Exhibit No.:	
Issues:	Overview of Company and Rate Increase Request; Policy; Introduction of Company Witnesses
Witness:	Warner L. Baxter
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

WARNER L. BAXTER

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a AmerenUE

St. Louis, Missouri
July, 2009

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DIRECT TESTIMONY

OF

WARNER L. BAXTER

CASE NO. ER-2010-_____

I. INTRODUCTION

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.

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

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

Q. Please describe your educational background and employment experience.

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

I joined Union Electric Company in 1995, first as the Assistant Controller. I have received several promotions since that time. In 1996, I became the Controller of Union Electric Company, and was then promoted to Vice President and Controller of Ameren Corporation ("Ameren") and AmerenUE in May 1998. In 1999, I was appointed to the AmerenUE Board of Directors and I continue to serve as an AmerenUE director. I was elected Senior Vice President-Finance of Ameren and AmerenUE in 2001. In

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

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

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

Trustees of the Wyman Center, and as a member of the Missouri 100 of the University of Missouri.

II. PURPOSE AND SUMMARY OF TESTIMONY

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

A. The purpose of my testimony is to:

(a) Provide the Commission with an overview of AmerenUE's operations;

(b) Provide the Commission with a summary of our rate request;

(c) Describe the key drivers of our rate request;

(d) Provide an overview of other important aspects of our rate case filing;

(e) Describe some of the primary challenges facing AmerenUE in its effort to continue to deliver reliable service at low rates, given the current economic environment;

(f) Describe some of the key proactive efforts AmerenUE is taking to help our customers with their energy costs;

(g) Explain how granting the relief requested by AmerenUE in this case will enable the Company to continue to deliver reliable service to its customers, maintain its financial health, and help reduce the level of expected rate increases in the future; and

(h) Provide a list of the other AmerenUE witnesses that are filing direct testimony in this case and the topic each witness will address in Schedule WLB-E1.

III. OVERVIEW OF CASE

Q. Please provide a description of the Company's operations.

A. AmerenUE is an integrated electric utility operating across a wide and diverse service territory, primarily in the eastern half of Missouri, but also in northern Missouri, southeast Missouri and in limited areas of northwest Missouri.[1] Its service

[1] AmerenUE also operates a smaller gas utility in Missouri.

territory includes several Missouri cities, including the City of St. Louis and the municipalities in St. Louis County. AmerenUE owns and operates four large base load coal-fired generating plants with a combined generating capacity of approximately 5,400 megawatts ("MW"). Those plants are the Labadie Plant, the Rush Island Plant, the Sioux Plant, and the Meramec Plant, all of which are located in eastern Missouri in or near St. Louis County. The Company also owns and operates the Callaway Nuclear Plant, located near Fulton, Missouri. The Callaway Plant has a generating capacity of approximately 1,200 MW. The Company also owns and operates 46 combustion turbine generator ("CTG") units, most of which are fired by natural gas, and which are located at 15 different plant sites, mostly in Missouri and some in Illinois. The combined generating capacity of these CTG units is approximately 3,000 MW. Finally, the Company operates the Osage, Keokuk and Taum Sauk hydroelectric plants, which have a combined generating capacity of approximately 810 MW.[2]

AmerenUE has approximately 1.2 million retail electric customers in Missouri, more than 1 million of whom are residential customers. These customers are located in 508 communities in 57 of Missouri's counties. AmerenUE's service territory is large (approximately 24,000 square miles) and diverse, ranging from the large urban areas in and around St. Louis to mid-sized communities such as Cape Girardeau and Jefferson City to small towns like Irondale and Pilot Grove.

In addition to operating and maintaining the approximately 10,400 MW of generating capacity needed to serve its customers, the Company operates and maintains approximately 32,000 line miles of distribution lines, approximately 630 distribution

[2] The Taum Sauk plant is in the process of being rebuilt. AmerenUE expects this facility to return to service in the second quarter of 2010.

substations, and approximately 2,900 miles of transmission lines, all of which are necessary to serve its customers located across its service territory.

