Exhibit No.:	
Issues:	Policy; FAC/OSS proposal; Low Income/Energy Efficiency; Demand-Side Management
Witness:	Warner L. Baxter
Sponsoring Party:	Union Electric Company
Type of Exhibit:	Surrebuttal Testimony
Case No.:	ER-2007-0002
Date Testimony Prepared:	February 27, 2007

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2007-0002

SURREBUTTAL TESTIMONY

OF

WARNER L. BAXTER

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a AmerenUE

St. Louis, Missouri
February, 2007

SURREBUTTAL TESTIMONY

OF

WARNER L. BAXTER

CASE NO. ER-2007-0002

Q. Please state your name and business address.

A. My name is Warner L. Baxter. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63166-6149.

Q. Are you the same Warner L. Baxter that filed Direct and Rebuttal Testimony in this proceeding?

A. Yes, I am.

Q. What is the purpose of your Surrebuttal Testimony in this proceeding?

A. My Surrebuttal Testimony will address (1) AmerenUE's revised fuel adjustment clause (FAC) and off-system sales (OSS) proposal in light of concerns expressed by various parties in their rebuttal testimonies, and (2) AmerenUE's willingness to provide funding for certain low income/energy efficiency programs as part of its revised FAC/OSS proposal. In addition, I will provide the Commission with updated rate information that is more current than that provided in a chart contained in my earlier testimony. Finally I will address AmerenUE's commitment to pursuing demand-side management programs through the Integrated Resource Planning process that is already under way.

Q. Several parties filed testimony in opposition to AmerenUE's proposed FAC. In light of this opposition, is AmerenUE still proposing to adopt an FAC in this proceeding?

A. Yes we are. The testimony filed by other parties has not changed our position that the fuel adjustment clause is a mainstream cost recovery mechanism that is used in the overwhelming majority of other states and by the overwhelming majority of other utilities. For these reasons, as well as other reasons we have reflected in previous testimony in this case, an FAC is both appropriate and necessary for AmerenUE. As explained in detail in the testimony in this proceeding sponsored by AmerenUE witness Martin J. Lyons, Jr., FACs are used by most utilities like AmerenUE that rely primarily on coal-fired power generation. In addition, administration of FACs has not proven to be unduly burdensome for the many other state commissions that employ them. Importantly, FACs provide a practical vehicle for addressing volatile costs that are largely outside of the control of utilities and they clearly represent the mainstream of U.S. utility regulatory policy. Consequently, we see no reason that the Commission should not adopt an FAC for AmerenUE in this case.

Q. In his Rebuttal Testimony, Staff witness Warren T. Wood argues that AmerenUE does not need an FAC because the Company's off-system sales margins provide a natural offset to fuel cost changes. Do you agree with Mr. Wood?

A. No. As explained in detail in the Surrebuttal Testimony of AmerenUE witness Shawn E. Schukar, off-system sales margins clearly do not provide a natural offset to changes in fuel costs AmerenUE faces in the provision of service to its native load customers. As Mr. Schukar points out, as our fuel costs rise, the level of economic generation that we have available for off-system sales decreases, as do our margins on off-system sales. In addition, AmerenUE continues to experience organic growth in its service territory. As native load customers' demand increases, our excess generation available for off-system sales decreases. Consequently, while our fuel costs necessary to meet this native load demand continue to rise, our level of off-system sales and related margins will continue to decline. These factors, among others more fully described in Mr. Schukar's Surrebuttal Testimony, explain why it is not valid for the Commission to reject an FAC for AmerenUE on the basis that off-system sales margin increases provide a natural offset to increases in fuel costs.

Q. Is the Company proposing to revise its proposal for the FAC and its treatment of off-system sales margins?

A. Yes. In order to address several concerns related to the operation of the FAC, as well as the treatment of OSS margins, we are making meaningful changes to our original proposal in this case.

Q. In order to better understand your revised proposal, please briefly describe the Company's original proposal related to the FAC and the treatment of OSS margins.

A. In summary, our original FAC proposal sought to recover any changes in our prudently incurred fuel, transportation and purchased power costs through the FAC with adjustments occurring four times per year. Our original proposal also did not include a volatility mitigation provision. That is, any changes in fuel costs would be recovered from customers without regard to the level of change in rates. Finally, our original proposal treated OSS margins outside the FAC. Instead, we proposed that an appropriate level of OSS margins be reflected in base rates, or be handled through a sharing mechanism.

Q. Please briefly describe the Company's revised FAC/OSS proposal.

A. Mr. Lyons explains the details of our proposal in his Surrebuttal Testimony. While we continue to believe, based upon the updated analysis of normalized test year OSS margins and their relationship to AmerenUE's fuel prices as discussed by Mr. Schukar in his February 27, 2007 Surrebuttal Testimony, that our original proposal to treat OSS margins outside the FAC and the alternative sharing proposal we offered in Direct Testimony are appropriate and acceptable, we have developed a compromise position. In summary, our revised FAC/OSS proposal incorporates the following key provisions:

- In calculating the FAC adjustment, the Company will net off-system sales revenues against fuel costs.
- We have included an incentive mechanism (i.e. sharing grid) that will permit the Company to share in a portion of future reductions in net fuel costs (i.e. total fuel costs net of OSS revenues) relative to the net fuel costs established in base rates.
- We have incorporated a volatility mitigation mechanism whereby the level of increase in net fuel costs charged to customers will be capped and collected over future periods to minimize significant changes in the rates charged to our customers.
- Over- and under-recoveries will now be recovered over 12 months versus quarterly.
- The maximum possible number of FAC filings will be reduced from four times per year to three times per year.

- The Company will provide a $2 million per year contribution to low income energy assistance programs and a $600,000 per year contribution to its weatherization program that will not be recovered from ratepayers, if our revised FAC/OSS proposal is adopted.

Q. Please explain how your revised proposal addresses the major concerns of certain parties in this case.

A. As described in the Surrebuttal Testimony of Mr. Lyons, first and most significantly, to address concerns raised by other parties about the difficulty of allocating costs between power generated to serve native load and off-system sales, the Company is proposing to adopt Missouri Industrial Energy Consumers witness Maurice Brubaker's suggestion to net off-system sales revenues against fuel costs in calculating the FAC adjustment. This will eliminate the need to allocate fuel and Midwest Independent Transmission System Operator, Inc. (MISO) costs for the purpose of the FAC, and meaningfully eliminate a complicating factor in the operation of the FAC. Other parties' cost allocation concerns should be completely resolved by our revised proposal.

Q. If all fuel costs and off-system sales revenues are included in the adjustment mechanism, won't that eliminate important incentives for AmerenUE to operate its plants efficiently to lower costs and maximize off-system sales revenues?

A. If 100% of fuel costs and OSS revenues were flowed through the adjustment mechanism, important incentives for AmerenUE to operate efficiently and maximize off-system sales revenues would be eliminated. However, in our revised FAC/OSS proposal, the Company has proposed a sharing grid that would permit it to share in a portion of future reductions in net fuel costs (i.e., total fuel costs net of OSS revenues). The sharing grid is set forth in the Surrebuttal Testimony of Mr. Lyons.

An important change in this approach from our original proposal is that the Company must first offset any increases in its fuel costs with higher off-system sales margins before it is allowed to share in the benefits of higher levels of off-system sales. As I stated previously, changes in fuel costs and off-system sales revenues were not linked in the Company's original proposal. Given the increasing fuel costs faced by the Company, the sharing grid establishes ambitious targets for net fuel cost savings and it also limits the Company's potential share of the savings. I strongly believe that this change in approach in the treatment of fuel costs and OSS revenues, coupled with the incentive mechanism, represents a significant compromise to bridge a meaningful gap between the parties in the case. At the same time, this approach also provides important incentives for the Company to maintain and improve upon its efficient operations, as well as provides the Company the ability to recover all of its prudently incurred fuel costs.

Q. Were other suggestions of the parties incorporated into the Company's revised FAC/OSS proposal?

A. Yes. Both Office of the Public Counsel witness Russell Trippensee and Noranda witness Donald Johnstone expressed concerns about the potential impact on rates of significant increases in fuel costs, both in terms of the magnitude of the potential FAC adjustments, and potential rate volatility. In response to those concerns, the Company is proposing to incorporate several measures into its revised FAC/OSS proposal. Specifically we are proposing to (a) reduce the maximum possible number of FAC filings from four per year to three per year; (b) adopt a 4% cap on the extent to which FAC adjustments can increase average retail rates, based largely on Mr. Johnstone's recommendation (but with the 4% cap to be based upon the Company's average rates, not just on the rate that applies to Noranda); changes above that 4% cap will be recovered over future periods; and (c) spread over- or under-recoveries over 12 months (rather than only the next quarter) as recommended by both Messrs. Trippensee and Johnstone. We believe that these measures will substantially mitigate the impact of FAC-related rate changes on our customers.

