Exhibit No.:	
Issues:	Overview of Company and Rate Increase Request; Policy; Introduction of Company Witnesses
Witness:	Warner L. Baxter
Sponsoring Party:	Union Electric Company
Type of Exhibit:	Direct Testimony
Case No.:	ER-2011-0028
Date Testimony Prepared:	September 3, 2010

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2011-0028

DIRECT TESTIMONY

OF

WARNER L. BAXTER

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a AmerenUE

St. Louis, Missouri
September, 2010

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DIRECT TESTIMONY

OF

WARNER L. BAXTER

CASE NO. ER-2011-0028

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 (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 Nuclear Energy Institute Board of Directors, 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, as a member of the Gateway Leadership Foundation Board, as a member of the Missouri 100 of the University of Missouri, and as a member of the Board of Directors of Jazz St. Louis.

II. PURPOSE AND SUMMARY OF TESTIMONY

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

A. The purpose of my testimony is to:

(a) Provide the Missouri Public Service Commission ("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) Describe the Company's ongoing efforts to control its costs and to manage its business efficiently;

(e) Outline some of the primary challenges facing AmerenUE in its effort to continue to deliver reliable service at low rates;

(f) Explain how granting the relief requested by AmerenUE in this case is essential to enabling the Company to continue to deliver safe, reliable service to its customers in an environmentally responsible manner and maintain its financial health;

(g) Provide information about programs AmerenUE has initiated to help certain customers meet their energy needs; 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.

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 territory contains 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 5,500 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 in Missouri and Illinois. The combined generating capacity of these CTG units is just over 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.

AmerenUE serves 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 59 of Missouri's counties. AmerenUE's service territory is large (approximately 24,000 square miles) and diverse, ranging from the large urban areas in

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

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 10,500 MW of generating capacity needed to serve its customers, the Company operates and maintains approximately 33,000 miles of distribution lines, approximately 630 distribution substations, and approximately 2,900 miles of transmission lines, all of which are necessary to serve its customers located across its wide service territory.

AmerenUE also is one of the largest employers in Missouri. Today we employ approximately 4,400 full-time employees and more than 1,000 independent contractors. In addition, AmerenUE is funding pension benefits for approximately 4,500 retired employees and their families. AmerenUE's operations have a very significant economic impact on the State of Missouri, not only due to the employees and contractors which are directly paid by AmerenUE, but also because of the overall impact of AmerenUE's expenditures on the economy of the State of Missouri.

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

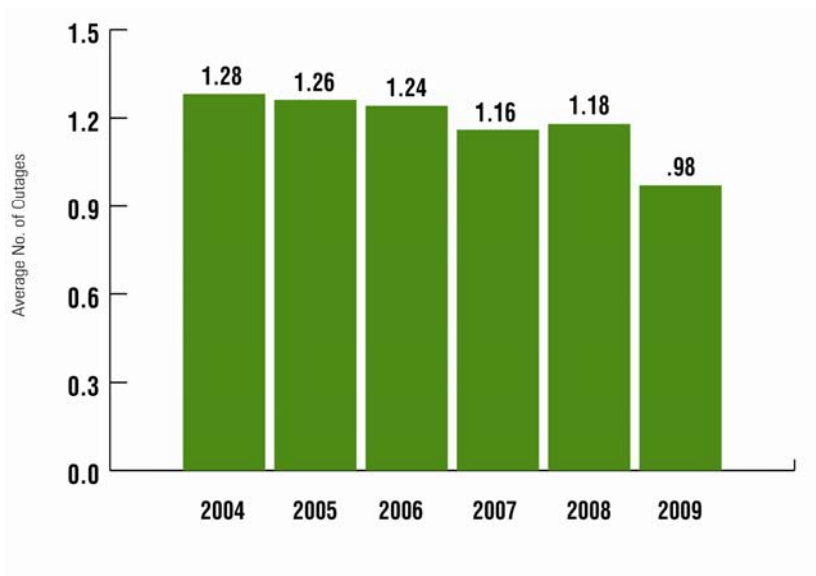
A. We are seeking a total increase in our revenue requirement of approximately $263 million, which is about an 11% increase in rates. The most significant factor driving our need for a rate increase is to recover investments primarily to improve the reliability of our aging infrastructure and comply with environmental regulations. The vast majority of this proposed increase (approximately $200 million) is due to energy infrastructure investments, environmental controls and other reliability costs to meet customers' expectations of more reliable and cleaner energy. These infrastructure investments will be serving customers by the end of February 2011. By that time and just since the end of the true-up period in the Company's last rate case (January 31, 2010), we expect to have placed into service in excess of $1 billion of new infrastructure investment to serve our customers. The most significant investments we will be placing into service during this period are the new wet flue gas desulfurization units (commonly referred to as "scrubbers") at our Sioux Plant, which will significantly reduce sulfur dioxide and other emissions from the Sioux Plant. This project alone accounts for approximately $110 million (or 42%) of our proposed rate increase. The portion of our request that addresses infrastructure investment also includes approximately $15 million associated with investment in the new upper reservoir at the Taum Sauk Plant. As AmerenUE witness Mark C. Birk indicates in his direct testimony, these Taum Sauk investments include the cost of enhancements to the new upper reservoir, and costs that would have been incurred by the Company in the absence of the failure of the upper reservoir in 2005. These investments are consistent with those categories of costs for which we are able to seek recovery under the settlement agreement with the State of Missouri, and do not include any costs we have recovered from insurers. As Mr. Birk will discuss in his testimony, these enhancements were made to improve the safety, security and reliability of the facility, which will provide our customers with an efficient and valuable source of electricity for at least 80 years.

