Exhibit No.:	
Issue(s):	Policy
Witness:	Warner L. Baxter
Sponsoring Party:	Union Electric Company
Type of Exhibit:	Rebuttal Testimony
Case No.:	ER-2010-0036
Date Testimony Prepared:	February 11, 2010

MISSOURI PUBLIC SERVICE COMMISSION

Case No. ER-2010-0036

REBUTTAL TESTIMONY

OF

WARNER L. BAXTER

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a AmerenUE

St. Louis, Missouri
February, 2010

REBUTTAL TESTIMONY

OF

WARNER L. BAXTER

CASE NO. ER-2010-0036

Q. Please state your name and business address.

A. My name is Warner L. Baxter. My business address is 1901 Chouteau Avenue, Saint Louis, Missouri 63103.

Q. Are you the same Warner L. Baxter who filed direct testimony on July 24, 2009, and who also filed direct, rebuttal, and surrebuttal testimony on interim rates in this case?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to summarize the Company's response to some of the positions taken on various issues in this case, as reflected in the Staff's Cost of Service Report (Staff's Report) and in the direct testimony of certain other parties. I will also address the concerns expressed by our customers regarding the impact on them of the rate increase we are seeking in this case, and will outline the specific steps we have taken, and are continuing to take, to control our costs while also continuing to deliver the reliable service our customers expect from us. In addition, I will suggest a rate design mechanism the Commission could adopt to help mitigate the impact of our rate increase on our residential customers, including low income customers. Finally, I will provide a list of the Company's rebuttal witnesses and the principal issues being addressed by each of them.

Q. Please summarize the key points of your rebuttal testimony.

A.

- Certain positions advocated by parties in this case are significantly outside the mainstream (including recommendations associated with return on equity and depreciation) and/or use aggressive cost normalization methods that effectively disallow significant costs we have incurred relating to the maintenance and improvement of our energy infrastructure.

- With regard to return on equity (ROE), the Company has reduced its original request of 11.5% to 10.8% based on updated data related to its cost of capital. Our revised recommendation is now in line with the national average of 10.6% for integrated electric utilities, as well as our current allowed ROE of 10.76%. All other parties' ROE recommendations in this case are far below the mainstream. Approval of a reasonable ROE, in line with that approved by the Commission only one year ago, is critical to maintaining AmerenUE's financial stability, allowing the Company to compete for capital with other utilities on reasonable terms and enabling it to continue to make the kind of energy infrastructure investments that it needs to make in order to deliver the level of service and reliability our customers expect.

- Certain parties' recommendations concerning the Company's depreciation rates are also significantly outside of the mainstream. The Commission should adopt the standard life span approach to depreciating our coal-fired generating plants. The life span approach is recommended for use in depreciating power plants by authoritative depreciation texts, it is widely used for that purpose in nearly all jurisdictions, and is supported in this case by sound, reasoned estimates of the retirement dates of the Company's coal-fired plants. Moreover, the Commission should reject the many other punitive depreciation expense reductions proposed by the Missouri Industrial Energy Consumers (MIEC), which, if adopted, would result in depreciation rates at AmerenUE that would barely exceed the 2nd percentile compared to the Company's peers. Depreciation rates at that level will fail to provide a return of the capital invested in the Company's system over the life of the utility plant that serves customers, and will provide inadequate cash flows to support the high level of investment the Company needs to continue to make in its energy infrastructure.

- Both the Staff and MIEC have employed aggressive cost normalization methods for power plant expenses. It is critical that the Staff's and the MIEC's proposed reduction in test year coal-fired power plant maintenance expenses be rejected because, if adopted, this reduction would severely undermine the Company's ability to perform important planned maintenance outage work at these power plants. That maintenance is necessary to continue the high level of equivalent availability we have been able to achieve at these plants which, in turn, lowers net fuel costs for our customers. Consequently, the test year level of coal-fired power plant maintenance should be included in rates, because it is reflective of the ongoing level of maintenance expenses that the Company expects to incur during the time rates to be set in this case will be in effect.

