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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2010-_____

DIRECT TESTIMONY OF

WARNER L. BAXTER

ON BEHALF OF

UNION ELECTRIC COMPANY

d/b/a AmerenUE

**St. Louis, Missouri
June, 2010**

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1 **DIRECT TESTIMONY**

2 **OF**

3 **WARNER L. BAXTER**

4 **CASE NO. GR-2010-_____**

5
6 **I. INTRODUCTION**

7 **Q. Would you please state your name and business address?**

8 A. My name is Warner L. Baxter and my business address is One Ameren
9 Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

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

11 A. I am employed by Union Electric Company d/b/a AmerenUE (“Company”
12 or “AmerenUE”) as President and Chief Executive Officer. I have held that position
13 since May 1, 2009.

14 **Q. Please describe your educational background and employment**
15 **experience.**

16 A. I graduated from the University of Missouri-St. Louis in 1983 with a
17 Bachelor of Science degree with a major in Accounting and later passed the Certified
18 Public Accountant examination. I am also a member of the Missouri Society of Certified
19 Public Accountants.

20 I joined Union Electric Company in 1995, first as the Assistant Controller.
21 I have received several promotions since that time. In 1996, I became the Controller of
22 Union Electric Company, and was then promoted to Vice President and Controller of
23 Ameren Corporation (“Ameren”) and AmerenUE in May 1998. In 1999, I was appointed
24 to the AmerenUE Board of Directors and I continue to serve as an AmerenUE director. I

1 was elected Senior Vice President-Finance of Ameren and AmerenUE in 2001. In
2 October of 2003, I was also named Executive Vice President and Chief Financial Officer
3 of Ameren Corporation and AmerenUE. In addition to my finance duties, I oversaw
4 corporate planning in this role. On July 1, 2007, I was named President and Chief
5 Executive Officer of Business and Corporate Services, and I also retained my
6 responsibilities as Chief Financial Officer. In this role, I was responsible for the
7 oversight of many administrative functions, including strategic planning, business risk
8 management, environmental compliance, fuels, and information technology, in addition
9 to my finance duties. On May 1, 2009, I was named President and Chief Executive
10 Officer of AmerenUE, where I am responsible for all the operating, regulatory, strategic,
11 and other business-related functions for AmerenUE.

12 Prior to my employment at Union Electric Company in 1995, I was a
13 Senior Manager for Price Waterhouse LLP (now PriceWaterhouseCoopers LLP) in Price
14 Waterhouse's St. Louis and New York City offices. My principal responsibilities at
15 Price Waterhouse included supervising audit and consulting services provided to clients
16 in the public utility industry (including Union Electric Company) and manufacturing
17 industries, among others. In addition, I authored various sections of Price Waterhouse's
18 annual Survey of Financial Reporting and Industry Developments for the public utility
19 industry. I was a member of Price Waterhouse's National Public Utilities Industry
20 Services Group and their National Accounting and SEC Services Department.

21 I formerly served as Chairman of the executive committee of the chief
22 accounting officers of Edison Electric Institute member companies. I currently serve on
23 the Chancellor's Council of the University of Missouri-St. Louis, as a member of the

1 St. Louis Community Board of Directors of UMB Bank, as a board member of the
2 Gateway Leadership Foundation, as a member of the Board of Trustees of the Wyman
3 Center, and as a member of the Missouri 100 of the University of Missouri.

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

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

6 **A.** The purpose of my testimony is to:

7 (a) Provide the Missouri Public Service Commission (“Commission”)
8 with a summary of this rate request;

9 (b) Provide the Commission with an overview of AmerenUE’s natural
10 gas operations;

11 (c) Describe some of the challenges facing the Company;

12 (d) Describe the key drivers of the Company’s rate request;

13 (e) Provide an introduction of the other AmerenUE witnesses that are
14 filing direct testimony in this case and the topic each witness will
15 address.

16 **Q. Please summarize the relief AmerenUE is seeking in this case.**

17 **A.** We are seeking a total increase in the annual revenue of approximately
18 \$11.9 million, which means, if the entire increase is approved by the Commission,
19 customers will experience an increase of approximately 9.8% on their total bill. We are
20 also asking for the Commission to approve the use of a Gas Supply Incentive Plan
21 (“GSIP”) and to modify the structure of our Purchased Gas Adjustment (“PGA”).

1 costs sharply increased during the period following 2006. Additionally, the three year
2 rate moratorium required AmerenUE to operate its natural gas utility business with rates
3 based upon revenues, expenses and investments experienced in 2005 and 2006.¹ While
4 AmerenUE voluntarily agreed to the rate moratorium, the additional investments
5 AmerenUE has made since the last rate case and its increased operating expenses must
6 now be recognized on a going forward basis.