While approximately $200 million of our proposed increase relates to infrastructure investment and related costs, approximately $70 million of the proposed increase is related 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.

I would also note that this rate increase request does not include any increase in our non-fuel operations and maintenance ("O&M") costs because those costs have in fact decreased since our last rate case. This is attributable to our continuing efforts to engage in proactive and disciplined management of our non-fuel O&M costs across the entire Company and lower employee benefit costs.

Q. Has AmerenUE's overall reliability improved as a result of its substantial investments in infrastructure in recent years?

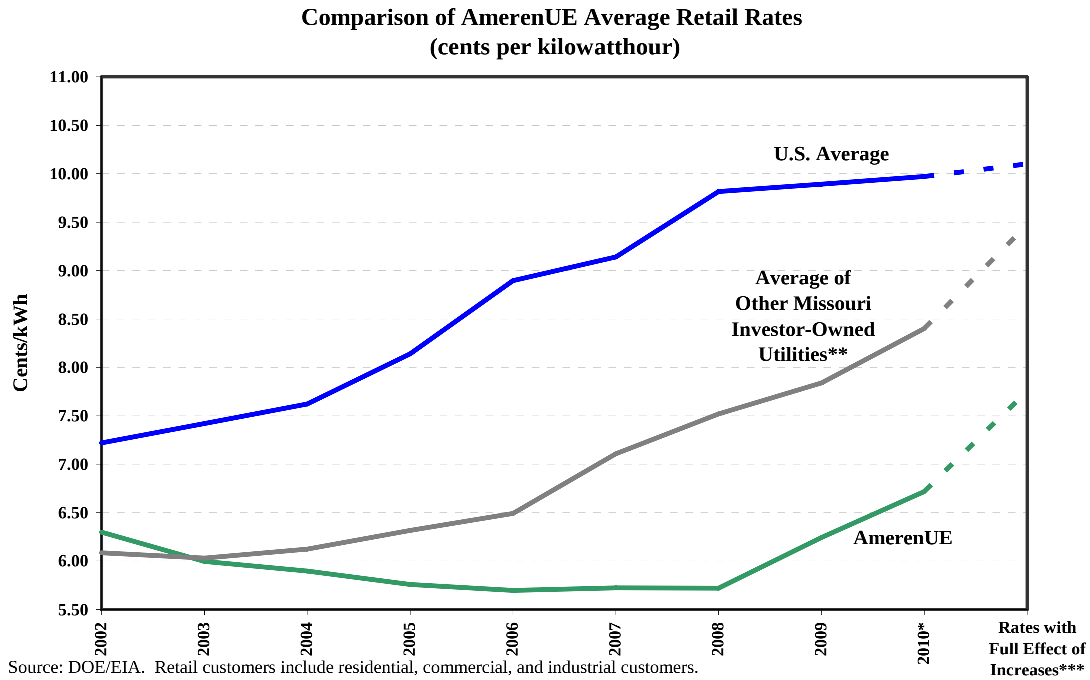
A. Yes. AmerenUE's reliability has improved significantly due to its investment in its system, as well as the Commission's vegetation management and infrastructure inspection programs. As shown in the following chart, which reflects AmerenUE's System Average Interruption Frequency Index ("SAIFI"), AmerenUE's outage frequency has declined nearly 25% in the last five years. Simply put, our investments to improve reliability are working.



Q. This is the fourth rate increase case filed by the Company in the past four years. Why is this rate increase filing necessary?

A. As I summarized above, the vast majority of the rate increase is needed to pay for capital investments to address environmental matters, including our customers' desire for cleaner air, the increased cost of our continuing effort to maintain or replace our aging infrastructure in order to provide safe and reliable service, the kind of service we believe our customers expect, and to cover higher net fuel costs over which we have little control. Unlike most businesses, we have an obligation to serve, and we provide an essential service which requires that our system and our company remain strong for the long-term benefit of all of our stakeholders. Our ability to continue to make these investments in a timely fashion is directly impacted by our ability to recover our legitimate costs to serve our customers and earn a fair return. Without this rate case we could not recover our legitimate costs or have any reasonable opportunity to earn a fair return.

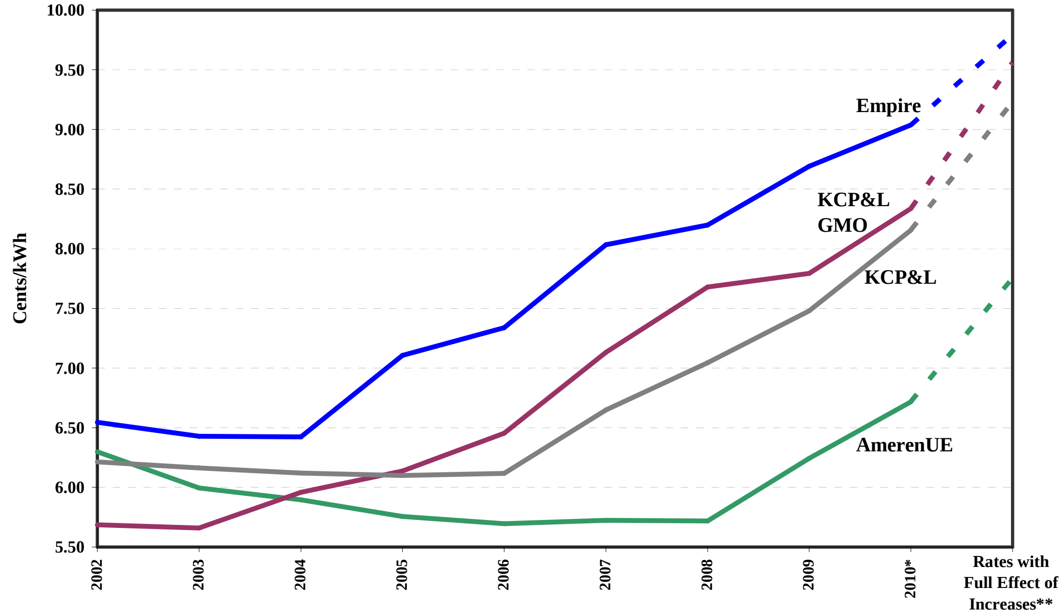
I also recognize that a rate increase of any kind will present hardships for some of our customers. As I will discuss in more detail later, we have been taking, and are continuing to take, several proactive steps to help our customers with their energy costs today and in the future. While our proposed rate increase is meaningful, I believe it is also important to keep our proposal 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. Even with the three rate increases over the past four years, our electric rates remain approximately 35% below the national average, and with our proposed rate increase in this case, we expect that our rates will remain significantly below the national average. Large environmental and other investments, higher fuel costs, and the general increase in the cost of operating a utility is the new normal in our industry from which AmerenUE is not immune. However, because of decisions we have made and our continued efforts to manage our business, a meaningful competitive cost advantage for the State of Missouri remains even with this increase, as illustrated by the following chart:



Source: DOE/EIA. Retail customers include residential, commercial, and industrial customers.
* 2010 forecast for U.S. based on DOE/EIA's August 2010 Short-Term Energy Outlook.
2010 forecast for Missouri utilities based on known general and FAC-related rate increases in effect in 2010.
** Other Missouri IOUs are Empire District Electric, Kansas City Power & Light, and KCP&L Greater Missouri Operations.
*** Reflects 2011 forecast for U.S. based on DOE/EIA's August 2010 Short-Term Energy Outlook.
Missouri rates include full impact of known general and FAC rate increases, as well as AmerenUE's, KCP&L's, and KCP&L-GMO's proposed rate increases ($263 million, $92 million, and $98 million, respectively).

As shown above, AmerenUE's rates are also significantly below the rates of the other investor-owned electric utilities in the state. As the chart below shows, we expect that implementation of our entire rate increase request would still leave our rates below the rates of all the other investor owned utilities in the state (after taking into account the pending rate increase requests at two of the other three electric utilities in the state).