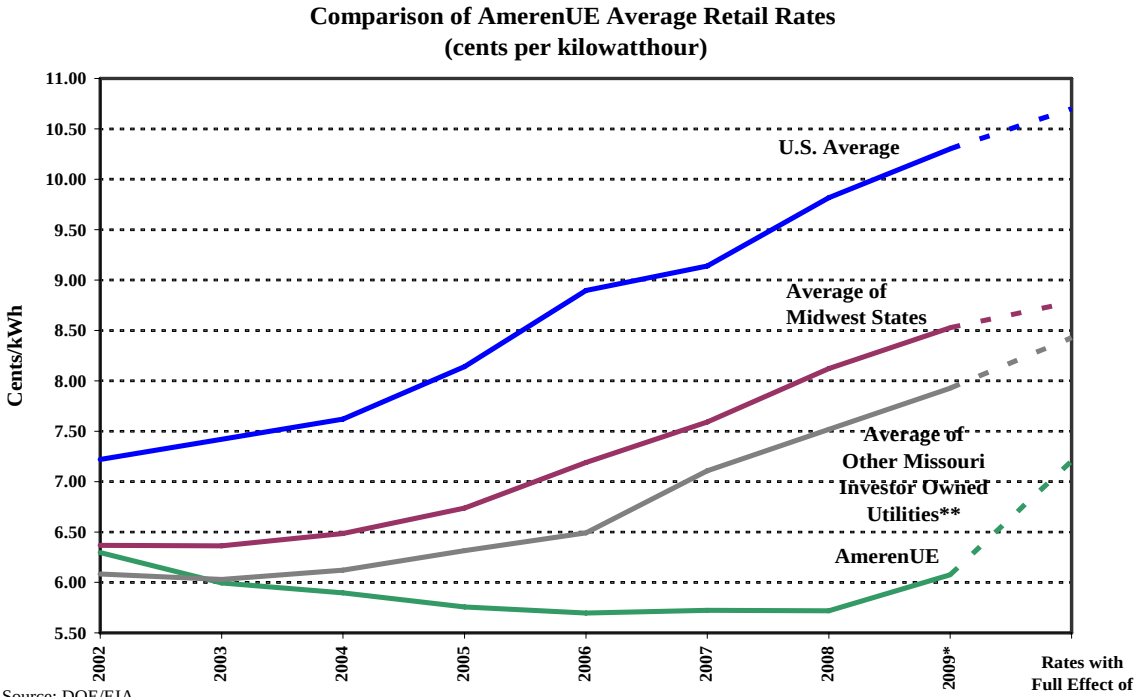
AmerenUE also is one of the largest employers in Missouri. Today we employ approximately 4,400 full-time employees. In addition, AmerenUE is funding pension benefits for approximately 4,700 retired employees and their families.

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

A. We are seeking a total increase in our revenue requirement of approximately $402 million, which is about an 18% increase. More than one-half of this proposed increase (approximately $227 million) is attributable to simply rebasing our net fuel costs that would otherwise, in the absence of this rate case, have been reflected in adjustments to customer rates pursuant to our existing fuel adjustment clause. This portion of the rate increase offsets increases we expect to incur in our net fuel costs. The remainder of our request (approximately $175 million) is largely attributable to increases in non-fuel capital costs and expenses. We have continued to make significant reliability investments, as well as incur cost increases, since our last rate case. Finally, the return on equity ("ROE") we are requesting in this case is 11.5%.

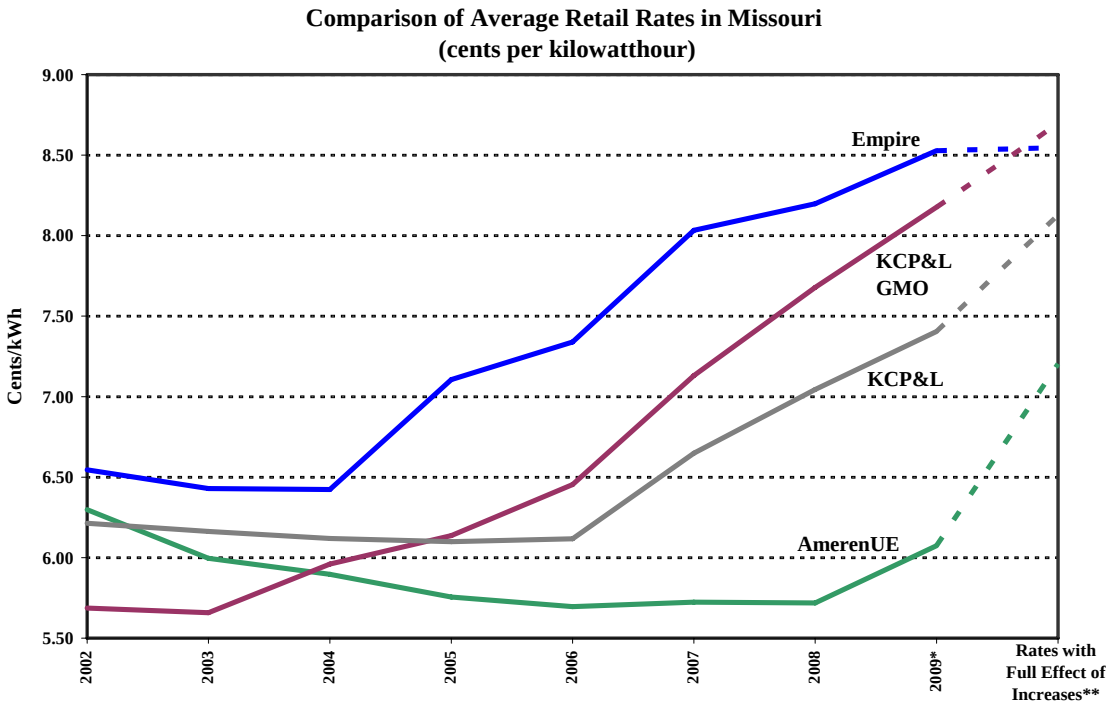
I recognize that a rate increase of this magnitude will present hardships for some of our customers. As I will discuss in more detail later, we are taking several proactive steps to help our customers with their energy costs today and in the future. While this increase is meaningful, I believe it is also important to keep this proposed rate increase in perspective. Because we have made prudent generation investment decisions in the past and have always focused our efforts on disciplined cost management, our rates have been extremely low for many years. Today, our electric rates are approximately