Q. You mentioned that AmerenUE is willing to agree to contribute to certain low income programs as part of its revised FAC/OSS proposal. Could you please explain this part of the Company's proposal?

A. Yes. AmerenUE shares other parties' concerns about the impact of higher rates and charges in future periods due to the FAC on low income customers. To assist low income customers, the Company has traditionally sponsored programs such as its weatherization program, the Dollar More program, which provides funds to pay energy bills of low income customers, and other similar programs. In this case, Staff witness Lena Mantle has recommended that the Company's existing low income weatherization program be continued, with half of the $1.2 million per year cost being included in rates and the other half being paid for by the Company's shareholders. AmerenUE would be willing to provide the weatherization funding, shared between shareholders and ratepayers as suggested by Ms. Mantle, as part of its revised FAC/OSS program. As an additional part of its revised FAC/OSS program, AmerenUE would be willing to commit to fund $2 million per year to help low income consumers through Dollar More. We are hopeful that with these additions, it will be clear that the revised FAC/OSS program will provide real benefits to low income customers as well as other stakeholders.

Q. Do you have any further comments on the Company's revised FAC/OSS proposal?

A. Yes. To summarize, the Company has carefully listened to the issues and concerns raised by other parties in the case related to the FAC and treatment of OSS revenues. In an effort to strike a fair compromise that addresses the major concerns of these stakeholders, yet provide AmerenUE with the ability to recover all of its prudently incurred costs in a timely fashion and provide proper incentives, the Company has made significant changes to its original proposal. In my view, our revised proposal balances the interests of all stakeholders, and when coupled with the rules and laws under which the FAC must operate, provides significant consumer protections.

Q. You also mentioned that you are updating information previously provided with current data. Can you please explain those updates?

A. Yes. I am sponsoring a chart attached hereto as Schedule WLB-15, that is simply an update of the chart that was previously provided as Schedule WLB-13. The chart has been revised to include information about Kansas City Power & Light Company's (KCPL) recently filed rate increase request so that the Commission has complete and up-to-date information. Based on the updated data shown on that chart, should the Commission grant the pending KCPL and Aquila rate increase requests, AmerenUE's electric rates would still be 12.1% below the average retail rates of all the other Missouri investor-owned electric utilities even if the Commission grants AmerenUE's entire rate increase request.

Q. Finally, you mentioned AmerenUE's commitment to demand side management (DSM) programs. Please explain what AmerenUE is proposing.