- Should the Commission adopt the "out of the mainstream" positions, and/or the aggressive cost normalization proposals advocated by these parties, there would be meaningful negative implications. In particular, the excessive regulatory lag which I described in my previous testimonies would only be aggravated further. Consequently, the related negative policy implications of excessive regulatory lag would clearly become worse. The rates that the Commission would establish would not provide us with a reasonable opportunity to recover our prudently incurred costs of providing service, as well as a reasonable opportunity for our shareholders to earn a fair return on their investment. In addition, our already existing negative free cash flows would materially increase. Consequently, our credit quality, financing costs, and ability to access the capital markets at reasonable rates would be negatively impacted. Finally, not only would adoption of these positions create a strong disincentive for us to pursue any new investments to meet customer expectations or strongly support state and federal policies and initiatives, we would be left with no reasonable choice but to meaningfully reduce our level of investment in our energy infrastructure and in our operations, consistent with the cash flows we derive from this rate case. This reduced investment would weaken the reliability of our distribution system and power plants, result in job losses, further weaken the economy of our communities and the state, and ultimately harm our customers.

- The Company has listened attentively to the comments and concerns of our customers, expressed in connection with the local public hearings and otherwise. We believe our customers want us to continue our efforts to deliver high quality and reliable service at a reasonable cost. As a result, we have taken many proactive steps to reduce our costs, including reducing certain planned 2009 costs by in excess of $100 million, taking steps to implement approximately $1 billion in reductions of certain costs originally included in the five-year plan we developed early in 2009, implementing voluntary and involuntary employee reductions, and freezing management salaries.

- We recognize that there is never a good time to ask for a rate increase, and we heard our customers who appeared at the public hearings express the hardships that our proposed rate increase would cause them. In light of these testimonies, we recommend that the Commission consider adopting a rate design that would help mitigate the impact of any increase that is

> ultimately approved in this case on Missouri families (including our low income customers). As a consequence, the Commission should consider shifting 1% of the total costs that would otherwise be borne by the residential class to the Large Primary Service and Large Transmission Service classes, which currently pay much lower rates than the Residential class.

I. Response to Positions of Certain Other Parties

Q. Your July 24, 2009 direct testimony discussed, among other things, the considerable infrastructure investments being made by the Company to continue to maintain and improve reliability, the challenges the Company faces in this time where the Company's capital expenditure needs are high, and the challenges posed by regulatory lag and its related policy implications. Do the positions reflected in the Staff's Report and other direct testimony filed in this case adequately address the Company's investment needs and those challenges?