7 **Q. Doesn't the existence of the PGA and Infrastructure System**
8 **Replacement Surcharge ("ISRS") mechanisms alleviate this increased pressure?**

9 A. Yes. Having both of those mechanisms in place allowed the Company to
10 recover the costs of the natural gas it must purchase to serve its customers and to recover
11 some of the costs associated with the replacement or extension of the useful life of
12 existing infrastructure. However, these mechanisms cannot capture all of the changes in
13 costs and revenues since the Company's last rate case.

14 **Q. Looking forward, what additional challenges does AmerenUE face?**

15 A. One of the most significant challenges the Company faces is that there is a
16 significant amount of time between when the Company pays for these additional
17 investments and costs and when they are recovered in rates. This is often referred to as
18 "regulatory lag."

19 **Q. Why does a significant regulatory lag occur in Missouri?**

20 A. There are several reasons. One reason is that the rates we charge to
21 customers are largely based on historical costs. Consequently, the revenues we collect

¹ The test year used in GR-2007-0003 was the twelve months ending June 30, 2006 with certain items updated through September of 2006.

1 from customers often “lag” behind the actual costs we pay, especially in a rising cost
2 environment. This is in contrast to some jurisdictions that use projected costs in
3 establishing rates. In addition, in Missouri, it typically takes 11 months between the time
4 a rate case is filed and when rates actually go into effect—this time period is longer than
5 the time period for rate cases in most other jurisdictions.

6 **Q. What are the financial consequences of the regulatory lag in**
7 **Missouri?**

8 **A.** The financial consequences of regulatory lag include the fact that it can be
9 very difficult for a utility to have a reasonable opportunity to earn its allowed return,
10 especially in a period of rising costs and investment as we are experiencing now and
11 which we expect to continue in the future. In addition, as stated previously, the lack of
12 timely cash flows from customers significantly increases the need for borrowing, not only
13 making it very difficult for utilities to earn their allowed returns but also increasing
14 customer rates in the long term. In addition, regulatory lag creates greater challenges for
15 the Company to invest in its energy infrastructure on a timely basis.

16 **V. KEY DRIVERS**

17 **Q. What factors are primarily responsible for this proposed increase?**

18 **A.** This increase is primarily attributable to increased costs to reliably
19 maintain and to operate the natural gas distribution system. Since the last rate case order,
20 the Company has invested over \$54 million dollars in its natural gas infrastructure,
21 compared to a net plant amount from the last gas rate case of approximately \$209
22 million, and has installed over 175 miles of new distribution mains. In addition, as the
23 Commission may remember, AmerenUE’s natural gas operations have operated under a

1 moratorium on filing a rate case which expired in April of this year. During that time, the
2 Company has experienced increases in the cost of labor, benefits and general operating
3 costs as well.

4 **Q. When was AmerenUE's last natural gas rate case?**

5 A. It has been four years since AmerenUE filed a natural gas rate case. The
6 Company's last natural gas rate case was initiated on July 7, 2006, Case No.
7 GR-2007-0003. That case was resolved by the Commission's Order Approving
8 Stipulation and Agreement issued March 15, 2007. The Commission ultimately
9 approved AmerenUE's compliance tariffs effective for service provided on and after
10 April 1, 2007.

11 **Q. Doesn't AmerenUE have an ISRS, which enables the Company to**
12 **recover its infrastructure investments between rate cases?**

13 A. Yes and no. AmerenUE does have an ISRS. However, while helpful, the
14 mechanism does not capture the majority of investments the Company makes in its
15 natural gas distribution system. ISRS is only designed to recover the costs of
16 investments which replace or extend the useful life of existing infrastructure. The
17 majority of the infrastructure investments made by the Company does not fit that
18 category. Specifically, looking at the Company's most recent ISRS filing, which is still
19 pending at the time of this filing, the rate base amount in ISRS is around \$17 million.
20 That still leaves \$37 million dollars worth of investments that the Company has not
21 placed into rate base.

22 **Q. Are any of the increases in the Company's capital investment and**
23 **annual operating expenses associated with the cost of gas supply?**

1 A. No. Gas supply costs are recovered dollar for dollar through the
2 application of AmerenUE's PGA Clause. Consequently, gas supply costs are not
3 included in the revenue requirement for this case.

4 **Q. AmerenUE's much larger electric operations have recently been**
5 **before the Commission seeking a rate increase. Why did that case not address**
6 **AmerenUE's need for an increase in natural gas rates?**

7 A. First, the rates set in an electric rate case do not set rates for the gas
8 portion of the Company's utility business. It is a fundamental principle of regulatory law
9 and policy in Missouri that rates for each utility have to be set to recover the legitimate
10 costs incurred by that utility to provide service. AmerenUE's electric rates were
11 established without consideration of the Company's gas operations, and rates for the
12 Company's gas operations must be set without consideration of its electric operations.
13 Rates for each segment of AmerenUE's business must be set to permit each segment to
14 pull its own weight. Any other result would be unfair to customers who would ultimately
15 be required to provide subsidies.