40% below the national average. Even with our proposed rate increases, we expect that our rates will still be over 30% below the national average and result in a meaningful competitive cost advantage for the State of Missouri, as illustrated by the following chart:



Source: DOE/EIA.
* 2009 forecast for U.S. and Midwest states based on DOE/EIA's July 2009 Short-Term Energy Outlook.
2009 forecast for Missouri utilities based on known general and FAC-related rate increases in effect in 2009.
** Other Missouri IOUs are Empire District Electric, Kansas City Power & Light, and KCP&L Greater Missouri Operations.
*** Reflects 2010 forecast for U.S. and Midwest states based on DOE/EIA's July 2009 Short-Term Energy Outlook.
Missouri rates include full impact of known general and FAC rate increases, and AmerenUE's proposed $401.5 million rate increase.
Midwest states based on Census Region definitions. Retail customers include residential, commercial, and industrial customers.

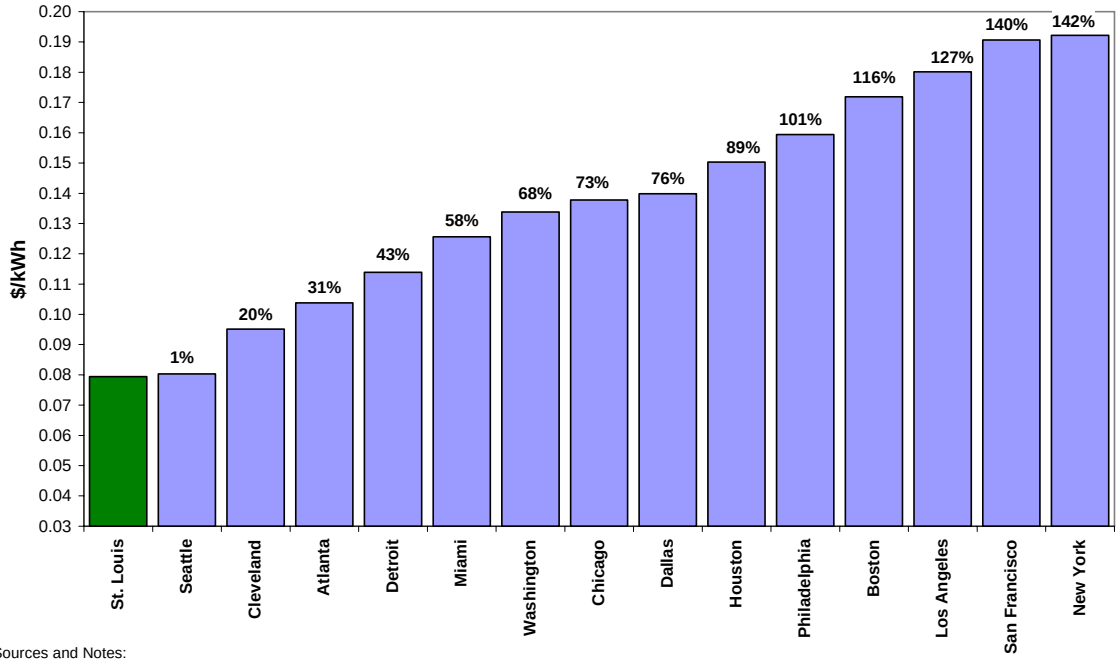
Closer to home, our rates are currently over 20% below the approved rates charged by other investor-owned utilities in the state. As the chart below shows, we expect that implementation of our entire rate increase request will still leave our rates at 10% below the rates of any other investor owned utility in the state.



Source: DOE/EIA. Retail customers include residential, commercial, and industrial customers.
* 2009 forecast based on known general and FAC-related rate increases in effect in 2009.
** Rates include full impact of known general and FAC rate increases, and AmerenUE's proposed $401.5 million rate increase.

Finally, as shown in the chart below, our rates have enabled the City of St. Louis to have among the lowest electric rates of any major metropolitan area in the country, facilitating local economic development and greater affordability for our residential customers.

Average Consumer Electricity Prices (2008) for All Major Metropolitan Areas Reported by the Bureau of Labor Statistics



Sources and Notes:
BLS data based on monthly surveys of 10 residential electricity bills per metropolitan area.
Rates do not include seasonal discounts.
Source: www.bls.gov/data.
Percentages indicate extent to which each city's rates are higher than rates in St. Louis.

Q. What are the drivers of the portion of the proposed increase attributable to changes in net fuel costs?

A. Net fuel costs consist of fuel costs offset by off-system sales revenues. The increase in our net fuel costs is being driven principally by higher coal, coal transportation and nuclear fuel costs (up approximately $104 million or 17% over those currently reflected in base rates). The other significant driver in the increase in net fuel costs relates to our estimated reduction in off-system sales revenues from those currently reflected in base rates. The impact of lower market prices for power on off-system sales revenues and purchased power costs results in a net reduction in revenues of approximately $126 million – 39% below those currently reflected in base rates. AmerenUE witness Jaime Haro will address our estimate in more detail in his testimony,

but the principal driver of the change in our off-system sales revenues estimate is the significant decline in power prices. Since the end of the true-up period in our last rate case (September, 2008 through May, 2009), the annual average of wholesale power prices has already fallen approximately 25%, as noted in Mr. Haro's testimony, and further declines are anticipated (see also Mr. Haro's Schedule JH-E2).