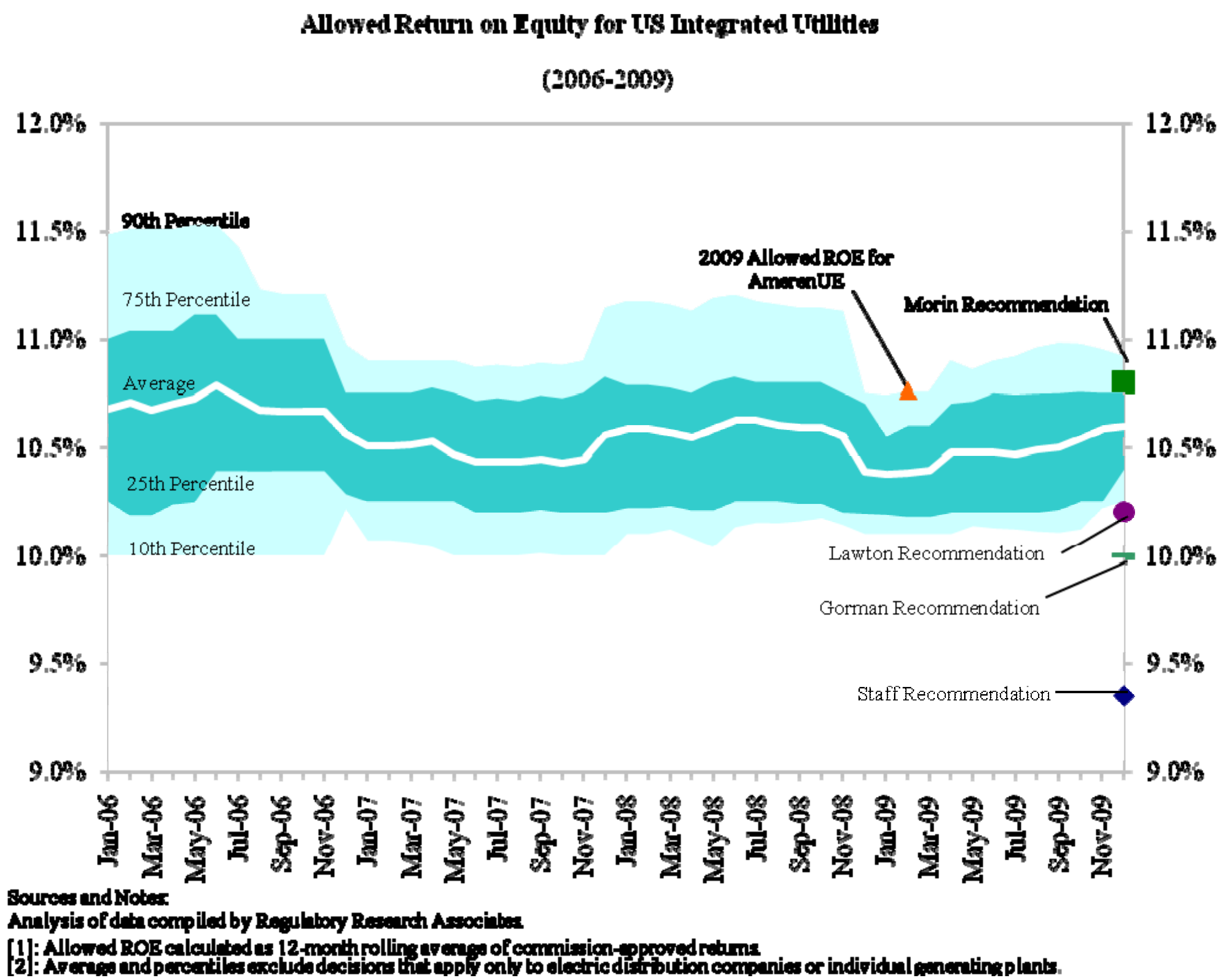
A. No, they do not. Certain positions advocated by parties in this case are significantly outside the mainstream (including recommendations associated with return on equity and depreciation) and/or use aggressive cost normalization methods that effectively disallow significant costs we have incurred relating to the maintenance and improvement of our energy infrastructure. Should the Commission adopt these out of the mainstream positions, or the aggressive cost normalization proposals advocated by the parties, there would be meaningful negative implications. In particular, the excessive regulatory lag which I described in my previous testimonies would only be aggravated further. Consequently, the related negative policy implications that I also described would clearly become worse. The rates that the Commission would establish would not provide us with a reasonable opportunity to recover our prudently incurred costs of providing service, as well as a reasonable opportunity for our shareholders to earn a fair return on their investment. In addition, our already existing negative free cash flow levels would materially increase. Consequently, our credit quality, financing costs, and ability to access the capital markets on reasonable terms would be negatively impacted. Finally, not only would adoption of these positions create a strong disincentive for us to pursue any new investment to meet customer expectations or strongly support state and federal policies and initiatives, we would be left with no reasonable choice but to meaningfully reduce our level of investment in our energy infrastructure and in our operations, consistent with the cash flows we derived from this rate case. This reduced investment would weaken the reliability of our distribution system and power plants, result in job losses, further weaken the economy of our communities and the state, and ultimately, harm our customers. Simply put, the aggressive ratemaking policies advocated by certain of the parties are not consistent with sound energy policy. Adoption of these positions by the Commission would have meaningful, negative long-term implications for our customers, our communities and our state.