16 Second, the Company could not apply for a change in its gas rates during
17 the same time frame as its last electric rate case due to the provisions of the rate
18 moratorium applicable to the gas utility.

19 **Q. Earlier, you mentioned that AmerenUE was seeking Commission**
20 **approval of a GSIP in this case. Can you explain what the GSIP mechanism does?**

21 A. The GSIP program requested by the Company is similar to a GSIP
22 AmerenUE had between 1997 and 2002. The program allows AmerenUE and its

1 customers to share in specified savings and revenues realized by the Company in
2 managing its upstream transportation capacity through capacity release.

3 Because of the recent economic downturn and the addition of the first
4 phase of the Rockies Express Pipeline LLC (“REX”) East pipeline, the value of the
5 capacity release markets in which AmerenUE can participate has been significantly
6 reduced over the past few years. Consequently, AmerenUE finds it more difficult to earn
7 revenue in capacity release markets. The GSIP would both entice and compensate the
8 Company for expending the additional time and resources necessary to seek out new
9 market opportunities for the capacity. Any resulting savings will directly reduce the
10 PGA rate for AmerenUE customers.

11 **Q. You also mentioned AmerenUE’s request to modify its PGA**
12 **structure. Can you explain those changes?**

13 A. As a result of AmerenUE’s last natural gas rate case, the Company has a
14 state-wide, single PGA rate with the customers served from the then Missouri Gas
15 Company (“MGC”)² paying the MGC transportation incremental PGA charge (Rolla
16 Incremental PGA) in addition to the total PGA rate. In that same case, the Commission
17 approved a PGA transition mechanism for AmerenUE’s customers served by PEPL,
18 TETCO and NGPL pipelines. The Company is requesting removal of the Rolla
19 Incremental PGA charge as well as the transition mechanism, so that all AmerenUE
20 natural gas customers will be paying the same PGA rate. As explained in the direct
21 testimonies of AmerenUE witnesses James J. Massmann and Emma N. Cruthis, these

²MGC, Missouri Pipeline Company (“MPC”), and Missouri Interstate Gas LLC (“MIG”) combined to form MoGas Pipeline, LLC (“MoGas”), an interstate pipeline governed by FERC effective June 1, 2008.

changes make sense, given the changes in the sources of supply and interstate pipelines that have caused the delivered cost of natural gas for these areas to converge and the reduction in costs resulting from MoGas' new (anticipated) FERC approved rates. The requested changes will ease the administration of the PGA for the Company and other parties in the regulatory process.

Q. Has the Company proposed to split the current general service class into two separate rate classes as it agreed to do in the Stipulation and Agreement from Case No. GR-2007-0003?

A. Yes, the Company is proposing to split the existing General Service rate class into two separate rate classes based on the Customer's installed capacity of gas use. This is explained in detail in the direct testimony of AmerenUE witness William M. Warwick.

VI. OTHER WITNESSES

Q. Who are the other Company witnesses providing Direct Testimony in this proceeding, and what are their areas of responsibility?

A. AmerenUE will present the following witnesses to address the described subjects:

WITNESS	SUBJECT
M. Adams	Lead/Lag Study
W. Cooper	Rate Design
E. Cruthis	Rolla Area Incremental PGA
R. Hevert	Rate of Return
J. Massmann	Rider B PGA Transition Mechanism, Gas Supply Incentive Program, and Transportation Tariff Changes
M. O'Bryan	Capital Structure/ Cost of Debt
T. Opich	Revenue Requirements

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J. Pozzo	Billing Units/Revenues
W. Warwick	Class Cost of Service/ Miscellaneous Charges/ and General Tariff Changes
J. Wiedmayer	Depreciation
S. Wills	Normalization of weather/class demands

1

2

Q. Does that conclude your direct testimony?

3

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 Natural Gas) Case No. GR-2010-
Service Provided to Customers in the)
Company's Missouri Service Area.)

AFFIDAVIT OF WARNER L. BAXTER

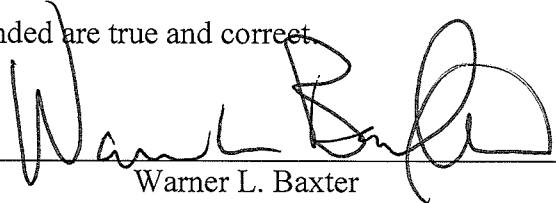
STATE OF MISSOURI)
)**ss**
CITY OF ST. LOUIS)

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

1. My name is Warner L. Baxter. I work in the City of St. Louis, Missouri, and I am employed by Union Electric Company d/b/a AmerenUE as President and Chief Executive Officer.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of AmerenUE consisting of 11 pages, 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 11 day of June, 2010.



Notary Public

My commission expires:

