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Witness: Warner L. Baxter
Sponsoring Party: Union Electric Company
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2007-0002

DIRECT TESTIMONY

OF

WARNER L. BAXTER

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a AmerenUE

St. Louis, Missouri
July, 2006

TABLE OF CONTENTS

DIRECT TESTIMONY

OF

WARNER L. BAXTER

CASE NO. ER-2007-0002

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 63103.

Q. By whom are you employed?

A. I am employed as Executive Vice President and Chief Financial Officer of Ameren Corporation ("Ameren"). I also serve in that capacity for Union Electric Company, d/b/a AmerenUE ("AmerenUE" or "Company").

Q. What are your responsibilities in your position with Ameren and AmerenUE?

A. My responsibilities include the oversight of the financial and accounting functions, as well as the treasury, tax, risk management, internal audit and budget and corporate planning functions. I am also the primary company spokesperson in communications with the financial community, including financial analysts, institutional shareholders, and credit ratings agency analysts.

Q. What is your educational and employment background?

A. I graduated from the University of Missouri-St. Louis in 1983 with a Bachelor of Science degree with a major in Accounting. I am a licensed Certified Public Accountant

in the State of Missouri and a member of the American Institute of Certified Public Accountants and the Missouri Society of Certified Public Accountants.

In October of 2003, I was elected to my current position and named Executive Vice President and Chief Financial Officer of Ameren Corporation and Union Electric Company. 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 and Union Electric in May 1998. I was elected Senior Vice President-Finance of Ameren in 2001. In October 2003, I was also elected Executive Vice President and Chief Financial Officer of CILCORP Inc. and Central Illinois Light Company upon Ameren's acquisition of those companies. In September 2004, I was elected Executive Vice President and Chief Financial Officer of Illinois Power Company.

Prior to my employment at Ameren, 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. I also developed Price Waterhouse's financial statement disclosure and content guide for public utilities. 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 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 Executive Committee of the Chancellor's Council of the University of Missouri-St. Louis, as a member of the Board of Directors of UMB Bank, and as a member of the Board of Trustees of the Wyman Center.

II. PURPOSE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your direct testimony?

A. The purpose of my testimony is to: (1) provide the Commission with an overview of the challenges facing the Company today, as well as the industry as a whole, many of which are the key drivers of the Company's rate increase request; (2) discuss how the Company has met such challenges in the past to the benefit of the Company, customers and the state, and address how we intend to meet these challenges in the future; (3) explain my view that an important component in meeting these challenges in the future is the continuing need for a constructive regulatory framework; (4) discuss what the key components of such a framework should include; (5) explain how our proposal in this rate case is consistent with a constructive regulatory framework; (6) provide my perspective on the rate increase request; and (7) summarize for the Commission the major areas of focus in this case and provide an overview of how we are addressing those issues in our filing. A summary of my direct testimony is included in Attachment A.

Q. What are the most important overall points reflected in your direct testimony?

A. AmerenUE is requesting a 17.7%, or $361 million increase in its electric rates. Our request includes a number of important energy policy provisions, including a provision

that limits the increase in residential rates to no more than 10 percent, a renewable energy proposal, new economic development rates, and an alternative mechanism for addressing off-system sales, among other things. We are also proposing to work with other stakeholders to continue AmerenUE's sponsorship of appropriate low-income energy assistance and demand response/energy conservation programs.

I recognize that any rate increase is unpopular, and that our request is sizable. However, I believe it is important to keep our rate increase in perspective by considering a number of relevant facts:

- In 2005, AmerenUE's average electric rates were approximately 30% below the national average, approximately 18% below the non-restructured states' average, and approximately 15% below the Midwest average, and were the lowest among investor-owned utilities in the state. See Schedule WLB-1.
- St. Louis has the second lowest residential rates in the country compared to other major metropolitan areas surveyed by the Bureau of Labor Statistics, as shown on Schedule WLB-2. Indeed, electric rates in St. Louis are lower than those in even small and mid-sized metropolitan areas, despite the higher costs associated with serving large metropolitan areas like St. Louis, as shown on Schedule WLB-3.

My sense is that these facts come as no surprise to the Commission, as evidenced by the Commission's own recent press releases that stated that electric rates in Missouri were among the lowest in the nation.[1]

[1] See Schedules WLB-4 and WLB-5.

In addition, a couple of other key facts are worth noting:

- Since the Company's last rate case, AmerenUE's residential electric rates have decreased 6% while residential electric rates across the United States, in other non-restructured states, and in the Midwest have risen 11%, 13% and 5%, respectively, as shown on Schedule WLB-6. During that same period, the prices of consumer goods and energy products in the region have risen dramatically.
- The trend of rising rates is continuing. Recent data from United States Department of Energy ("DOE") indicates that electric rates in the first quarter of 2006 are already 12% above their levels from a year ago.[2]
- Approval of the Company's proposal in its entirety would still leave AmerenUE's electric rates over 20% below the national average in 2007, as projected by the DOE.[3] Moreover, when considering the electric rate increase requests submitted by every other Missouri investor-owned electric utility which are currently pending before the Commission, AmerenUE's rates would remain the lowest in the state. See Schedule WLB-7.

AmerenUE is seeking to obtain its first rate increase in two decades. The Company must request this rate increase to address, among other things, a host of challenges it is facing, including sharply higher fuel costs and other operating costs, the need to recover the costs of substantial infrastructure investments, and the need to continue and improve the constructive regulatory framework that exists in Missouri.

[2] EIA "Short-term Energy Outlook," June 2006, Table 10.c.
[3] EIA "Monthly Energy Review," June 2006, Table 9.9.

In the past, AmerenUE has met the challenges it has faced by remaining focused on its core utility business and emphasizing, among other things, cost control, reliability, customer satisfaction and conservative fiscal management practices.

While past regulatory proceedings have had their share of disputes and challenges, over the past decade or so AmerenUE, the Commission and other stakeholders, through a great deal of hard work, have crafted a constructive regulatory framework that has been a win-win-win for AmerenUE, its customers, and the State of Missouri. It has resulted in an AmerenUE that is an exceptionally cost-effective company with high customer satisfaction and some of the lowest rates in the country. In addition, AmerenUE has remained a financially healthy utility that has been able to make critical energy infrastructure investments in a timely manner. This successful outcome has not only benefited customers through low and stable (indeed declining) rates, but has also supported the economic development of the state, protected low-income customers, and provided numerous local jobs while, at the same time, offering solid (though not excessive) returns to our shareholders, many of whom are senior citizens, retired employees, and Missouri residents.