Q. Earlier, you stated that one of the out of the mainstream recommendations advocated by the parties related to return on equity. Please elaborate.

A. Similar to its recommendation in the Company's last rate case, the Commission's Staff is proposing an allowed ROE ranging from approximately 90 to 160 basis points below the average allowed ROE (10.6%) for integrated electric utilities like AmerenUE over the past year. The Staff's recommendation is substantially below the ROEs authorized by this Commission for other electric utilities in recent cases, and ranges from 106 to 176 basis points below the Company's currently authorized ROE, approved just 12 months ago (10.76%). To put this in perspective, the midpoint of the Staff's range (just 9.35%) would put AmerenUE literally off-the-chart for allowed ROEs for integrated electric utilities.

While not as unreasonable and punitive as the Staff's ROE recommendation, both the recommendations of MIEC (10%) and the Office of the Public Counsel (OPC) (10.2%) are also substantially below the average allowed ROEs in the past two years and if adopted would put AmerenUE's allowed ROE below the 10th percentile for allowed ROEs for similarly situated integrated electric utilities.

The out-of-the-mainstream positions of the other parties are made clear by a chart from Dr. Morin's rebuttal testimony, which I have reproduced below:



In summary, these low ROEs, which would substantially reduce the Company's current ROE, would undermine AmerenUE's financial stability, materially reduce its ability to compete for capital on reasonable terms with other utilities, and compromise its ability to continue the kind of reliability-related investments it has made and needs to continue to make to meet customer expectations. Further, it would signal to investors that the regulatory environment in Missouri is inconsistent in its application, not supportive of providing investors with a reasonable opportunity to earn a fair return on their investment, and that it fails to support the significant investment needs of its utilities, including AmerenUE.

Q. Are you a rate of return expert?

A. No I am not, but I am ultimately responsible for making the decisions the Company must make with regard to when, how, and how much to invest in its energy infrastructure. I know how such low ROEs would impact those decisions. Moreover, my views on the impact of these low ROE recommendations are supported by the Company's ROE expert, Dr. Roger Morin, and an equity investment expert who is filing rebuttal testimony on behalf of the Company, Ms. Julie Cannell. So while it is true that rate of return experts, including Dr. Morin, rely on complicated analyses to "calculate" a recommended ROE (such as the discounted cash flow (Dcf), the Risk Premium, and the CAPM analyses), and while it is true that the results these experts reach can vary considerably, it is also true that that the final ROE adopted by the Commission must be in the mainstream of ROEs approved for similar utilities in Missouri and other states in order to put the Company in a position to access the capital it needs at a reasonable cost, and to continue to invest in its system as it needs to do and as customers expect it to do.

Q. Why is adoption of a reasonable ROE for AmerenUE that is in the mainstream important?

A. AmerenUE must compete for capital with other utilities. If its authorized ROE is materially below the ROEs awarded to other similar utilities, it will be at a disadvantage in obtaining the capital it needs (at reasonable terms) to maintain and improve its infrastructure. This is a particularly important consideration in the current environment where AmerenUE needs to continually access the capital markets to finance its operations (due to its significant negative free cash flows) in order to continue to invest significantly in its system to meet the expectations of its customers as well as meet state and federal requirements. If the Company is to be able to access the capital it needs at a reasonable cost, it must be provided fair regulatory treatment, similar to that provided to other utilities. The sub-10% return being proposed by Staff and the near 10% returns on equity being proposed by others do not meet this standard.

Q. Earlier, you also stated that certain parties' positions on depreciation were outside of the mainstream. Can you elaborate on that as well?