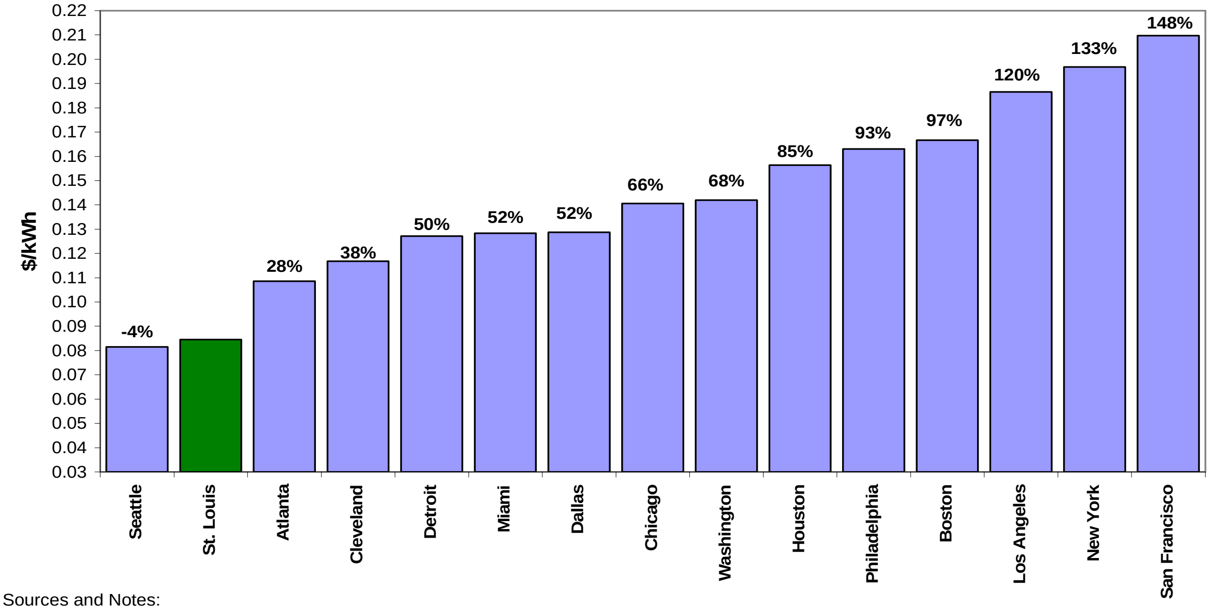
Comparison of Average Retail Rates in Missouri
(cents per kilowatthour)



Source: DOE/EIA. Retail customers include residential, commercial, and industrial customers.
* 2010 forecast based on known general and FAC-related rate increases in effect in 2010.
** Rates include full impact of known general and FAC rate increases, as well as AmerenUE's, KCP&L's, and KCP&L-GMO's proposed rate increases ($263 million, $92 million, and $98 million, respectively).

Finally, as shown in the chart below, our rates continue to enable 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 (2009) 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 (lower) 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 the cost of fuel used to generate electricity at our power plants and power we purchase to serve our customers when it is economic to do so, offset by off-system sales revenues. The increase in our net fuel costs is being driven principally by higher fuel costs largely due to higher delivered coal costs.

Q. What are the main factors that account for the approximately $200 million increase in non-fuel costs?

A. As I stated previously, the key drivers associated with the increase in non-fuel costs relate to the placement of the Sioux Plant's pollution control equipment into service and other rate base additions to reflect our continuing substantial investments in our energy production and delivery infrastructure.

Q. Aside from infrastructure investments, what are some of the other key drivers of the approximately $200 million non-fuel related increase?

A. Other key drivers include higher costs of capital (most notably the cost of equity) associated with the above-mentioned energy infrastructure investments and taxes. In its last rate increase case, AmerenUE's revenue requirement reflected a return on equity ("ROE") of only 10.1%, which is meaningfully below the average ROE authorized for integrated electric utilities across the country, and among the lowest ROEs awarded to an integrated electric utility in the last few years. AmerenUE is requesting a 10.9% ROE in this case, which our cost of capital witness, Robert B. Hevert, indicates is a more appropriate ROE given capital market conditions, the risks that the Company faces, and the challenges posed by the regulatory framework in Missouri.

Our level of spending on energy efficiency programs has also increased. As I will discuss later in my testimony, implementation of energy efficiency programs is one of the proactive steps we are taking to help our customers manage their energy costs. These programs include incentives and customer education for energy efficient lighting and appliances.

I am very pleased to say that these programs are working. Of course, these programs have costs associated with them. In addition, we are experiencing losses associated with the recovery of our fixed costs in rates due to these programs. As discussed during our last electric rate case, we must continue to make solid progress in the cost recovery mechanisms for energy efficiency programs to be consistent with the provisions of Senate Bill 376 and in order for utilities to continue to make meaningful investments in energy efficiency programs. As a result, we are seeking to make additional progress in the cost recovery framework for energy efficiency programs in this case. In particular, AmerenUE is proposing to continue rate base treatment for energy efficiency expenditures and reduce their amortization from six years to three years. In addition, we are proposing to establish a tracking mechanism to account for the loss of recovery of fixed costs in our current rates that is attributable to our energy efficiency programs on a going-forward basis. While I expect that more progress will need to be made in this area in the future, this framework will help place energy efficiency expenditures on a more equal footing with investment in additional generating facilities, consistent with the provisions of Senate Bill 376, and will allow us to sustain expenditures for energy efficiency programs that are consistent with our current planned levels of spending.

