the financing of long-term assets.

1 The balance of preferred stock, \$114,502,040, is also the carrying value or
2 net proceeds amount of AmerenUE's preferred stock as found in the embedded cost
3 calculation for this component of capitalization.

4 The balance of common equity, \$3,392,179,086, represents AmerenUE's
5 actual stated book value of common equity at March 31, 2009. This amount is typically
6 adjusted for total other comprehensive income which was zero as of March 31, 2009.

7 **Q. What is the embedded cost of AmerenUE's long-term debt?**

8 A. AmerenUE's embedded cost of long-term debt was 5.967% as of
9 March 31, 2009. Schedule MGO-E2 provides the calculation of the embedded cost of
10 long-term debt. AmerenUE has \$207.5 million principal amount of variable rate
11 environmental improvement indebtedness (in various series) outstanding under which the
12 interest rates are reset by a Dutch auction process every 35 days. The effective cost used
13 for this indebtedness for purposes of this proceeding was derived using prevailing rates as
14 of May 29, 2009 for these securities including related auction broker/dealer fees.

15 **Q. Did you make any adjustments to AmerenUE's long-term debt**
16 **balance?**

17 A. I did not include the Company's obligations under capital leases related to
18 the Chapter 100 "financing" of its Penon Creek (City of Bowling Green) and Audrain
19 County gas-fired generating facilities. These transactions and related capital leases did
20 not generate any proceeds nor were they a source of new capital for the Company.

21 **Q. What is the embedded cost of AmerenUE's preferred stock?**

22 A. AmerenUE's embedded cost of preferred stock was 5.189% as of March
23 31, 2009. Schedule MGO-E4 provides the calculation of the embedded cost of preferred

1 stock. Using the net proceeds method of calculating the balance of preferred stock, the
2 balance outstanding as of December 31, 2007 was \$114,502,040.

3 **Q. Did you consider expenses associated with AmerenUE's issuance of**
4 **preferred stock in developing the embedded cost of this component of the**
5 **Company's capital structure?**

6 A. Yes, I did. I included expenses associated with the issuance of preferred
7 stock, including discount and premium, plus any loss incurred in acquiring/redeeming
8 prior series, in the embedded cost calculation. These costs are illustrated in the cost
9 calculations shown on Schedule MGO-E4. Unlike similar expenses incurred in
10 connection with the issuance of long-term debt, for accounting purposes these expenses
11 are not amortized over the life of the particular series of preferred stock due to the
12 perpetual nature of this form of capitalization. Nonetheless, for economic purposes it is
13 reasonable to recognize these costs in establishing an overall fair rate of return for the
14 Company.

15 **Q. In what manner will AmerenUE obtain debt and preferred stock**
16 **capital in the future?**

17 A. AmerenUE expects to continue to issue its own long-term debt and
18 preferred stock securities in the external capital markets. Short-term borrowings can be
19 obtained from the capital or bank markets, Ameren Corporation, or through Ameren
20 Corporation's Utility Money Pool, depending on the best borrowing rates and
21 availability.

22 **Q. What is the cost of common equity for AmerenUE?**

1 A. In his direct testimony in this case, Dr. Morin develops and supports a fair
2 rate of return on common equity for AmerenUE's electric utility operations of 11.500%.
3 Therefore, for purposes of determining the overall fair rate of return for AmerenUE in
4 this proceeding, I use 11.500% as the Company's cost of common equity.

5 **V. FAIR RATE OF RETURN**

6 **Q. What is the overall fair rate of return for AmerenUE for this**
7 **proceeding?**

8 A. As shown on Schedule MGO-E1, as of March 31, 2009, the overall fair
9 rate of return for AmerenUE is 8.577%. I derived this result by using the capital structure
10 and embedded costs of long-term debt, short-term debt and preferred stock discussed
11 above, and shown on the various schedules attached, along with the cost of common
12 equity for AmerenUE developed by Dr. Morin in his testimony.

13 **Q. Does this conclude your direct testimony?**

14 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-2010-

AFFIDAVIT OF MICHAEL G. O'BRYAN

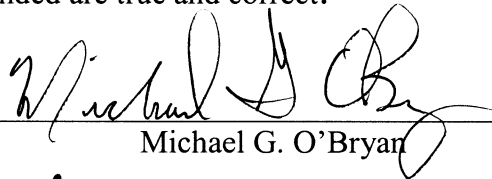
STATE OF MISSOURI)
) ss
CITY OF ST. LOUIS)

Michael G. O'Bryan, being first duly sworn on his oath, states:

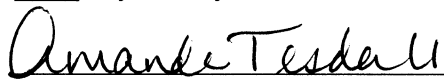
1. My name is Michael G. O'Bryan. I work in the City of St. Louis, Missouri, and I am employed by Ameren Services Company as Senior Capital Markets Specialist.

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 8 pages, Schedules MGO-E1 through MGO-E4, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.

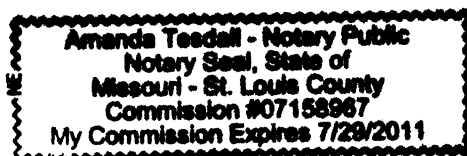
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.