A. As discussed in detail in the direct and rebuttal testimonies of AmerenUE witnesses John Wiedmayer, proper depreciation accounting practices strongly support use of the life span approach in setting depreciation rates for electric production plants, including the Company's coal-fired units. Failure to use the life span approach, which as Mr. Wiedmayer discusses is used almost universally outside Missouri, results in unreasonably low depreciation rates. Indeed, the Staff's composite depreciation rate for all of AmerenUE's plant-in-service would rank just above the 20th percentile as compared to peer utilities, and MIEC's proposed rates would barely exceed the 2nd percentile. At a time when the Company needs more, not less cash to continue to invest in its system, setting unreasonably low depreciation rates is poor policy, will meaningfully increase our negative free cash flows, and in the long run is harmful to customers.

Q. Aside from the ROE and depreciation issues, are there other noteworthy positions sponsored by some of the other parties that would systematically disallow prudently incurred costs through aggressive cost normalization methods, undermine AmerenUE's financial stability, compromise its ability to make needed investments in infrastructure, and ultimately harm consumers?

A. Yes, there is one in particular. Both the Staff and MIEC are proposing disallowances of coal-fired power plant maintenance costs that will severely undermine the Company's ability to continue to operate those plants at the very high level of reliability and availability that the Company and our customers have enjoyed for the past several years. As addressed in detail in the rebuttal testimony of AmerenUE witness Mark Birk, the Company is as of the writing of this testimony in the middle of a planned outage at one of its coal-fired power plants, has already completed another outage this year, and will be conducting additional planned outages later in 2010. As Mr. Birk also explains, this outage work means that the level of coal-fired power plant maintenance in 2010 will be almost identical to the test year level included in the Company's revenue requirement. Moreover, as also explained by Mr. Birk, the Company is now at the point in its planned outage cycles that it must continue to perform a higher level of planned outages over the next few years than it performed over the past two or three years (the periods relied on by the Staff and MIEC) in order to maintain the reliability and high equivalent availability that benefits the Company and customers. Indeed, if the Company can maintain that high equivalent availability, it will have lower net fuel costs (due to greater plant efficiency and higher off-system sales revenues), which will directly benefit customers through the Company's fuel adjustment clause. Unfortunately, both the Staff and MIEC are proposing to "normalize" coal-fired power plant maintenance expense down to a level that simply will not support the maintenance that needs to occur in order to maintain those plants at the high level of equivalent availability we enjoy today. Adoption of those adjustments would force the Company to cut its planned maintenance, which would almost certainly be detrimental to our customers.

II. Impact of the Rate Increases – Steps Taken by the Company

Q. In your direct testimony you acknowledged that any rate increase, including this one, would create financial hardship for some of your customers. You also addressed in general terms certain proactive steps the Company was taking to reduce its costs. Can you please elaborate on those issues now in light of the developments that have occurred in the more than six months that have passed since this case was filed?

A. Yes. Before getting into specifics, I want the Commission to know that we take very seriously our obligation to listen to the concerns our customers express at local public hearings and at meetings that occur prior to each local public hearing. That is one of the reasons either I or one of my officers at UE attended every single one of these meetings and the 17 local public hearings that were held by the Commission. If a service or billing concern of any kind was brought to our attention during this process, we are following up with that customer to promptly address those concerns. AmerenUE witness Dave Wakeman addresses this follow-up in his rebuttal testimony. I have also been encouraged by some positive comments by our customers at these hearings, in particular in areas relating to the reliability improvements the significant investments in our energy infrastructure are now producing, and in regard to our storm recovery efforts, which reflect the investments and improvements we have made in that area as well.

Q. What are your main observations relating to the comments at these meetings and the testimony at these local public hearings?

A. As I acknowledged in my direct testimony, the comments and local public hearing testimony confirm that a rate increase will create hardship for some, and they confirm that a rate increase will of course require everyone to pay more for their electric service than they would like. Large numbers of people turned out for the pre-hearing meetings and the local public hearings themselves, which I believe were driven, in part, by the mailers and robo-calls from the "Fair Electricity Rate Action Fund" (FERAF). Nonetheless, these hearings gave us a great opportunity to speak to our customers directly, answer their questions, and listen and respond to their concerns.