However, none of us can simply be satisfied with past successes. We must build on these past successes while remaining focused on the fact that challenges facing the industry and the Company today make continuing to develop and improve our constructive regulatory framework more important than ever. We must recognize that a rate case is not merely an exercise of evaluating competing testimony and briefs from attorneys, engineers, accountants and consultants, and mechanically applying formulas to calculate rates. Rather, the task is to establish regulatory policies that fairly balance the interests of all stakeholders

and that lay the foundation for continued success in the years to come by considering important challenges that are going to arise in the future.

Among other things, a constructive regulatory framework must allow an appropriate recovery of costs so that utilities can be run efficiently and effectively over the long-term. Moreover, it must: (a) provide a fair return on shareholders' investment in light of the higher risks inherent in today's utility industry; (b) provide solid cash flows to finance significant levels of necessary energy infrastructure investments that will have to be made in the future and to maintain strong credit ratings to keep access to the capital markets in solid standing and keep borrowing costs low; (c) allow companies like AmerenUE to continue to act as productive, major corporate citizens in their communities; (d) establish policies that address increasing risks and significant changes occurring in the industry; (e) provide appropriate incentives; and (f) promote thoughtful social and public policies, including low-income assistance, conservation, economic development initiatives, and responsible environmental stewardship. The proposal that we have set forth today addresses all of these key components and will result in a constructive regulatory framework to meet the challenges of today and the future.

III. KEY CHALLENGES

Q. One of the points you mentioned above concerned the important challenges facing the Company and the electric utility industry, some of which are the drivers of the Company's rate increase request. What are these challenges?

A. Since our last rate case, many developments have taken place in the electric utility industry that pose significant challenges to AmerenUE today and in the future, including:

1. Rising fuel costs, in particular the cost of coal, coal transportation, nuclear fuel and natural gas. For example, the Company's delivered cost of coal (our primary generation fuel) has risen $162 million (42%) over levels reflected in the Company's books for the test year period utilized by the Company in its last rate proceeding (Case No. EC-2002-1);

2. Rising operating costs. For example, tree trimming expenses have risen over 20%, and employee benefit costs, including medical costs for employees and retirees, have increased 56% since 2002;

3. Substantial increases in the cost of equipment and materials that are necessary to build and maintain a reliable electric generation, transmission, and distribution system. For example, since 2002, the cost of aluminum overhead wire has increased 93%, the cost of copper underground cable has increased 147%, and the prices of wood poles and transformers have jumped 34% and 57%, respectively;

4. A changing and volatile energy marketplace, which can result in significant variations in off-system sales margins and purchased power costs;

5. Rising interest rates, as evidenced by the Federal Reserve's 17 increases in interest rates over the past 24 months, with further increases possible;

6. The difficulty of maintaining and improving capacity and availability at aging power plants and in meeting the operational challenges posed by increasing environmental requirements;

7. The need to continue to make substantial infrastructure investments. Since our last rate case, AmerenUE has invested approximately $2.6 billion in its electric operations, including $700 million for 2,600 megawatts ("MW") of new generation to meet

growing customer demands. The need for significant infrastructure investments in the future will continue, including an estimated $1.2 to $1.6 billion in environmental investments at AmerenUE plants over the next 10 years, additional maintenance and capital expenditure requirements to maintain plant capacity and reliability, additional transmission investments to meet the ever-increasing demands placed on the system, and within the foreseeable future, the need to add baseload generation to meet growing customer demands;

8. The desire for renewable sources of generation by many stakeholders;

9. Investor expectations of a higher return on their investments, driven in large part by the riskier environment in which electric utilities must operate today, which directly impact the cost and availability of capital; and

10. Political and regulatory uncertainty which also has a profound effect on returns demanded by investors and on credit ratings agencies' opinions of the quality of utility debt, both of which affect the availability and cost of the large sums of capital needed to run an electric utility business today.

Q. Please discuss in more detail the first challenge you listed, rising fuel and fuel transportation prices.

A. Fuel and related transportation cost increases are being experienced throughout the electric utility industry and in the U.S. economy as a whole. AmerenUE has been very successful in shielding its customers from these price increases by relying predominantly on coal-fired generation and by negotiating exceptionally favorable long-term contracts. However, after many years of stability (particularly for coal costs), coal, coal

transportation, nuclear fuel, and natural gas costs are rising significantly.[4] Consequently, AmerenUE's coal and related transportation costs will, in 2007, have risen over the levels reflected in AmerenUE's books for the test year utilized by AmerenUE in the last rate proceeding (Case No. EC-2002-1) by 42% (or $162 million), with additional increases expected in the years that follow, as discussed in the direct testimony of AmerenUE witness Robert K. Neff. While these increases are significant, AmerenUE's coal and coal transportation costs are still below industry-wide levels due to AmerenUE's effective hedging strategies.

Q. Is AmerenUE alone in experiencing these high fuel and fuel transportation cost increases?

A. No. After many years of stable and, at times, even declining fuel costs, market forces are creating large cost increases throughout the entire industry. Other utilities, both within and outside Missouri, are experiencing the same effect, as evidenced by the rate cases of Kansas City Power & Light Company, The Empire District Electric Company, and Aquila, Inc. that are pending before the Commission at this time. Moreover, these cost increases are not limited to investor-owned utilities. Many of Missouri's rural electric cooperatives have also already announced or implemented what are at times double digit percentage increases in rates due, at least in part, to rising fuel and purchased power costs. To take one example, Boone Electric Cooperative, serving parts of Columbia and the surrounding areas, is increasing residential rates by 11.5% this year, and has announced that

[4] I will primarily focus on coal and coal transportation costs because only a small percentage of the energy produced by AmerenUE comes from natural gas-fired generation, and nuclear fuel prices have a smaller impact on the cost per kilowatt hour of energy generated than do coal costs.

it expects additional increases in future years.[5] As illustrated in Schedules WLB-1 and WLB-7, electric rates have recently increased in the Midwest, in other non-restructured states, and the United States as a whole, and further increases in rates are expected.

Q. You mentioned the fact that AmerenUE has made substantial energy infrastructure investments. Please discuss their impact.

A. Just since the Company's last rate proceeding, the Company has invested approximately $2.6 billion in electric energy infrastructure. In doing so, the Company met or exceeded its commitments made in connection with the settlement of its last rate proceeding, Case No. EC-2002-1.

All of these investments are providing service to the Company's customers and have therefore been included in the Company's cost of service study for this rate case. In fact, the Company's rate base has increased approximately $1.8 billion since the last rate case. The Company's cost of service has increased accordingly.

Q. How has the Company met industry challenges in the past?

A. While today's challenges are more acute than those in the past, the Company has successfully met past challenges by:

- Never straying from its corporate strategy of running an efficient core utility business;
- Remaining focused on the work required to operate its core utility business, which included enhancing customer service and reliability, improving power plant operations, reducing or containing costs, and making timely energy infrastructure investments;

[5] Boone Electric Cooperative explained its recent increase and its expected future increases to customers in its "Member Contact" newsletter, attached as Schedule WLB-8.

- Maintaining conservative fiscal management practices; and
- Working with the Commission and other stakeholders to develop a constructive regulatory framework in Missouri.

Q. How have the Company, customers, and the state benefited from successfully meeting these challenges in the past?

A. The Company's rates have declined steadily for approximately 20 years. In fact, there have been seven rate reductions since 1987 and customers received additional sharing credits during the six-year operation of the Company's Experimental Alternative Regulation Plans ("EARPs") in effect from 1996 to 2001. Electricity has continued to consume less and less of the typical household's budget, even while consumers' demand for electricity to power their appliances, computers, and other electronic devices has increased. The fact that the Company's rates have been reduced to this degree during a time when inflation, though moderate,[6] has continued a steady march upward, coupled with the Company's investment of billions of dollars in new infrastructure, is a testament to the Company's ongoing efforts to remain a low-cost provider.

Missouri enjoys some of the lowest electric rates in the region and in the country while also enjoying high-quality utility service, as the state, including the Commission, has recently recognized.[7] In particular, in 2005 AmerenUE's rates were approximately 30% below the national average, approximately 18% below the average in other non-restructured states, and approximately 15% below the Midwest average and are the

[6] As illustrated on Schedule WLB-9, since 1990, AmerenUE's average rates have decreased approximately 13%. During that same period, labor costs in the utility industry have increased more than 55% and the cost of consumer goods has increased more than 45%. This trend has continued recently, as illustrated on Schedule WLB-6, referenced earlier.

[7] See Schedules WLB-4 and WLB-5, referenced earlier.

lowest among investor-owned utilities in the state.[8] It is noteworthy that the Company has been able to achieve this performance despite the fact that the vast majority of its customers are located in a major metropolitan area, where the cost of serving customers is much higher due to higher construction and maintenance costs than in other areas. When compared with other large metropolitan areas for which the U.S. Bureau of Labor Statistics tracks electricity rates, only Seattle, which enjoys unique access to large quantities of very low-cost hydroelectric power, enjoys lower residential rates than St. Louis, as shown in Schedule WLB-2. These low rates are the tangible results of AmerenUE's tireless efforts to control costs and increase productivity, which are also evident, for example, in the fact that since our last rate proceeding in 2002 AmerenUE has achieved the sixth lowest production costs out of 123 companies in North American Reliability Council regions across the country for which such data is publicly available in Federal Energy Regulatory Commission ("FERC") Form 1s.[9] I would also note that AmerenUE's rates have remained low and indeed have decreased during a time when AmerenUE's capital expenditures for energy infrastructure have been increasing significantly. See Schedule WLB-10.

Q. You have discussed above how the Company has been able to meet challenges in the past and the tangible benefits from doing so. How does the Company intend to meet the challenges it faces in the future?

A. As the old saying goes, "If it ain't broke, don't fix it." Simply put, we will use the same formula that has allowed us to meet the tough challenges we have faced in the past. However, we recognize that every game plan and strategy has to be sharpened to meet changing operating conditions. We will be focused on making the necessary changes in our

[8] See Schedules WLB-1 and WLB-7, referenced earlier.
[9] These 123 companies reported data for each year between 2002 and 2005, and had generation and purchased power amounts of at least 14,000 gigawatt hours over that period.

operations to meet the future challenges, and we will look to work with this Commission and other stakeholders in the process to develop a regulatory framework in this proceeding that will assist our Company in meeting our customers' needs and our investors' rising expectations in the future.

IV. REGULATORY FRAMEWORK

Q. Please provide an overview of the regulatory framework that AmerenUE has operated under in the past.

A. While past regulatory proceedings have had their share of difficulties, the Company has worked very hard with the Commission and other stakeholders to craft a regulatory framework that balances the interests of all stakeholders and which I believe has resulted in a win-win-win for the Company, customers, and the state. The two EARPs and the resolution of the Company's last rate proceeding have allowed the Company to become more and more efficient, to reduce rates, to provide hundreds of millions of dollars of rate credits to customers, to invest billions of dollars in new infrastructure, and to maintain the financial health and flexibility needed to position the Company to meet the challenges it faced. This successful outcome has not only benefited customers, but has also supported the economic development of the State of Missouri, protected low-income customers, and provided numerous local jobs.

None of us can simply be satisfied with past successes, however. The goal now is to build on these past successes while remaining focused on the fact that challenges facing the industry and the Company today make continuing to develop a constructive regulatory framework more important than ever.

Q. In your view, what must a constructive regulatory framework include in the future?

A. In many respects, the formula for developing a constructive regulatory framework today is not significantly different from that which was required in the past. However, due to the many challenges facing AmerenUE and the electric utility industry as a whole today, it is even more critical that regulatory and energy policies be grounded on the following principles. In my opinion, they must:

- Provide utilities with solid cash flows on a timely basis to meet rising customer demands and fuel the state's economy in a cost effective manner. To accomplish this, the regulatory framework must:
  - (1) permit full recovery of costs to operate the business; and
  - (2) provide for a full return of and return on the utility's existing investments through the establishment of appropriate depreciation and cost of capital policies, especially in light of rising investor expectations due to increasing risks in the utility industry.
- Implement forward-thinking regulatory policies that take a long-term view in order to address:
  - (1) important energy policy matters, including the need for substantial future energy infrastructure investments for new baseload plant needs, environmental requirements, and renewable energy sources, among other things;

(2) significant changes and related risks occurring in the industry, including rising fuel costs and volatile energy markets; and

(3) the need to maintain strong credit ratings for utilities so they can make future investments in energy infrastructure on a timely basis and in a cost-effective manner.

- Provide utilities with appropriate incentives to keep costs low, yet deliver solid returns to investors;
- Include policies that address important consumer needs;
- Facilitate economic development and investment in the state and region; and
- Ensure that customers' rates are set at a reasonable level after considering industry trends, and challenges, and other relevant factors.

Q. You commented that AmerenUE's performance in recent years has resulted in a win-win-win for the Company, customers, and the state. Please elaborate.

A. Customers have benefited from low rates, as discussed in detail above. The Company has benefited by posting solid financial performance that has allowed AmerenUE to invest in infrastructure, maintain its credit ratings and keep borrowing costs low, have access to capital when needed at attractive rates, and deliver returns to investors consistent with the higher risks inherent in today's electric utility business. I believe that the mutual benefits observed over the last decade reflect an ability to take a long-term view of utility regulation where an appropriate balance of all stakeholder interests is achieved. This means reasonable, but not necessarily "the lowest possible," rates in the short term, and it means financially healthy utilities operating under flexible regulatory policies that allow utilities to

continue to strive for efficiency and quality in the delivery of energy to customers, and provide fair returns to their investors.