Q. In light of the fact that a fuel adjustment clause already exists, should the Company's base rates be updated to reflect the full amount of the reduction in off-system sales revenues that is anticipated?

A. We believe it is appropriate to update our base rates to reflect a normalized level of net fuel costs, including off-system sales revenues. In terms of off-system sales revenues, our method (a three-year average) utilizes power prices that are greater than current market prices and that are also greater than forward prices for off-system sales for 2010, as discussed by Mr. Haro. Of course, the Commission will do the best job that it can in this case to set off-system sales revenues at a "normal" level that can reasonably be expected during the period that rates will be in effect. However, to the extent that the Company's actual off-system sales revenues turn out to be higher or lower than the level included by the Commission in base rates, 95% of the incremental increase or decrease will flow to customers through the Company's fuel adjustment clause. In other words, because of the existence of the fuel adjustment clause the consequences of setting a level of off-system sales revenues that is too high or too low is largely mitigated for both AmerenUE and its customers.

Q. What are the main factors that account for the approximately $175 million increase in non-fuel costs?

A. One of the key drivers associated with the approximately $175 million increase in non-fuel costs relates to higher investments and related expenses to improve the overall reliability of our distribution system and our power plants. Subsequent to the significant storms we experienced in 2006 and early 2007, our customers and the Commission have clearly said that AmerenUE's then-current levels of reliability and storm response must improve and that safe, reliable power is the most important priority. In response to these concerns, we have made significant investments in safety and reliability throughout our entire operations, and these investments are producing results. Since 2006 we have made capital investments in our system that total approximately $2 billion. For example, our Power On program has resulted in the undergrounding of many circuits that experienced chronic reliability problems in the past, and our aggressive vegetation management and infrastructure inspection programs, implemented consistent with Commission rules, have enhanced reliability.

Our reliability metrics have improved meaningfully in recent years. For example, the number of customers experiencing 4 or more outages in a year has declined by almost 60% since 2007. SAIFI numbers (measuring interruption frequency) have improved, and not surprisingly, our customer satisfaction metrics have also improved. AmerenUE witness Ronald C. Zdellar addresses these reliability improvements in more detail in his direct testimony. Finally, our storm response capability has dramatically improved as evidenced by the Staff's positive reports following the ice storm in St. Louis in 2007 and the recent ice storm in January, 2009 in Southeast Missouri, as described in Mr. Zdellar's direct testimony. AmerenUE believes that its storm response capability is currently as good as or better than any other utility's.

Q. What are some of the other key drivers of the approximately $175 million non-fuel related increase?

A. Other key drivers include sharply higher costs of capital (including financing costs and the cost of equity) associated with our energy infrastructure investments and operations. The cost of capital has risen meaningfully due to the significant changes that have taken place in the capital markets since last Fall. AmerenUE witnesses Dr. Roger A. Morin and Lee R. Nickloy discuss these matters in more detail in their direct testimony. In addition, we are requesting an increase in depreciation rates to bring our rates more in line with industry standards, as discussed in more detail by AmerenUE witness John F. Wiedmayer.

Q. Aside from the requested rate increase, what are the other key aspects of this case?

A. AmerenUE is seeking to continue the following cost recovery/tracking mechanisms that were authorized by the Commission in the Company's last rate case:

--Fuel Adjustment Clause ("FAC")

--Vegetation Management/Infrastructure Inspection Cost Tracking Mechanism

--Pension/OPEB[3] Cost Tracking Mechanism

Our ability to continue to employ these mechanisms in a consistent manner is very important to the Company and its customers. In particular, investors and credit rating agencies favor stability and certainty in the application of existing regulatory mechanisms, which has the effect of lowering our cost of capital to the ultimate benefit of our customers. In this case, the Company is also seeking to implement an environmental cost recovery mechanism (addressed by AmerenUE witnesses Mark C. Birk and Gary S.

Weiss), and a storm cost tracking mechanism (addressed by Mr. Zdellar). We are also requesting that the tariff under which we serve Noranda Aluminum, Inc. ("Noranda") (Rate Schedule 12(M) (Large Transmission Service)) be modified to prospectively address the significant lost revenues AmerenUE can incur due to Noranda's operational issues, like those losses resulting from the January, 2009 ice storm. AmerenUE witness Wilbon L. Cooper will address this issue in more detail in his direct testimony. Finally, the Company is requesting that approximately $37 million of its requested rate increase that is directly related to rate base additions since our last rate case (which are already providing service to our customers) be reflected in interim rates, subject to refund, effective October 1, 2009.