Michael G. O'Bryan

Subscribed and sworn to before me this 24th day of July, 2009.


Notary Public

My commission expires:



**Union Electric Company d/b/a AmerenUE
Capital Structure/Weighted Average Cost of Capital**

at 3/31/2009:

CAPITAL COMPONENT	AMOUNT	PERCENT OF TOTAL	COST	WEIGHTED COST
Long-Term Debt	\$3,651,044,928	51.008%	5.967%	3.044%
Short-Term Debt	\$0	0.000%	0.928%	0.000%
Preferred Stock	\$114,502,040	1.600%	5.189%	0.083%
Common Equity	\$3,392,179,086	47.392%	11.500%	5.450%
TOTAL	\$7,157,726,054	100.000%		8.577%

**Union Electric Company d/b/a AmerenUE
Embedded Cost of Long-Term Debt**

At March 31, 2009

SERIES C1	COUPON (a) C2	ISSUED C3	MATURITY C4	PRINCIPAL C5	FACE AMOUNT OUTSTANDING C6	UNAMORTIZED BALANCES			CARRYING VALUE C10	ANNUALIZED COUPON INT. C11	ANNUALIZED AMORTIZATION			ANNUALIZED INT. EXP. C15	EMBEDDED COST C16
						DISC/(PREM) C7	ISSUE EXP. C8	LOSS C9			DISC/(PREM) C12	ISSUE EXP C13	LOSS C14		
Senior Secured Notes	5.250%	22-Aug-02	01-Sep-12	\$173,000,000	\$173,000,000	\$69,167	\$418,487			\$9,082,500	\$20,244	\$122,484			
Senior Secured Notes	4.650%	07-Oct-03	01-Oct-13	\$200,000,000	\$200,000,000	\$178,794	\$714,150			\$9,300,000	\$39,732	\$158,700			
Senior Secured Notes	5.500%	18-May-04	15-May-14	\$104,000,000	\$104,000,000	\$183,210	\$385,764			\$5,720,000	\$35,460	\$74,664			
Senior Secured Notes	4.750%	09-Apr-03	01-Apr-15	\$114,000,000	\$114,000,000	\$92,952	\$453,744			\$5,415,000	\$15,492	\$75,624			
Senior Secured Notes	5.400%	08-Dec-05	01-Feb-16	\$260,000,000	\$260,000,000	\$502,316	\$1,306,171			\$14,040,000	\$72,624	\$188,844			
Senior Secured Notes	6.400%	15-Jun-07	15-Jun-17	\$425,000,000	\$425,000,000	\$308,484	\$2,593,404			\$27,200,000	\$37,392	\$314,352			
Senior Secured Notes	6.000%	08-Apr-08	01-Apr-18	\$250,000,000	\$250,000,000	\$679,428	\$1,673,244			\$15,000,000	\$75,492	\$185,916			
Senior Secured Notes	5.100%	28-Jul-03	01-Aug-18	\$200,000,000	\$200,000,000	\$65,968	\$1,071,280			\$10,200,000	\$7,068	\$114,780			
Senior Secured Notes	6.700%	19-Jun-08	01-Feb-19	\$450,000,000	\$450,000,000	\$1,224,958	\$3,097,618			\$30,150,000	\$124,572	\$315,012			
Senior Secured Notes	5.100%	23-Sep-04	01-Oct-19	\$300,000,000	\$300,000,000	\$90,216	\$1,687,266			\$15,300,000	\$8,592	\$160,692			
Senior Secured Notes	5.000%	27-Jan-05	01-Feb-20	\$85,000,000	\$85,000,000	\$486,200	\$516,230			\$4,250,000	\$44,880	\$47,652			
First Mortgage Bonds	5.450%	15-Oct-93	01-Oct-28	\$44,000,000	\$44,000,000	\$190,242	\$349,362			\$2,398,000	\$9,756	\$17,916			
Senior Secured Notes	5.500%	10-Mar-03	15-Mar-34	\$184,000,000	\$184,000,000	\$1,653,000	\$1,450,800			\$10,120,000	\$66,120	\$58,032			
Senior Secured Notes	5.300%	21-Jul-05	01-Aug-37	\$300,000,000	\$300,000,000	\$900,320	\$2,640,100			\$15,900,000	\$31,776	\$93,180			
Senior Secured Notes	8.450%	20-Mar-09	15-Mar-39	\$350,000,000	\$350,000,000	\$1,165,320	\$3,196,800			\$29,575,000	\$38,844	\$106,560			
Subordinated Debentures	7.690%	16-Dec-96	15-Dec-36	\$65,500,000	\$65,500,000	\$397,602	\$91,908			\$5,036,950	\$14,328	\$3,312			
Environmental Improvement, Series 1992	1.125%	01-Dec-92	01-Dec-22	\$47,500,000	\$47,500,000		\$443,647			\$534,375		\$97,800			
Environmental Improvement, Series 1998 ABC	1.210%	04-Sep-98	01-Sep-33	\$160,000,000	\$160,000,000		\$1,969,953			\$1,935,300		\$391,452			
TOTAL LONG-TERM DEBT				\$3,712,000,000	\$3,712,000,000	\$8,188,177	\$24,059,928	\$28,706,967	\$3,651,044,928	\$211,157,125	\$642,372	\$2,526,972	\$3,548,280	\$217,874,749	5.967%