Q. Are there other considerations the Commission should keep in mind as it strives to build upon and improve the regulatory framework in the future, starting with this case?

A. Let me begin to answer that question by suggesting that this case is about far more than a mechanical application of financial formulas and models. As I previously stated, setting utility rates today is not just about evaluating competing briefs from attorneys, and testimony from engineers, accountants and consultants and mechanically applying formulas to calculate rates. The Commission's role is much more important than that. Utility regulation and ratemaking is about establishing sound, forward-looking regulatory policies that take a long-term view and that balance the interests of all stakeholders. This process does not simply fall on the shoulders of the Commission. It is the responsibility of AmerenUE and all other participants in the process to present information to this Commission that is consistent with the principles I described earlier in order for us all to achieve a constructive regulatory framework in the future that benefits all stakeholders. We have begun this process with the filing of our rate case. I strongly believe our proposal meets all of the key regulatory principles I described earlier and will result in a constructive regulatory framework for the future.

V. THE COMPANY'S PROPOSAL

Q. What is the Company's proposal in this case?

A. The Company's proposal in this case is crafted to address the challenges I noted previously, as well as address the key principles a constructive regulatory environment will need in the future for the benefit of all stakeholders. In support of its case, the Company is presenting direct testimony from 26 witnesses on a variety of topics, as summarized on Schedule WLB-11. Executive Summaries of all of these witnesses are included as Attachment A to their testimony,[10] and also have been filed separately in this case.

Some of the more noteworthy aspects of the Company's proposal, as reflected in its filing, include:

- The appropriate recovery of costs and investments in utility plant based upon a test year for the 12 months ending June 30, 2006, updated for material known and measurable changes through January 1, 2007, including for known and measurable increases in coal and coal transportation prices effective January 1, 2007. Because, as of the date of this filing, the test year data includes three months of forecasted information, AmerenUE witnesses will file supplemental direct testimony as necessary on or before September 30, 2006 to include the results of the updated revenue requirement analysis using 12 months of actual test year data. Our proposal is consistent with the key regulatory principle of full recovery of costs to operate the business through the use of a current test year with updates for changes to rate base, coal costs and other significant known and measurable changes.

[10] AmerenUE witness Wilbon Cooper summarizes his direct testimony and the direct testimony of AmerenUE witnesses William Warwick and James R. Pozzo in Attachment A to his testimony.

- A fair return on equity of 12%, as discussed in more detail in the direct testimony of AmerenUE witnesses Dr. James L. Vander Weide and Kathleen C. McShane, that reflects current capital market conditions for utility equity. As AmerenUE witness Lee R. Nickloy explains in his direct testimony, these capital market conditions justify an overall rate of return of 8.869%. Our proposal is consistent with the key regulatory principle providing for appropriate cost of capital policies to address investor expectations and, in turn, address important energy policy matters such as the need for significant investment in energy infrastructure in the future.
- To appropriately recover those costs and to achieve the required rate of return on its investments, the Company's revenue requirement analysis, as detailed in the direct testimony of AmerenUE witness Gary S. Weiss, reflects the necessity of an aggregate increase in revenues over those produced by existing rates of $360,709,000. This reflects a 17.67% increase over current rate levels. But as I noted earlier, it also is the first general rate increase case filed by AmerenUE in approximately the last 20 years and follows a long period of steadily declining rates at AmerenUE, including a 13% decrease since 1987 and a 6% decrease since 2002. Even with this rate increase, AmerenUE's rates will still be below the average rates for the other Missouri investor-owned utilities and well below average levels of rates in Midwestern states, other non-restructured states, and the US as a whole. See Schedule WLB-7, referred to earlier. This chart illustrates that despite the proposed increase, AmerenUE's rates will remain highly competitive compared to the rates of

other utilities, which is consistent with the key regulatory principle of setting customer rates at reasonable levels and facilitating economic development.

- Although the requested increase is reasonable and not unexpected given the rising cost environment in which the Company is operating, the Company proposes to mitigate the impact of the rate increase on individual consumers by limiting the residential rate increase to no more than 10%, with all other rate classes to bear their proportionate share of the revenue required to produce the required revenue requirement increase, as discussed in the direct testimony of AmerenUE witness Wilbon L. Cooper. Our proposal is consistent with the key regulatory principle of including regulatory policies that address important consumer needs.
- Because of changes in the electric industry, notably the emergence of transparent wholesale energy markets and the dispatch of the Company's generating units by the Midwest Independent Transmission System Operator, Inc. ("MISO") and the changes to the Illinois framework, among other things, AmerenUE and Ameren Energy Generating Company ("AEG") have announced that the Joint Dispatch Agreement ("JDA") will terminate, by mutual consent, on December 31, 2006, subject to any necessary regulatory approvals. Consequently, the Company's revenue requirement analysis presented in connection with Mr. Weiss' direct testimony reflects that any excess AmerenUE energy is sold into the market as off-system sales at market prices rather than being transferred to AEG under the JDA at incremental cost. This treatment eliminates from this rate filing JDA-related issues that the

Company would otherwise have expected to arise in this case -- most notably, Staff's prior proposal that energy transfers from AmerenUE to its affiliates under the JDA be priced at market.

- The Company's proposal also includes the expiration of AmerenUE's 400 MW cost-based contract with EEInc. This matter is addressed in the testimony of Company witnesses Michael L. Moehn and Professor Robert C. Downs.
- The Company's proposal reflects a normalized level of expected off-system sales margins as a credit to the revenue requirement. In addition, in order to address the risks inherent in establishing a normalized level of off-system sales margins under volatile energy market conditions, as well as provide a balanced incentive to control production costs and run our generating plants more efficiently, the Company has outlined an alternative off-system sales sharing mechanism. These matters are discussed in more detail in the direct testimony of AmerenUE witness Shawn E. Schukar. Our proposal is consistent with my view that a constructive regulatory framework must include forward-thinking regulatory policies to address increasing risks and significant changes occurring in the industry, as well as provide for appropriate levels of incentives for utilities to lower costs and operate efficiently.
- In anticipation of the finalization of administrative rules relating to fuel adjustment clauses ("FAC") enabled by Senate Bill 179 ("S.B. 179"), the Company requests the ability to implement an appropriate FAC, subject to the promulgation of satisfactory rules and a satisfactory FAC mechanism. The

Company's proposal also includes evidence allowing fuel and purchased power costs to remain in base rates, if a satisfactory FAC mechanism cannot be obtained. Similarly, the Company requests to establish an environmental cost recovery rider ("ECR") which can be used to address environmental costs, again subject to timely promulgation of necessary rules as required by S.B. 179 and satisfactory terms for any ECR. Again, our proposal is consistent with the need to establish forward-thinking regulatory policies that address significant changes and risks in the industry.

- Consistent with recent policies employed by the Commission relating to pensions, the Company is also proposing a pensions and other post-retirement benefits ("OPEBs") tracking mechanism that removes volatility (for both the Company and ratepayers) associated with changes in appropriate pension and OPEB expenses, all as addressed in detail in the direct testimony of AmerenUE witness C. Kenneth Vogl. This is another example of how our proposal addresses significant industry changes and risks – in this case the increasing volatility of pension and OPEB costs.
- To ensure that the Company has the cash flow it needs to make timely investments in infrastructure, as well as address intergenerational equity matters, among other things, the Company's proposal, as explained by AmerenUE witness William M. Stout, reflects adoption of the life span approach to straight-line whole life depreciation, in accordance with sound depreciation practices. As Mr. Stout also recommends, the Company's proposal includes recovery of terminal net salvage costs to cover costs to be

incurred when power plants are retired, and continues to appropriately depreciate the Callaway Plant over its current depreciation period (ending when its current license ends) in accordance with sound depreciation principles and the Commission's decommissioning fund regulations. Our proposal addresses the key regulatory principle of providing for appropriate depreciation policies to provide the Company with solid cash flows to recover its current investments, maintain strong credit ratings and address important energy policy challenges, including the need for future investments in energy infrastructure.

- The Company's proposal also includes consideration of the use of low-income assistance programs, and energy conservation programs, as discussed by AmerenUE witness Richard J. Mark in his direct testimony. The Company is interested in working with the other stakeholders to continue its sponsorship of such programs. These programs address the regulatory principle of providing for important consumer needs.
- The Company is also supporting consideration of pursuing greater renewable energy sources, including a proposal to construct 100 megawatts of wind power by 2010. This proposal is addressed in Mr. Moehn's direct testimony. The Company's proposal addresses forward-thinking regulatory principles relating to renewable energy policy, which will become increasingly important in the years to come.
- The Company's proposal also includes the introduction of two new economic development tariffs. These tariffs provide for discounts and incentives to

attract new customers or retain existing customers, as well as encourage increased investment inside the City of St. Louis. These tariffs are explained in more detail in the direct testimony of Company witness Robert J. Mill. These proposals, coupled with our already low electric rates, address the key regulatory principle of providing policies that facilitate economic development and investment in the State and region.

VI. PERSPECTIVE ON CURRENT RATE INCREASE REQUEST

Q. What is your perspective on the current rate increase request?

A. I recognize that rate increase requests are unpopular. I am sure customers would rather have electric rates that are stable and indeed declining, as they have enjoyed for the past 20 years. There comes a point, however, where costs can no longer be cut or controlled sufficiently to allow further and further rate decreases or to hold off indefinitely the need for rate increases, if indeed utilities are going to be able to make the investments they must make to deliver the high quality, reliable electric service that customers demand. At the end of the day, a rate increase is required now because of the challenges I discussed earlier, including large rate base additions in energy infrastructure, industry-wide rising fuel and fuel transportation costs, and other operating cost increases.

While I recognize that our rate increase request is sizeable, I believe it is important to put the electric rate increase we are requesting in perspective, including the fact that as stated previously, AmerenUE's electric rates at the end of 2005 were and will remain among the lowest in the nation, as shown on Schedules WLB-1, WLB-2 and WLB-7. A couple of other important facts are worth noting:

- Recent data from the DOE indicates that electric rates in the first quarter of 2006 are already 12% above where they were a year ago; and
- Approval of the Company's proposal would still leave AmerenUE's rates at more than 20% below the national average in 2007, as projected by DOE; in addition, when considering the rate increase requests pending before the Commission, AmerenUE's average retail rates would remain the lowest in the state. See Schedule WLB-7.

Given that AmerenUE's rates are, today, the lowest in Missouri, and given that Missouri has some of the lowest rates in the nation, as this Commission has recognized, even with this rate increase AmerenUE will do its part to maintain the state of Missouri's competitive advantage respecting the high quality, high reliability and low cost of its electric service. Indeed, I would submit that the requested rate increase is *essential* to maintaining that competitive advantage in the long-term. At bottom, the requested rate increase is simply necessary at this time to provide for adequate cost recovery, a fair return on the Company's investments and, consequently, much needed cash flows to address the challenges facing our Company, the industry, and this Commission in its energy policy role in the future.

VII. MAJOR AREAS OF FOCUS FOR THE COMMISSION

Q. The Company's rate filing consists of testimony from 26 witnesses, addressing all aspects of the Company's business, and will ultimately involve several dozen witnesses from the Company, Staff, the Office of the Public Counsel and various intervenors. What are the most noteworthy areas of focus for the Commission in deciding this case?

A. At the risk of being somewhat redundant, I believe it is helpful to provide a bit more detail on the most noteworthy areas of focus in this case. They are as follows:

1. Discontinuation of the Joint Dispatch Agreement. The Commission approved the JDA in connection with Union Electric Company's merger with Central Illinois Public Service Company in 1996, as the Commission recognized in Case No. EA-2000-7. Since its inception, the JDA has provided AmerenUE with the opportunity to access low-cost generation from AEG, and certain efficiencies related to the joint dispatch of generation facilities.[11] However, the benefits of the JDA to AmerenUE and AEG have changed recently due to the emergence of transparent wholesale markets, the dispatch of their generation being conducted by MISO, and the changes to the Illinois regulatory framework, among other things. AmerenUE believes the benefit it will receive from retaining the power it was transferring to AEG at incremental cost will exceed the benefit it would have received from being able to call upon AEG's generation at incremental cost. As a result, AmerenUE, AmerenCIPS[12] and AEG have mutually consented to waive the one-year termination notice

[11] AEG's generation was formerly owned by AmerenCIPS, but was transferred to AEG as necessitated by Illinois' retail choice law, which required unbundling of generation from the distribution utility business.
[12] AmerenCIPS is a party to the JDA only because the JDA deals in part with the operation of the combined AmerenUE and AmerenCIPS transmission systems.

requirement and agreed to terminate the JDA on December 31, 2006, subject to necessary regulatory approvals.

Based upon that decision, we have treated AmerenUE's system as a "stand alone" system for purposes of normalizing revenues and costs for the test year. This means that the Company's revenue requirement, discussed in Mr. Weiss' direct testimony, reflects AmerenUE's excess energy as being sold into the market (at market prices) rather than having some portion of the excess energy being transferred to AEG under the JDA at incremental cost. This decision has also drastically simplified what would otherwise likely have been a complicated and contentious issue in this case.

2. Electric Energy, Inc. The Company's revenue requirement reflects the expiration on December 31, 2005, of a cost-based contract with Electric Energy, Inc. ("EEInc."). As outlined in more detail in Mr. Moehn's direct testimony, Union Electric Company ("UE") originally purchased 40% of the issued and outstanding shares of EEInc. stock when EEInc. built its 1,000 MW coal-fired power plant in Joppa, Illinois. The EEInc. plant was built for the purpose of supplying electricity to the federal government's uranium reprocessing plant in Paducah, Kentucky. The funds used to purchase UE's shares of stock were provided by UE shareholders, and UE's investment in EEInc. has always been a "below-the-line" investment which has never been included in UE's rate base for Missouri ratemaking purposes.

Through a series of mergers, the issued and outstanding shares of capital stock in EEInc. are today owned as follows: AmerenUE – 40%; Ameren Energy Marketing Company ("AEM") – 40%[13]; Louisville Gas & Electric Company – 20%.

[13] Ameren Energy Marketing Company's shares of EEInc. stock were acquired in connection with Ameren Corporation's acquisitions of Central Illinois Public Service Company and Illinois Power Company.

Since EEInc.'s plant was built, AmerenUE has had in place a purchased power contract with EEInc. under which AmerenUE had the opportunity to buy up to 40% of any excess energy not being sold to the government at cost-based rates. The cost of the purchased power, like the cost of purchased power from other generating companies, was included in UE's revenue requirement. Other EEInc. shareholders had similar contracts. All of these contracts, last entered into in 1987, expired by their terms on December 31, 2005. A similar contract was in place with the federal government which also ended on December 31, 2005.

Since these early power purchase agreements (including the 1987 agreement) were entered into, the FERC has drastically changed the electric industry by creating open access to the transmission system (through FERC Order 888, in 1996) as well as creating regional transmission organizations such as MISO. As a result, transparent wholesale energy markets have emerged giving generators new transparent wholesale markets for power.

Consequently, before UE's long-term purchased power agreement ended, EEInc. made a decision to request the FERC to grant it market-based rate authority which would allow EEInc. to sell its power at market prices. The FERC granted EEInc.'s request and EEInc. decided that it would offer all of its power at market rates once the purchased power agreements with the federal government and the holders of EEInc.'s stock, including AmerenUE, expired. Based upon that decision, EEInc. has entered into a purchased power contract with AEM under which AEM is obligated to buy 100% of EEInc.'s capacity and energy at market prices.

During the course of this regulatory proceeding, we expect certain parties will assert that EEInc should have somehow been required to continue to sell power to AmerenUE at cost-based rates for the life of EEInc.'s plant.[14]

As discussed in greater detail in the testimony of AmerenUE expert witness Professor Robert C. Downs, as well as the testimony of Mr. Moehn, we strongly disagree with this view for a number of reasons, including:

- As noted previously, AmerenUE's interest in EEInc. is a "below–the-line" investment, a fact or structure never questioned for decades.
- The 1987 purchase power agreement (entered into when UE held a minority (40%) of EEInc.'s stock and before Ameren was formed) was an arms-length agreement between AmerenUE and EEInc, which expired by its own terms on December 31, 2005.
- Since 1987, the energy markets have changed significantly as noted previously. What was a prudent decision made by the EEInc. Board of Directors to enter into a cost-plus contract in 1987 is no longer prudent today due to significant changes in the energy markets.
- The EEInc. Board of Directors has a fiduciary duty to EEInc. shareholders to maximize the value of the shareholders' investment. Given the options EEInc. has today to sell its generation at market prices subsequent to the expiration of its cost-based power supply contract, the choice was very straightforward.

[14] In particular, as Mr. Moehn discusses, the Office of the Public Counsel ("Public Counsel") has previously taken the position in both Missouri and FERC regulatory proceedings that "Ameren" should somehow force its employees or employees of its affiliates to in turn force EEInc. to make 40% of the power from EEInc. available to AmerenUE at cost, presumably forever.

- Not only does AmerenUE, which holds only 40% of the shares of EEInc., lack the power to "force" EEInc.'s Board to do anything, it would be unlawful and improper to accept Public Counsel's position that an EEInc. board member, regardless of who his or her employer is, must vote to *minimize* EEInc. profits by in effect re-directing benefits to which shareholders are legally entitled to AmerenUE's ratepayers.

3. Off-System Sales. AmerenUE owns a generation mix consisting of a significant number of low-cost baseload units representing a substantial percentage of AmerenUE's generating capacity and that produce a large percentage of the energy generated by AmerenUE. This means that during many hours of the year, AmerenUE has an opportunity to sell energy not needed to serve native load into the off-system sales market. To the extent AmerenUE is able to realize margins from off-system sales, ratepayers benefit because historically off-system sales margins have been included as an offset to AmerenUE's cost of service in determining AmerenUE's revenue requirement. A critical issue in this case will be to determine a fair and reasonable level of off-system sales margins to include in AmerenUE's revenue requirement. While the concept is relatively straightforward, determining a fair and reasonable level of off-system sales margins is very complex. Margins that can be realized from off-system sales can be very uncertain due to the volatility of prices existing in the wholesale energy markets into which the energy is sold, the unpredictability of loads (e.g. due to variations in weather), the unpredictability of generating availability (e.g. due to unplanned outages) and other variables.

The determination of the proper level of off-system sales margins in this case is made even more difficult because the test year does not appropriately reflect the

discontinuation of the JDA, the expiration of the EEInc. contract, the full year addition of Noranda Aluminum, Inc. as a customer, or the full year impact of the transfer of the Metro East (Illinois) service territory, among other things. Most importantly, the test year includes several extremely unusual events that drastically distorted market prices for energy, as discussed in Mr. Schukar's direct testimony.

As detailed in Mr. Schukar's direct testimony, AmerenUE has carefully considered these variables and the uncertainty relating to off-system sales margins and has proposed a specific level of annual off-system sales margins ($180 million) to include in the base rates determined by its cost of service study filed in this case. This level of off-system sales margins is substantial and there is without question a significant risk that this level of off-system sales margins cannot be achieved. However, there is also a possibility that AmerenUE could exceed this level of off-system sales margins. I recognize that this phenomenon is not a new concept. That is, under traditional base rate regulation, the risk that actual margins may fall short or exceed the amount reflected in base rates has always existed. However, as Mr. Schukar explains, the volatility surrounding off-system sales and the risks and opportunities relating to off-system sales margins are far more substantial today than they have ever been before for AmerenUE.

In an attempt to address this uncertainty, as well as provide a regulatory framework that includes balanced incentives, we have included in this case for the

Commission's consideration an alternative off-system sales sharing mechanism that the Company could use. The formula for this sharing mechanism is set forth below:

Level of Off-System Sales Margins (in millions of $)	Customer Share	AmerenUE Share	Effective Share for Customers
$0 - $120	100%	0%	100%
$121- $180	80%	20%	100% - 93%
$181 - $360	50%	50%	92% - 72%
Over $360	100%	0%	72% or more

The alternative sharing mechanism set forth above would set a minimum level of off-system sales margins in base rates ($120 million). Off-system sales margins achieved in excess of this level would be shared with customers based on the sharing bands set forth in the table above. For example, should off-system sales margins achieved during the applicable 12 month period equal $220 million, customers would receive $68 million in credits to their bills [(60MM* 80%) + ($40MM*50%) = $68MM]. For that period, this mechanism would result in a total reduction of electricity costs for customers of $188 million from OSS margins (consisting of the $120 million already credited to cost of service in base rates plus the additional $68 million of rate credits the sharing mechanism would provide). This means that in this example, more than 85% of all off-system sales margins achieved by the Company during that period would belong to customers.

From a regulatory policy perspective, this sharing mechanism provides a constructive regulatory framework in a number of important ways, including:

- It ensures that customers will always receive the lion's share of off-system sales margins earned by the Company under any scenario. Under this mechanism, ratepayers will never receive less than 72% of all of the off-system sales margins achieved by the Company, even should extraordinary

off-system sales margins be achieved in the future due to, among other things, very strong energy prices;

- It provides customers with the opportunity to benefit from greater levels of off-system sales margins in excess of the amount of margins included that would be included in base rates under traditional regulation, which would otherwise go 100% to the utility. In the example I set forth above, customers would receive $8 million in credits to their rates greater than they would have received under traditional regulation based upon an appropriate level of normalized off-system sales margins ($180 million) should actual off-system sales margins in a given 12-month period equal $220 million;
- It addresses a significant uncertainty associated with determining the appropriate level of off-system sales margins to include in base rates by establishing a baseline target that is likely to be achieved under most circumstances, thereby mitigating the possibility that the baseline amount will not be achieved due to uncontrollable, volatile market conditions or uncertain operating conditions;
- It provides important, yet balanced incentives to the Company to improve its plant operations and lower its costs in a safe and reliable manner;
- The utility's sharing percentage in the grid never exceeds the benefits that customers will receive because no sharing band gives customers less than 50% of the margins within that band; and
- The off-system sales margins subject to sharing are capped at two times the appropriate normalized level of off-system sales established in base rates

under traditional regulation. This would give customers 100% of off-system sales margins above the cap if margins exceeded the cap due to unusually high power prices or other factors that would result in an extremely high level of off-system sales margins.

This alternative off-system sales sharing mechanism is the type of constructive, forward-thinking policy that would reflect an appropriate regulatory framework in the future and would allow the Company to address key challenges we face in the future.

4. The Taum Sauk Plant. The failure of the Taum Sauk upper reservoir was a substantial set-back for AmerenUE in 2005. As AmerenUE witness Mark C. Birk discusses in his direct testimony, we were fortunate there was no loss of life, and are pleased that we have been able to address the needs of the family most directly affected by the Taum Sauk failure adequately. Looking ahead, we will continue to remain focused on restoring Johnson's Shut-Ins State Park and to otherwise ameliorate any of the other effects of the failure in the area. Consistent with the position that we have maintained throughout this period, we are taking full responsibility for this matter in our rate filing. In particular, the Company has not included any costs it has incurred associated with the clean-up of the park, reimbursement of state costs or resolution of individual claims. Further, the Company has treated the Taum Sauk Plant, for purposes of determining the revenue requirement in this case, in a manner that is favorable to customers and that is eminently fair to all stakeholders. Specifically, AmerenUE's cost of service study in this case treats the Taum Sauk Plant as if it has remained in operation throughout the test year and ignores the adverse financial impacts of the upper reservoir failure. This means that to the extent the Taum Sauk Plant would have been dispatched economically during the test year, we are treating it as if it was in fact

dispatched. As a result, customers are not affected by any increased purchased power costs the Company is actually incurring in order to replace energy lost due to the unavailability of the plant, and are being credited with margins from off-system sales the Taum Sauk Plant would have provided had it remained in service. These losses are being borne by the Company's shareholders.

5. Depreciation Policy. As I discussed earlier, AmerenUE has made (approximately $2.6 billion since our last rate case) and continues to have the need to make very substantial investments in its electric energy infrastructure. Depreciation expense provides much of the critically important cash flows needed to make those investments. The Commission took an important and positive step in 2005 when it moved toward the mainstream of depreciation policy in this country by properly including net salvage costs for mass property accounts (e.g., poles, conductors, equipment) in depreciation rates paid by ratepayers being served by that plant.

As discussed in the direct testimony of Mr. Stout, AmerenUE's depreciation expert, the Commission should take further steps to improve its depreciation policies in this case. First, the Commission should ensure that all customers served over the life of a utility generating plant pay an equitable share of depreciation expense by utilizing the life span approach to straight-line whole life depreciation. The life span approach reflects the fact that each year of installations at a power plant have unique average lives. In other words, installations made during the first year of a plant's operation for a plant that will last 50 years may have a 50-year life, while installations made in year 25 will only have a 25-year life. Consequently, a systematic and rational accrual of the service value of various plant installations dictates that the life span approach be used. This prevents customers served by a

plant during its early years from paying too little in depreciation expense and prevents customers served by a plant in its later years from paying too much.

Moreover, as also recommended by Mr. Stout, the Commission should recognize that terminal net salvage costs for power plants must also be equitably accrued and recovered from customers as they are served by the plants. As Mr. Stout's testimony shows, nearly 200 steam production units have been retired between 1957 and 2005, including some by AmerenUE. The life spans of such units throughout the electric industry range from 40 to 60 years. Since the life spans estimated for AmerenUE's existing units range from 49 to 73 years, as Mr. Stout notes, they are at the upper range of the probable life spans for those plants. Consequently, AmerenUE should accrue and recover the net salvage costs associated with retiring these plants in its depreciation rates to ensure an equitable distribution of those costs to customers as well as providing much needed cash flows to address large expenditures in the future. Finally, as Mr. Stout also notes, it remains appropriate to depreciate the Callaway Nuclear Plant over its remaining license period (which does not end for nearly 20 years, in 2024) because whether relicensing will be requested, whether it can be obtained, and under what conditions and at what costs (which could be substantial) is unknown and uncertain. This is also consistent with the decommissioning fund assumptions used by the Commission throughout Callaway's operation and the Commission's decommissioning regulations, which require that in determining the level of annual decommissioning fund deposits to be made, expenditures are to be assumed to occur no later than the expiration date of the unit's current license. 4 CSR 240-3.185(4)5.