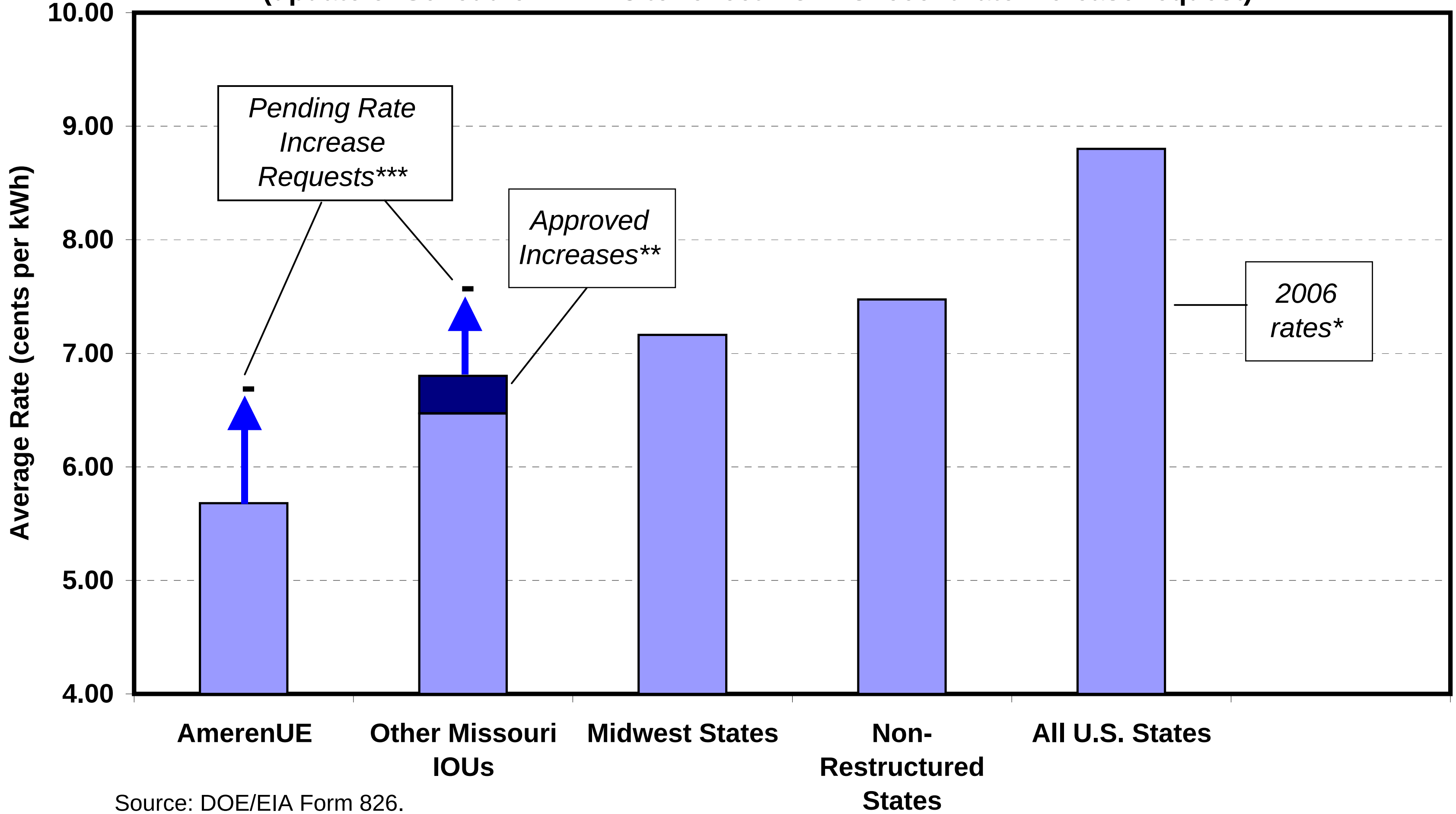
A. In my Direct Testimony filed last July, I stated that it was important for AmerenUE to work with other stakeholders to continue AmerenUE's sponsorship of appropriate demand-side programs. Since that testimony was filed, AmerenUE and the other stakeholders have made progress in this area, as described further in the Surrebuttal Testimony of AmerenUE witness Michael Moehn. As part of the collaborative process resulting from the Integrated Resources Plan case, the parties have participated in a number of workshops addressing DSM. They have jointly selected a consultant to assist them in evaluating DSM programs, and have established a timetable for selection and implementation of appropriate DSM initiatives. In addition, Staff witness Lena Mantle has proposed, in her Direct Testimony in this proceeding, a funding mechanism for developing, implementing and evaluating cost-effective DSM programs. For its part, as explained in Mr. Moehn's Surrebuttal Testimony, the Company has established a *minimum* funding goal for DSM programs at the average level for all utilities in the U.S. This minimum funding goal would not override the evaluation of the programs by the stakeholder group or its consultant, but is designed to demonstrate AmerenUE's commitment to pursuing worthwhile DSM programs. I am optimistic that the efforts of all stakeholders will result in the implementation of cost-effective DSM programs which will benefit all Missourians.

Q. Does this conclude your Surrebuttal Testimony?

A. Yes, it does.

AmerenUE Average Retail Rates with Requested Increase Compared to Other Utilities

(update of Schedule WLB-13 to reflect KCPL's recent rate increase request)



Source: DOE/EIA Form 826.

* U.S. based on 2006 annual DOE data; rest based on rates in effect for twelve months ending October 2006.

** Rate increases recently approved for Empire District Electric and Kansas City Power & Light.

*** Arrows reflect initially-requested increases by AmerenUE and Aquila in their 2006 filings and KCPL in its 2007 rate filing.

Non-restructured states are those states that have not deregulated the generation of electricity, similar to Missouri.

Midwest states based on Census Region definitions.

Other Missouri IOUs are Aquila, Empire District Electric, and Kansas City Power & Light.

Retail customers include residential, commercial, and industrial customers.

Schedule WLB-15

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 WARNER L. BAXTER

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

Warner L. Baxter, being first duly sworn on his oath, states:

1. My name is Warner L. Baxter. I work in St. Louis, Missouri and I am employed by Ameren Services Company as President and Chief Executive Officer.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Union Electric Company d/b/a AmerenUE consisting of 9 pages and Schedule WLB-15, 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.

Warner L. Baxter

Subscribed and sworn to before me this 27 day of February, 2007.

Notary Public

My commission expires: May 19, 2008

CAROLYN J. WOODSTOCK
Notary Public - Notary Seal
STATE OF MISSOURI
Franklin County
My Comm[illegible] May 19, 2008