Q. What are some of 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 prior Company rate cases, and reauthorized in the Company's last rate case:

--Fuel Adjustment Clause ("FAC");

--Vegetation Management/Infrastructure Inspection Cost Tracking Mechanism; and

--Pension/OPEB Cost Tracking Mechanism.[2]

[2] "OPEB" means "Other Post-Employment Benefits." I would note that AmerenUE witness Randall K. Lynn is filing direct testimony to sponsor certain minor amendments to the Company's existing Pension/OPEB tracker.

In addition, we are proposing tracking mechanisms to recover the costs of: (i) complying with the Commission's renewable energy standards rule; (ii) "construction accounting" treatment for rate base additions between the true-up cut-off date and the conclusion of this case; and (iii) "construction accounting" for government relocations, which are outside of the Company's ability to control. Construction accounting permits the utility to accrue an allowance for funds used during construction ("AFUDC") and defer depreciation expense from the time the facility is placed in service until the time the cost of the facility is included in the Company's rates. These mechanisms will help mitigate the regulatory lag associated with costs AmerenUE is required to incur, but which generate no new revenue and are clearly beyond our control. AmerenUE witness Gary S. Weiss addresses the use of construction accounting for these investments in his direct testimony.

Our ability to employ the existing and proposed cost recovery/tracking mechanisms 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. Moreover, as I discuss later in my testimony, excessive regulatory lag continues to severely undermine the Company's ability to earn its allowed return, even with these mechanisms. Without these mechanisms, AmerenUE's chronic inability to recover its cost of capital will be far worse.

IV. <u>CHALLENGES FACING THE COMPANY</u>

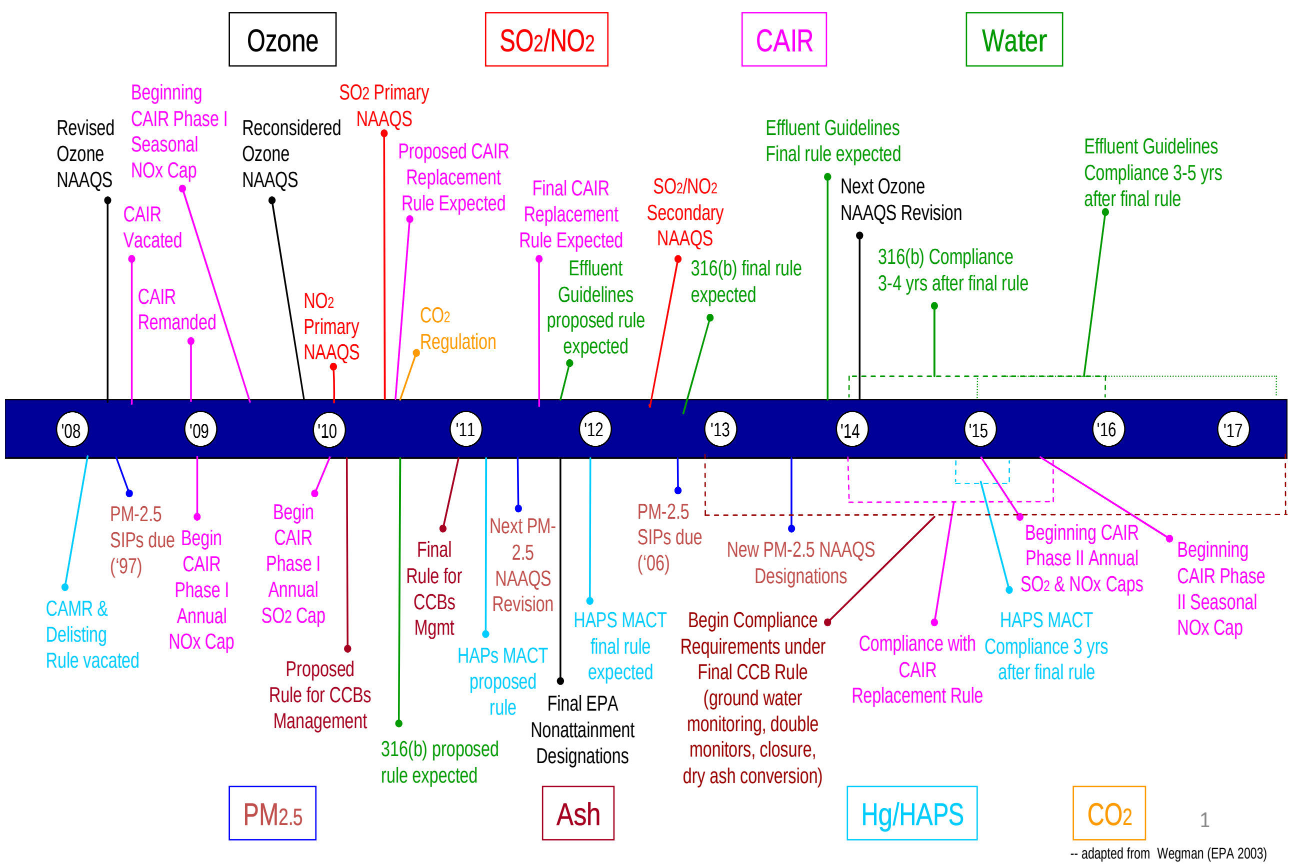
Q. You previously alluded to challenges currently faced by the Company. Can you describe some of those challenges?