It is noteworthy that we heard few, if any, comments from our customers that suggest that our customers do not want us to continue to invest in the reliability of our power plants and energy delivery systems, in our storm response efforts, and in customer service in general. And while there of course were some concerns expressed about service, it was notable that there were a relatively low number of service-related concerns expressed at the pre-hearing meetings and during the hearings themselves relative to the number of people who participated in the meetings and who testified. Having said that, we recognize that there is never a good time for a rate increase and it is particularly difficult during these challenging economic times. We take this matter very seriously and that is why we have taken several proactive steps to meaningfully reduce our costs, implement energy efficiency programs and provide several customer energy assistance programs to help our customers with their current and future energy costs.

Q. Can you describe some of the proactive steps the Company has taken to reduce its costs?

A. Certainly. In 2009, we reduced certain costs in excess of $100 million from our original 2009 plan. In addition, later in 2009, we implemented voluntary and involuntary separation programs, and made the decision to freeze all management salaries in 2010. Moreover, we are taking steps to implement approximately $1 billion in reductions of certain costs originally included in the five-year plan we developed in early 2009.

Q. Is there anything the Commission could do to address the concerns expressed by residential customers at the local public hearings who are having difficulty paying their electric bills?

A. The Company is concerned about its most vulnerable residential customers, and has sponsored numerous programs, including the Clean Slate program, low income weatherization, the Dollar More program, and energy efficiency programs designed to help low income customers. However, one way the Commission could provide additional help to Missouri families (including our low income customers) would be to allocate one percent of the costs that would otherwise be allocated to the residential class to the Large Primary Service and Large Transmission Service classes, classes of customers whose rates are currently lower than the Residential class. AmerenUE witness Wilbon Cooper explains how this would work in his rebuttal testimony. This reallocation would provide some small measure of relief to residential customers, without significantly impacting the other affected classes of customers. In accordance with the Commission's February 10, 2010 *Order Directing the Parties to Address the Concerns Raised by AmerenUE's Low-Income Residential Customers*, the Company will provide additional information to the Commission regarding this important issue when it files direct testimony related to this issue on February 19, 2010.

Q. Please summarize the witnesses filing rebuttal testimony for the Company and the issues they are addressing.

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

Witness	**Principal Issues Addressed**
Dr. Roger Morin	Cost of Equity
Julie M. Cannell	Equity Investor Perspectives and Return Requirements
Mark C. Birk	Coal Plant Maintenance and ECRM
John F. Wiedmayer	Depreciation
Dave Wakeman	Reliability and Infrastructure Costs
Krista Bauer	Incentive and Executive Compensation
Wilbon L. Cooper	Rate Design/LTS Class (Noranda) Rate Design
Gary S. Weiss	Miscellaneous Revenue Requirement Issues
Stephen M. Kidwell	Energy Efficiency/Rate Case Expense
Matt Michels	Energy Efficiency Modeling
Randall Irwin	Nuclear Fuel Costs/Callaway Outages
Timothy Finnell	Production Cost Modeling
Michael O'Bryan	Equity Infusion/Flotation Costs
Richard Mark	Advertising Costs
William Warwick	Class Cost of Service Study
Bill Barbieri	Pure Power
Michael Adams	Cash Working Capital

Q. Does this conclude your rebuttal 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's Tariffs to Increase its Annual Revenues for Electric Service.	) Case No. ER-2010-0036) Tracking No. YE-2010-0054) Tracking No. YE-2010-0055

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 Rebuttal Testimony behalf of AmerenUE consisting of 13 pages ~~and Schedules WLB-ER~~XXX ~~through WLB-ER~~XXX, 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 10 day of February, 2010.

Notary Public

My commission expires:

Patricia L. Fortney - Notary Public
Notary Seal, State of
Missouri - St. Louis City
Commission #09402451
My Commission Expires 7/19/2013