All of these mechanisms are designed to address the significant levels of regulatory lag the Company is experiencing today (as I will discuss more in a moment). They are designed to allow the Company a reasonable opportunity to earn its allowed return on equity and/or provide more timely cash flows, thereby reducing the Company's need to borrow in a sharply higher interest rate environment, and ultimately resulting in lower customer electric rates than would be possible without these mechanisms.

IV. CHALLENGES FACING THE COMPANY

Q. You previously alluded to challenges currently faced by the Company. Can you describe those challenges?

A. Yes. As we discussed in our last rate case, we are currently in one of the most challenging periods ever faced by the electric industry as a whole and AmerenUE in particular. Our normal costs of "keeping the lights on," from labor and materials to fuel costs, continue to be subject to steady inflationary pressure year after year. Moreover,

[3] Other Post-Employment Benefits

both the electric industry as a whole and AmerenUE in particular have embarked on ambitious capital investment campaigns to replace aging infrastructure and improve the reliability of our distribution systems and power plants. Meeting the increasing demands for reliability from customers, which are generated by the increasing importance electricity plays in all of our lives (to power our computers, cell phones, "smart" phones, digital devices, flat-screen televisions, etc.), requires higher levels of capital investment than we had historically made, and requires a higher level of expenditures for maintenance, outage prevention and storm response than might have been necessary in an earlier time.

Q. How has the Company responded to these demands?

A. The Company has responded to these demands by sharply increasing its expenditures for its energy delivery and power plant operations compared to levels it had incurred in the not-too-distant past. In 2005, total capital and O&M expenditures for AmerenUE (excluding fuel, depreciation, and interest) were approximately $1.55 billion, while in 2008, these expenditures were approximately $1.86 billion, up approximately 20%. Of course, our current level of expenditures to meet customer needs and federal and state requirements do not include other widely anticipated environmental requirements to restrict carbon and other emissions. These requirements, if enacted, will likely significantly increase our capital investments and the costs to operate our coal-fired units in the future.

A direct result of these higher levels of expenditures is sharply increased levels of borrowing, and higher financing costs. Under AmerenUE's existing rates and the regulatory framework in Missouri, the Company does not generate sufficient cash

flows from its operations to cover its operating and capital needs (resulting in "negative free cash flows") and hence is often required to seek access to the capital markets to meet its customers' needs.

Q. Has the current recession and accompanying financial crisis created additional challenges for the Company?

A. Absolutely. In many respects, the financial world completely changed last year. AmerenUE is not immune to many of the implications of the financial crisis that began in 2008. For example, AmerenUE's revenues are down significantly due to the impact of the recession on many of our customers. In addition, borrowing costs have risen sharply since early 2008. As discussed in more detail by Mr. Nickloy, recently AmerenUE renewed its credit facilities for its short-term borrowings, as they were to expire in 2010. Today, the interest rate applied to borrowings under these renewed credit facilities has increased four-fold over the interest rate in the previous credit facility, from .8% to approximately 3.5%. In addition, the cost of long-term debt has also risen in the unsettled capital markets. In 2008, AmerenUE issued long-term debt on two occasions--$250 million in April at 6.0%, and $450 million in June at 6.7%. In contrast, in March, 2009, AmerenUE issued $350 million of long-term debt at 8.45%.

Q. Has the financial crisis created other challenges in the capital markets?

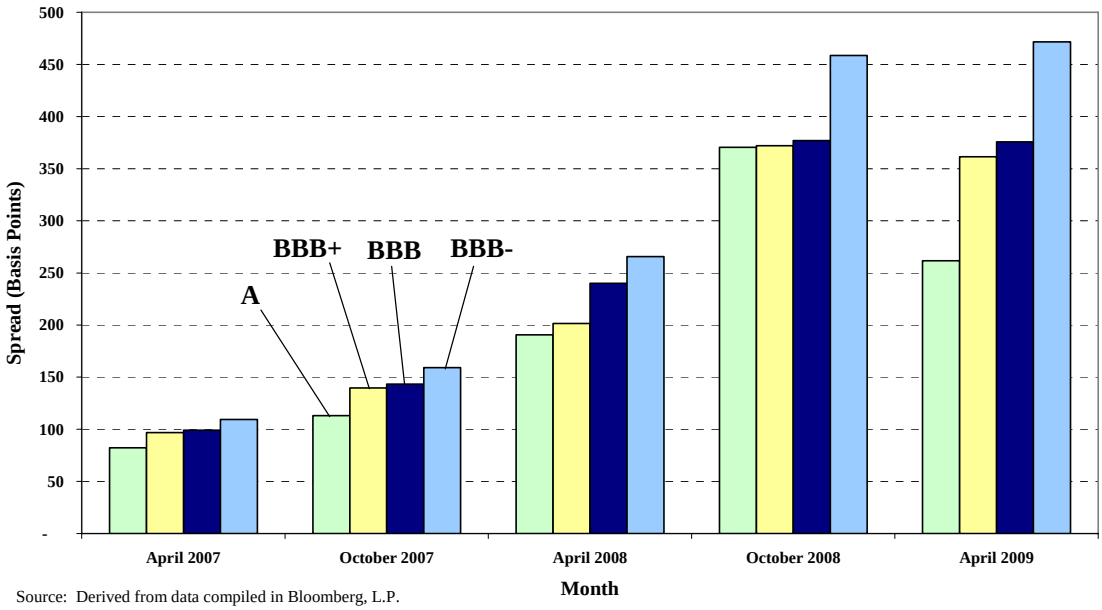
A. Yes. While AmerenUE currently is able to access the capital markets for its operations, there certainly was a time in late 2008 and early 2009 when access to the markets was highly uncertain. While the capital markets have improved since that time, there is a risk that such conditions could occur again in the future. One thing that was

clear during those challenging times was that companies with better credit ratings had much better access to the capital markets.

Q. In today's capital markets, do higher credit ratings have other meaningful impacts on utilities?

A. Yes. The impact of a company's credit rating on its cost of debt has also materially increased in recent months. The chart below shows how the cost of debt for companies with different credit ratings has changed since 2007.

Spreads Between 10-Year Public Utility Bonds and 10-Year U.S. Treasury Bond, April and October



Source: Derived from data compiled in Bloomberg, L.P.

Q. What does the above chart show?

A. It shows that a company's financial strength and credit metrics matter more than ever when it needs to access capital. In 2007, the difference in interest rates paid by a BBB- utility versus an A rated utility was just 30 to 50 basis points (.3 to .5%). Today, that differential is more than 200 basis points (a full 2%-plus).

Q. Why should the Commission care about AmerenUE's credit rating and access to capital?

A. Over the next several years AmerenUE will need to continue to have access to a substantial amount of external capital to finance its enhancement of system reliability, meet environmental requirements, and to continue to provide customers with safe, reliable service. Providing AmerenUE with a reasonable opportunity to recover its costs on a more timely basis and a fair return on its investment in this rate case will improve the Company's cash flows and related financial health, enhance its credit ratings metrics and provide it with access to capital at a lower long-term cost to its customers. Simply put, a financially healthy company will have better access to less expensive capital over the long run.

Q. Does the Company face other challenges?

A. Yes. While AmerenUE has the opportunity to recover all its prudent investments and related cost increases I earlier described in rates, a key operating and financial challenge that the Company faces is that there is a significant amount of time between when the Company pays for these higher investments and costs and when they are recovered in rates. This is often referred to as "regulatory lag."

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

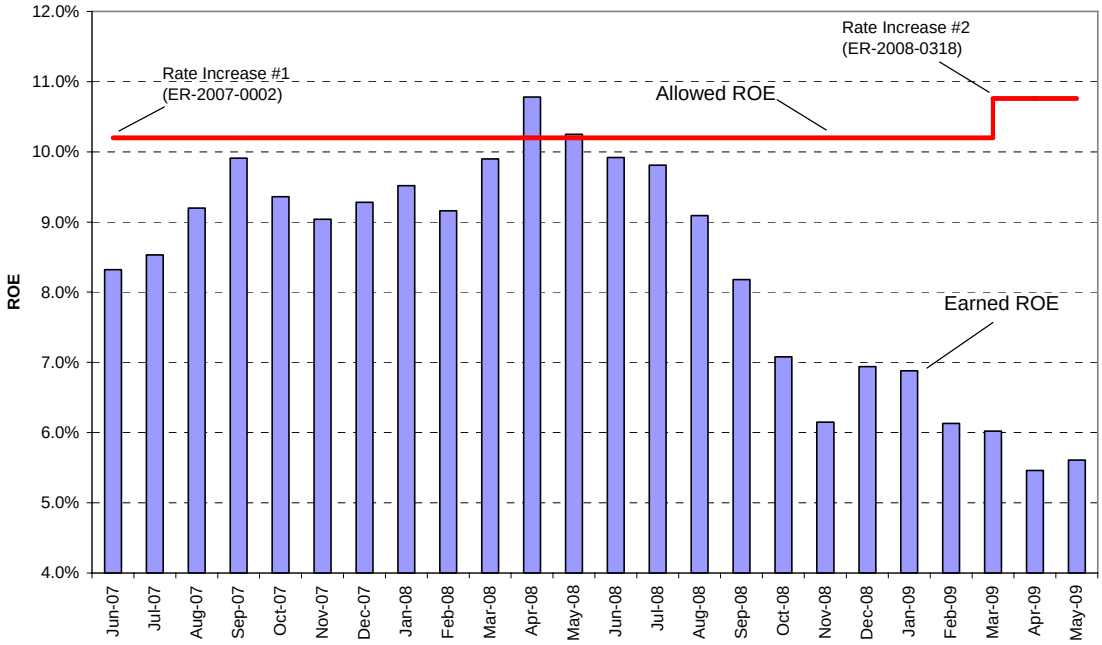
A. There are several reasons. One reason is that the rates we charge to customers are largely based on historical costs. Consequently, the revenues we collect from customers often "lag" behind the actual costs we pay, especially in a rising cost environment. This is in contrast to some jurisdictions that use projected costs in establishing rates. In addition, in Missouri, it typically takes 11 months between the time

a rate case is filed and when rates actually go into effect—this time period is longer than the time period for rate cases in most other jurisdictions. Also, in Missouri, electric utilities are prohibited by statute from recovering the cost of investment in plant, as well as related financing costs incurred during construction, until the plant is "fully operational and used for service." That means that during the period of plant construction, which can sometimes last several years, the utility must pay all of the cost of construction with no opportunity to recover those costs (including financing costs) or any return on investment. This delay in recovering construction costs does not occur in some other states. These items represent a few examples that increase regulatory lag in Missouri beyond what it is in many other jurisdictions.