Carrying Value = Face Amount Outstanding less Unamortized Discount, Issuance Expenses, and Loss on Reacquired Debt

C10 = C6 - C7 - C8 - C9

Annualized Interest Expense = Annual Coupon Interest plus Annual Amortization of Discount, Issuance Expenses, and Loss on Reacquired Debt

C15 = C11 + C12 + C13 + C14

Embedded Cost = Annualized Interest Expense divided by Carrying Value

C16 = C15 / C10

(a) Coupon rate for variable rate auction securities reflects prevailing rates as of 5/29/09 and includes ongoing broker dealer fees.

**Union Electric Company d/b/a AmerenUE
Cost of Short-Term Debt**

MONTH C1	BALANCE OF SHORT-TERM DEBT (a) C2	BALANCE OF TOTAL CWIP C3	BALANCE OF CWIP ACCRUING AFUDC C4	NET AMOUNT OUTSTANDING C5	INTEREST RATE C6
April 2008	\$168,700,000	\$699,531,784	\$696,761,056	0	3.274%
May	493,300,000	729,011,271	736,238,880	0	3.247%
June	82,300,000	728,056,266	744,951,209	0	3.467%
July	0	675,785,497	781,275,685	0	3.768%
August	0	734,733,237	818,338,141	0	3.750%
September	17,400,000	754,273,314	867,417,925	0	3.501%
October	82,900,000	779,286,044	796,612,413	0	4.028%
November	163,400,000	841,592,957	854,220,614	0	2.035%
December	342,500,000	890,814,826	925,912,410	0	1.279%
January 2009	498,500,000	890,441,062	909,203,721	0	1.059%
February	556,000,000	921,848,042	923,615,920	0	1.184%
March	269,439,000	943,774,020	919,212,603	0	1.122%
AVERAGE	\$222,869,917	\$799,095,693	\$831,146,715	\$0	

C5 Net Amount Outstanding = Balance of Short-Term Debt less Balance of CWIP Accruing AFUDC

$$C5 = C2 - C4$$

(a) Short-term debt amounts are net of cash and short-term investments. Negative amounts are excluded.

**Union Electric Company d/b/a AmerenUE
Embedded Cost of Preferred Stock**

at March 31, 2009

SERIES, TYPE, PAR C1	DIVIDEND C2	ISSUED C3	MATURITY C4	SHARES OUTSTANDING C5	PAR ISSUED/ OUTSTANDING C6	PREMIUM C7	ISSUANCE EXPENSE/DISCOUNT C8	NET PROCEEDS C9	ANNUAL DIVIDEND C10	EMBEDDED COST C11
\$4.50 Series, Perpetual, \$100 par	\$4.500	01-May-41	-	213,595	\$21,359,500	(\$825,000)	\$440,294	\$21,744,206	\$961,178	
\$5.50 Series, Perpetual, \$100 par	\$5.500	01-Oct-41	-	14,000	\$1,400,000			\$1,400,000	\$77,000	
\$3.70 Series, Perpetual, \$100 par	\$3.700	01-Oct-45	-	40,000	\$4,000,000	(\$70,000)	\$69,396	\$4,000,604	\$148,000	
\$3.50 Series, Perpetual, \$100 par	\$3.500	01-May-46	-	130,000	\$13,000,000	(\$910,000)	\$252,772	\$13,657,228	\$455,000	
\$4.30 Series, Perpetual, \$100 par	\$4.300	01-Jul-46	-	40,000	\$4,000,000			\$4,000,000	\$172,000	
\$4.75 Series, Perpetual, \$100 par	\$4.750	01-Oct-49	-	20,000	\$2,000,000			\$2,000,000	\$95,000	
\$4.00 Series, Perpetual, \$100 par	\$4.000	01-Nov-49	-	150,000	\$15,000,000	(\$384,000)	\$326,896	\$15,057,104	\$600,000	
\$4.56 Series, Perpetual, \$100 par	\$4.560	01-Nov-63	-	200,000	\$20,000,000	(\$266,000)	\$297,633	\$19,968,367	\$912,000	
\$7.64 Series, Perpetual, \$100 par	\$7.640	01-Jan-93	-	330,000	\$33,000,000		\$325,469	\$32,674,531	\$2,521,200	
TOTAL PREFERRED STOCK					\$113,759,500	(\$2,455,000)	\$1,712,460	\$114,502,040	\$5,941,378	5.189%

issuance expenses, discount/premium, and any loss incurred in acquiring/redeeming prior series are not amortized due to the perpetual nature of the company's preferred stock

Net Proceeds = Par Value Outstanding plus Premium less Issuance Expense and Discount

$$C9 = C6 + C7 - C8$$

Embedded Cost = Annual Dividend divided by Net Proceeds

$$C11 = C10 / C9$$