A. Yes. As we discussed in at least our last two rate cases, we remain 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, both the electric industry as a whole and AmerenUE in particular have embarked on necessary capital investment campaigns to replace aging infrastructure, improve the reliability of our distribution systems and power plants, and reduce emissions from our power plants. For example, in this case, AmerenUE is seeking the recovery of the very significant costs of installing the Sioux scrubbers that are designed to materially reduce sulfur dioxide emissions from its Sioux Plant, as I earlier mentioned.

Meeting the high expectations of our customers relating to reliability, which arise from the increasing importance electricity plays in all of our lives requires high levels of investment, as does meeting environmental requirements, which we fully expect to meaningfully increase in the future.

As noted in the chart below, the U.S. Environmental Protection Agency is prepared to issue and potentially implement several new regulations for air, water and ash. The impact of these new rules could require the installation of new environmental control equipment in the next five years, the cost of which will be in the billions of dollars. These new rules could be in addition to potential climate legislation to address the emission of greenhouse gases.

Environmental Regulatory Timeline for Coal Units



Needless to say, meeting our customers' expectations for safe, reliable and cleaner power, as well as addressing our aging infrastructure and new environmental mandates that are likely to be forthcoming has far-reaching implications for our company, the communities we serve, our state and our region. All of these issues are not going to be resolved in this rate case. However, this rate case will be critical in laying the appropriate foundation to address these issues by addressing the single most significant financial challenge facing the company today—excessive regulatory lag.

Q. Please elaborate.

A. As I discussed in detail in my testimony in our prior rate case (Case No. ER-2010-0036), there is a significant amount of time between when the Company pays for the substantial investments it must make to meet environmental and other regulatory requirements, as well as to attempt to meet the high expectations of its customers, and when it is permitted to recover those costs in rates. For example, from the end of the update period in the Company's last rate case (January 31, 2010) through the end of the Company's recommended update period in this case (February 28, 2011), the Company expects to place in excess of $1 billion of infrastructure into service. Some of these projects have been constructed over several years, simply due to the large scope of the projects (e.g. the Sioux scrubbers project). To date, the Company has not received any increase in rates to cover the cost of these projects, and will probably not recover any costs until August, 2011, when rates set in this case are expected to take effect. The return and depreciation expense incurred during this "lag" period are permanently lost to the Company under the current regulatory framework. Indeed, "regulatory lag" is a misnomer in that recovery of costs incurred to provide services which are not immediately reflected in rates is not merely delayed, but rather, recovery of those costs is denied forever.[3]

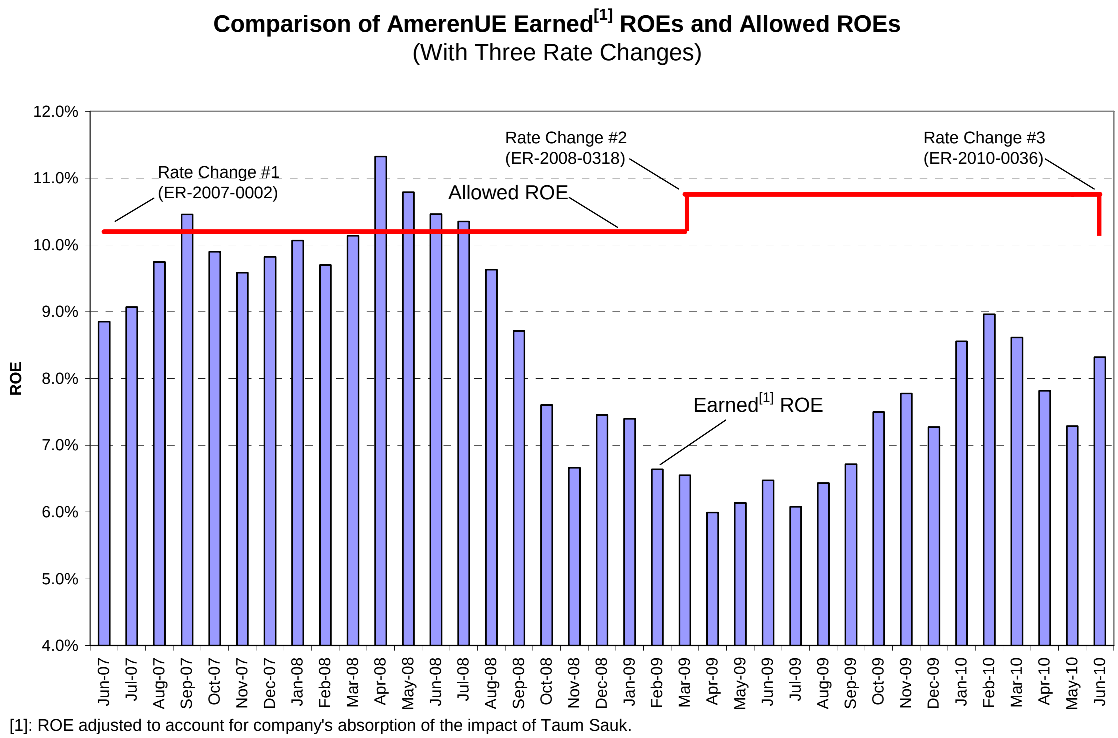
[3] This problem has been mitigated with respect to the Sioux scrubbers project due to the settlement approved by the Commission in our last rate case allowing "construction accounting" for the scrubber project. That agreement does not address the timely recovery of cash flows, or the recovery of costs for the hundreds of millions of dollars of other (non Sioux) rate base additions made since the true-up cutoff date in the last case, or for other increases in our operating costs.