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

A. The financial consequences of regulatory lag include the fact that it is very difficult for a utility to have a reasonable opportunity to earn its allowed return, especially in a period of rising costs and investment as we are experiencing now and which we expect to continue in the future. In addition, as stated previously, the lack of timely cash flows from customers significantly increases the need for borrowing in a sharply higher interest rate environment, not only making it very difficult for utilities to earn their allowed returns but also increasing customer rates in the long term. The chart below shows how a rolling twelve-month average of AmerenUE's earned ROEs have fallen far short of our allowed ROE's in almost every month from June, 2007 to May, 2009.

Comparison of AmerenUE Earned and Allowed ROEs
(With Two Rate Increases)



Q. What are the consequences of regulatory lag for utility customers?

A. Among other things, regulatory lag results in the need for greater levels of borrowing at a higher cost of capital, thereby increasing customer rates. In addition, regulatory lag creates greater challenges for the Company to invest in its energy infrastructure on a timely basis.

Q. Hasn't the Commission taken steps to partially mitigate regulatory lag by approving a fuel adjustment clause for AmerenUE and other utilities, adopting ECRM rules, and approving other cost tracking mechanisms?

A. Yes, and we appreciate the steps the Commission has taken thus far. However, while authorization of an FAC and the completion of the ECRM rulemaking process are very helpful, they only partially mitigate, but do not solve the problem of regulatory lag in Missouri. It is important to note that our existing fuel adjustment clause

is less favorable than most others because it is based upon historical rather than projected costs, it requires electric utilities to share 5% of any changes in fuel costs (whereas most states allow a full pass-through of prudently incurred fuel costs) and it stretches fuel cost recovery in rates well over a year beyond the time that the costs are incurred. For example, an increase in fuel costs incurred today would be 95% recovered under the Missouri fuel adjustment clause only after 16 months. The ECRM we have proposed in this case will also help reduce regulatory lag associated with compliance with environmental laws. However, some of the same issues of delay in cost recovery in the FAC apply to the ECRM as well. (Most notably there is a cap on the amount we can immediately pass through to our customers and the existing rules also stretch cost recovery in rates out many months beyond the date costs were incurred.)

Q. How can the Commission reduce the impact of regulatory lag on AmerenUE in this case?

A. As stated previously, AmerenUE is proposing several measures that would help reduce regulatory lag in this case. For example, we are proposing to implement interim rates for a portion of the requested rate increase based upon the additional revenue requirement needed for rate base additions that are already in service at the time this rate case is being filed. Although the Commission has typically permitted interim rate increases only when a utility is facing extremely dire financial difficulties, counsel advises me that the Commission is not required to adhere to a so-called "emergency" standard, and we are hopeful that the Commission will use this tool to help reduce the regulatory lag AmerenUE is facing in this case. Other jurisdictions use interim rates for

such a purpose, and there is nothing that would prevent this Commission from doing so as well.

In addition, we are proposing the continuation of our existing fuel adjustment clause and the adoption of an ECRM. These tools reduce regulatory lag for the costs that they address.

We are also requesting that the Commission allow us to continue our existing vegetation management and infrastructure inspection and pension and OPEB cost trackers, while seeking a new storm cost recovery tracking mechanism.

Also, we have filed a depreciation study and are asking for increased depreciation rates commensurate with property lives reflected in that study. Our current depreciation rates for generating plant accounts are among the lowest in the country, and adjusting those rates to a more normal level, reflecting reasonable estimates of the lives of the plants, will permit more rapid cost recovery and improve the Company's cash flows.

In addition, we are seeking to modify the tariff for Noranda (Rate Schedule LTS) in order to mitigate in the future the impact of the lost revenues we may experience due to Noranda's operating difficulties.

Finally, we are asking the Commission to allow full recovery of the prudently incurred costs of providing our customers service based on a test year with a true-up, and to authorize a fair rate of return commensurate with returns authorized for other companies facing similar risk.

Although these measures will not completely eliminate the harmful effect of regulatory lag in a rising cost environment, they will help reduce its impact on

AmerenUE, and they will help the Company come closer to earning its authorized return in the future. These steps will also help improve AmerenUE's financial health, enhance internally generated cash flows (lowering the need to obtain external capital at higher costs), bolster the Company's credit ratings metrics, and improve its access to lower cost capital when that capital is needed, to the ultimate benefit of its customers and the State of Missouri as a whole.

V. PROACTIVE ACTIONS TAKEN FOR CUSTOMERS

Q. Are you concerned about the impact of AmerenUE's proposed rate increase on your customers?

A. Absolutely. We are always concerned about the impact of any rate increase on customers. This is particularly true in this case where so many families are struggling to make ends meet due to the recession. Unfortunately, it is not prudent for us to avoid seeking this rate increase at this time if we are going to meet our obligation to deliver safe and reliable electric service to our customers.

Q. Despite the need for this rate increase at this time, has the Company done anything to reduce the effect of the increase on customers, as well as attempt to reduce rising costs in the future?

A. Yes. We know this rate increase will create financial hardships for some of our customers, especially during this difficult economic period. As a result, we are taking proactive steps to reduce costs, launching energy efficiency initiatives and providing several energy assistance programs to help our customers manage their energy costs now and in the future.

Q. Please describe the cost reductions AmerenUE is making.

A. Early this year, we lowered certain planned expenditures for 2009 by in excess of $100 million. In addition, we are considering several cost reduction measures. Over the next two years, we are currently targeting to reduce certain expenditures in excess of $150 million below 2008 levels.

Q. How do you expect to achieve these cost reductions?

A. We continue to work on plans to achieve these future cost reductions. In many respects, we are still relatively early in our planning process for 2010. Having said that, many cost reduction initiatives are under consideration including executive compensation. Of course, we will continue to make appropriate expenditures to remain in compliance with pertinent legislative and regulatory requirements. In addition, we do not intend to "tighten our belts" at the expense of providing safe, reliable service to our customers.

Q. Will customers benefit from some of these potential cost reductions in this case?

A. Yes. As I stated previously we already reduced certain 2009 expenditures that had been planned. These cost reductions are already reflected in our request. In addition, we will reduce our rate increase request for any cost reduction measures under consideration that are actually implemented by the end of the true-up period, and are appropriate to reduce our rate increase request in this case.

Q. In addition to minimizing the Company's revenue requirement, are there other benefits that could result should these targeted cost reductions be achieved?

A. Yes. Earlier in my testimony, I stated that one of the key challenges facing AmerenUE is regulatory lag. The consequences of regulatory lag include higher customer rates in the long term due to deteriorating credit metrics and the need for greater borrowings to fund our operations, as well as the challenges associated with earning the allowed return on equity. While regulatory lag can be partially mitigated by enhancements to the existing regulatory framework (some of which we are seeking in this case), it can also be reduced through disciplined expenditure reductions.

Q. What is the Company doing in terms of energy efficiency?

A. As discussed more fully by AmerenUE witness Stephen M. Kidwell, we are implementing several residential and business energy efficiency programs that will help our customers better manage their energy usage and costs. These programs include incentives and customer education for energy efficient lighting and appliances.

Q. What is the Company doing in the area of energy assistance?

A. We are proud to be able to sponsor several energy assistance programs, especially for those customers who are least able to afford higher energy costs. These programs include Clean Slate, Dollar More, Low-Income Weatherization and our air conditioner give-away program.

VI. SUMMARY

Q. Please summarize what you are asking the Commission to do in this case.

A. First, we are asking the Commission to allow us to recover the costs we are actually incurring to provide service to our customers, and provide our shareholders

with a reasonable return on equity commensurate, on a risk adjusted basis, with what other utilities are earning.

Second, we ask that the Commission take steps to reduce the significant regulatory lag the Company faces. As outlined earlier in my testimony, mechanisms we are seeking approval for in this case include interim rates, the FAC in its current form, the ECRM and increased depreciation rates, among other things.

Third, I would encourage the Commission to approve the changes to Rate Schedule LTS that AmerenUE has proposed in order to mitigate in the future the impact of lost revenues that we may experience due to Noranda's operating difficulties.

Again, granting the relief that the Company has requested would improve the Company's financial health, and enhance its access to lower cost capital to the ultimate benefit of its customers and the State of Missouri as a whole.

Q. Does this conclude your direct testimony?

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 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 Union Electric Company d/b/a AmerenUE consisting of 24 pages, and Schedules WLB-E1, 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 24th day of July, 2009.

Amanda Tesdall
Notary Public

My commission expires:

Amanda Tesdall - Notary Public
Notary Seal, State of
Missouri - St. Louis County
Commission #07156967
My Commission Expires 7/29/2011

Additional AmerenUE Direct Testimony Witnesses and Issues

Gary S. Weiss	Cost of Service, Mechanics of ECRM
Lynn M. Barnes	FAC
Mark C. Birk	ECRM
John F. Wiedmayer, Jr.	Depreciation
Larry W. Loos	Generating Plant Retirement Estimates
Wilbon L. Cooper	Rate Design, Billing Units, Noranda LTS Tariff
Ronald C. Zdellar	Operational Issues
Stephen M. Kidwell	Energy Efficiency
Jaime Haro	Normalized Off-System Sales Revenues
Timothy D. Finnell	Normalized Test Year Net Fuel Costs
Prof. Roger A. Morin	Return on Equity
Michael G. O'Bryan	Capital Structure, Overall Return on Rate Base
Steven M. Wills	Weather Normalization
Michael J. Adams	Cash Working Capital
William M. Warwick	Class Cost of Service Study
James R. Pozzo	Normalized Billing Units
Lee R. Nickloy	Cost of Capital Issues