Q. Why does excessive regulatory lag occur in Missouri?

A. As I have outlined in the past, 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, which is especially detrimental to the Company in a steadily increasing 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 date 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 many 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 its investment. This delay in recovering construction costs does not occur in some other states which allow construction work in progress to be included in rate base. These items represent just a few examples of why regulatory lag in Missouri is greater than regulatory lag in many other jurisdictions.

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

A. The financial consequences of excessive 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. We have experienced those financial consequences for several years now, and they continue to require AmerenUE to file rate cases, as evidenced by our filing of four such cases in just four years. The chart below shows how, in spite of these frequent rate case filings, 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 June, 2010.



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

A. There are several negative consequences. First, when a utility is consistently unable to earn a fair return due to rate case outcomes or regulatory frameworks, the company has no reasonable choice but to better align its expenditures (operations and maintenance as well as capital) with the resources it is provided.

Practically speaking, excessive regulatory lag results in worthwhile projects being deferred or eliminated. These are projects that our customers would likely want us to pursue to support better reliability or provide cleaner energy, that would be prudent and reasonable, and that would support sound energy and public policy. To be clear, I recognize that in all circumstances it is our obligation to provide safe and adequate service to our customers and we have certain minimum expenditure requirements we must meet for reliability, or mandated renewables or environmental investments. Those investments have been and will continue to be made. However, there are discretionary projects that I believe would have long-term benefits for our customers and the state (e.g. more timely investment in smart grid technology, undergrounding of certain portions of our system, substation and power plant upgrades, discretionary environmental projects, etc.) Excessive regulatory lag is constraining our ability to move forward with these projects notwithstanding their benefit to our customers. Investment in our energy infrastructure also creates other benefits for the state's economy, including job creation. Of course, the impact on customers' rates is a key consideration as well.

Second, excessive regulatory lag (and the Company's inability to have a reasonable opportunity to earn a fair return) puts severe downward pressure on its stock price, which in turn puts upward pressure on the cost of equity (an important source of capital), resulting in a higher ultimate cost to ratepayers.

Third, the lack of timely cash flows from customers can significantly increase the Company's need to rely on borrowing to fund operations because internally generated cash flows fall far short of those needed to fund operations. More borrowing produces more interest expense, which ultimately is also borne by our customers.

In summary, excessive regulatory lag has several negative consequences. It is negatively affecting AmerenUE's cash flows and related financing costs and is preventing AmerenUE from recovering its cost of equity by systematically preventing AmerenUE from having a reasonable opportunity to recover its full cost of service and earn a fair return on its investment. In addition, the existing regulatory framework creates a strong disincentive to pursue new investments to meet increasing customer expectations and/or strongly support federal and state policies and initiatives.

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

A. First, I want to acknowledge that the Commission has taken steps to partially mitigate regulatory lag by approving certain cost recovery and tracking mechanisms. It is critical that we not take any steps backward in these previous determinations given the negative implications of excessive regulatory lag, coupled with the future investment requirements we foresee down the road that I described earlier.

As stated previously, AmerenUE is proposing several measures that would help reduce regulatory lag in this case. We are proposing the continuation of our existing fuel adjustment clause. We are also requesting that the Commission allow us to continue our existing vegetation management and infrastructure inspection, and pension/OPEB cost trackers. We are also requesting that the Commission adopt new trackers to allow the recovery of renewable energy standard costs. In addition, we are proposing "construction accounting" for capital investments that go into service between the true-up cut-off date and the completion of this case, as well as for mandatory relocations due to highway construction and other similar causes over which we have no control, and which produce no additional revenues. We are also seeking to enhance the cost recovery mechanism for energy efficiency expenditures and proposing a tracking mechanism that recovers fixed costs AmerenUE would normally expect to recover through the sale of energy absent the implementation of energy efficiency programs.

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 effects of excessive regulatory lag in a rising cost environment, they will help reduce their 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. I personally attended several of the local public hearings in our last rate case, and persons who report directly to me attended all of the others. We are very much aware of the difficulties some of our customers face in coping with any rate increase at any time. Unfortunately, we cannot avoid seeking this rate increase at this time if we are going to meet our obligation to deliver safe and reliable electric service in an environmentally responsible manner 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. As I indicated, we know this rate increase will create financial hardships for some of our customers, especially during the continued economic difficulties the country is facing. As a result, we have been taking proactive steps to reduce costs, to launch energy efficiency programs and to provide several energy assistance programs to help our customers manage their energy costs now and in the future.

Q. Please describe the cost reductions AmerenUE has made and is making.

A. The Company's total expenditures in 2009 were approximately $100 million less than in 2008, and we expect the Company's expenditures in 2010 to be approximately $100 million less than they were in 2009.[4] Moreover, we are continuing to reduce expenditures planned for the future. While subject to Board of Directors' approval later this year, I expect our planned expenditures for 2011 through 2014 to be meaningfully lower than those estimated at the time of our last rate case. Of course, these estimates could be impacted by future environmental regulations and other changes in the law, among other things.

[4] Even though our total costs are declining, our expenses continue to increase and our capital costs exceed depreciation expense, which requires the Company to seek rate increases.

Q. Will the customer rates proposed in this case reflect some of these cost reductions?

A. Absolutely. As I stated previously we have been significantly reducing expenditures for some time and those reductions are reflected in the test year figures used to derive the revenue requirement filed in this case. In addition, we will reduce our rate increase request for any budgeted cost reduction measures 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 excessive regulatory lag. The consequences of excessive regulatory lag include higher customer rates in the long term due to the need for greater borrowings to fund our operations, as well as the challenges associated with earning the allowed return on equity and the upward pressure this puts on the cost of equity. While excessive 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. We have implemented several residential and business energy efficiency programs that will help our customers better manage their energy usage and costs. These programs have included incentives and customer education for energy efficient lighting and appliances. Through the end of the true-up cut-off date in this case, we expect that we will have spent approximately $48.5 million on energy efficiency programs for our customers since we began our programs in late 2008.

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 have included Dollar More, Low-Income Weatherization and our air conditioner give-away program. In addition, along with our customers, we are sponsoring the low-income pilot program (Keeping Current) that was approved in the last rate case, which provides bill payment assistance to low-income customers. Just recently, AmerenUE announced it had committed to an additional $5 million of energy assistance program in 2010. That is in addition to the more than $4 million in energy assistance we provided last year. These new programs will be funded by our shareholders, and the costs will not be reflected in rates. Finally, AmerenUE regularly supports low-income customers through contributions to local charities, such as the United Way and the Salvation Army. All of these programs help our most vulnerable customers cope with the challenges posed by increasing energy costs.

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 meet their expectations for safe, reliable and cleaner energy, as well as provide our shareholders with a fair 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 excessive regulatory lag the Company faces. As outlined earlier in my testimony, mechanisms for which we are seeking approval in this case include continuation of the FAC in its current form and retention/adoption of several tracking mechanisms, among other things.

Again, granting the relief that the Company has requested would improve the Company's financial health, and enhance its access to lower cost capital and provide it with important cash flows so that we can continue to invest in our energy infrastructure for the ultimate benefit of its customers and the State of Missouri as a whole.

Q. Please provide a list of the witnesses filing direct testimony for the Company and the issues they are addressing.

A. In addition to me, the following witnesses are filing direct testimony on behalf of the Company:

Witness	**Principal Issues Addressed**
Robert B. Hevert	Cost of Equity
Mark C. Birk	Sioux Scrubbers and Taum Sauk Upper Reservoir Investment
Paul C. Rizzo	Taum Sauk Upper Reservoir
Lynn M. Barnes	Fuel Adjustment Clause
Jaime Haro	Off-System Sales
Wilbon L. Cooper	Rate Design
Gary S. Weiss	Revenue Requirement
William R. Davis	Energy Efficiency
Timothy D. Finnell	Production Cost Modeling
Michael G. O'Bryan	Capital Structure and Bank Credit Facility
William M. Warwick	Class Cost of Service Study
Philip B. Difani, Jr.	Lighting Class Cost of Service
James R. Pozzo	Billing Units
Steven M. Wills	Weather Normalization
Randall K. Lynn	Pensions/OPEB Tracker

Michael Adams Cash Working Capital

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-2011-0028

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 27 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

Warner L. Baxter

Subscribed and sworn to before me this 3 day of September, 2010.

Amanda Tesdall

Notary Public

My commission expires:

Amanda Tesdall - Notary Public
Notary Seal, State of
Missouri - St. Louis County
Commission #07158967
My Commission Expires 7/29/2011