Finally, I would note, as explained in Mr. Weiss' direct testimony, that the Company has provided additional support for the increase in its rates requested in this case

because of the application of the Commission's Depreciation Rule, 4 CSR 240-10.020, which would lawfully entitle the Company to an additional $386,744,000 in revenue requirement.

7. Return on Equity. As Ms. McShane and Dr. Vander Weide underscore, setting a rate of return on equity for AmerenUE that is fair, that allows AmerenUE to attract capital on reasonable terms, and that allows AmerenUE to maintain its financial integrity is more critical than ever because the risk of investing in electric energy companies has increased significantly in recent years. The Company no longer operates in an environment where it simply meets all of its own generation needs with generation powered by fuel at stable prices and sells any excess energy at cost plus 10%. Rather, the Company now operates in regional, and indeed national, fuel and energy markets that are affected by numerous variables both within and outside the industry.

Thus, the Company operates in a much more competitive industry in which it must confront significantly increasing fuel prices, volatile purchased power and off-system sales prices, rising general operating costs of all kinds, especially employee medical costs, and greater uncertainty in the expenses associated with system outages, storm damage and security. The risks presented by these variables are aggravated by the prospect that the Company will also face significantly higher capital expenditures in the future to meet growing customer needs and environmental requirements. Current capital market conditions reflect the fact that the Company must operate in such an increasingly risky environment, and investors are demanding a higher return on their investment.

Current capital market conditions and the cost of equity of comparable electric utilities therefore shape the testimony of AmerenUE's witnesses concerning the return on equity. Using several well-established methods, Dr. Vander Weide determines that a fair

return on equity in the current environment is 12.2 %, while Ms. McShane determines that return to be 12.0%. Taking a conservative approach, AmerenUE seeks as an allowed return on equity at the lower of those recommendations, 12.0%, which is fair, will allow AmerenUE to attract capital on reasonable terms, and will allow the Company to maintain its financial integrity.

8. Cost Recovery Mechanisms. Consistent with the enabling provisions of Senate Bill 179, the Company requests the ability to implement fuel and environmental cost recovery mechanisms. Because rules relating to S.B. 179 have not yet been published and finalized, the Company intends to supplement its filing at the appropriate time to reflect the pertinent details associated with these mechanisms.

9. Pension and OPEB Expense. Similar to a mechanism implemented in a recent Empire District Electric Company case for pensions, the Company is proposing a tracking mechanism for pension and OPEB expenses.

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-2007-0002

AFFIDAVIT OF WARNER L. BAXTER

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

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

1. My name is Warner L. Baxter. I work in the City of St. Louis, Missouri, and I am the Executive Vice President and Chief Financial Officer of Ameren Corporation and of AmerenUE.

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 38 pages, Attachment A and Schedules WLB-1 through WLB-11, 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 7th day of July, 2006.

Carolyn J. Woodstock
Notary Public

My commission expires: May 19, 2008

CAROLYN J. WOODSTOCK
Notary Public - Notary Seal
STATE OF MISSOURI
Franklin County
My Commission Expires: May 19, 2008

EXECUTIVE SUMMARY

Warner L. Baxter

Executive Vice President and Chief Financial Officer
Ameren Corporation and AmerenUE

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The purpose of my testimony is to: (1) provide the Commission with an overview of the challenges facing the Company today, as well as the industry as a whole, many of which are the key drivers for the Company's rate increase request; (2) discuss how the Company has met such challenges in the past to the benefit of the Company, customers and the state, and address how we intend to meet these challenges in the future; (3) explain my view that an important component in meeting these challenges in the future is the continuing need for a constructive regulatory framework; (4) discuss what the key components of such a framework should include; (5) explain how our proposal in this rate case is consistent with a constructive regulatory framework; (6) provide my perspective on the rate increase request; and (7) summarize for the Commission the major areas of focus in this case and provide an overview of how we are addressing those issues in our filing.

This is the first rate increase AmerenUE has sought in two decades. The context of this rate proceeding provides an essential perspective by which to evaluate AmerenUE's 17.7%, or $361 million, rate increase request:

- In 2005, AmerenUE's average electric rates were approximately 30% below the national average, approximately 18% below the non-restructured states' average, and

approximately 15% below the Midwest average, and were the lowest among investor-owned utilities in the state. See Schedule WLB-1.[1]

- St. Louis has the second lowest residential rates in the country compared to other major metropolitan areas surveyed by the Bureau of Labor Statistics. See Schedule WLB-2.

  Indeed, electric rates in St. Louis are lower than those in even small and mid-sized metropolitan areas, despite the higher costs associated with serving large metropolitan areas like St. Louis. See Schedule WLB-3.

- Since the Company's last rate case, AmerenUE's residential electric rates have ***decreased*** 6% while residential electric rates across the United States, in other non-restructured states, and in the Midwest ***have risen*** 11%, 13% and 5%, respectively. During that same period the prices of consumer goods and energy products in the region have risen dramatically.

- The trend of rising rates is continuing. Recent data from United States Department of Energy ("DOE") indicates that electric rates in the first quarter of 2006 are already 12% above their levels from a year ago.

- Approval of the Company's proposal in its entirety would still leave AmerenUE's electric rates 20% below the national average in 2007, as projected by the DOE. Moreover, when considering the electric rate increase requests submitted by every other Missouri investor-owned electric utility which are currently pending before the Commission, AmerenUE's rates would remain the lowest in the state. See Schedule WLB-7.

[1] For the Commission's convenience, copies of the Schedules noted are attached to this Executive Summary.

In recent years, customers have benefited from low rates, while the Company has benefited by posting solid financial performance that has allowed it to invest in infrastructure, maintain its credit ratings and keep borrowing costs low, have access to capital when needed at attractive rates, and deliver returns to investors consistent with the higher risks inherent in today's electric utility business.

This achievement is a direct result of the constructive regulatory framework that AmerenUE, the Commission and other stakeholders have crafted over the past decade or so that has allowed the Company to become more and more efficient, to reduce rates, to provide hundreds of millions of dollars of rate credits to customers, to invest billions of dollars in new infrastructure, and to maintain the financial health and flexibility needed to position the Company to meet the challenges it faced. This successful outcome has not only benefited customers, but has also supported the economic development of the State of Missouri, protected low-income customers, and provided numerous local jobs.

The Company must request this rate increase to address, among other things, a host of challenges it is facing, including:

1. Rising fuel costs, in particular the cost of coal, coal transportation, nuclear fuel and natural gas. For example, the Company's delivered cost of coal (our primary generation fuel) in 2007 will be 42% more than delivered coal costs when the Company's rates were last examined in 2002, with additional increases expected in future years;

2. Rising operating costs. For example, tree trimming expenses have risen more than 20%, and employee benefit costs, including medical costs for employees and retirees, have increased 56% since 2002;

3. Substantial increases in the cost of equipment and materials that are necessary to build and maintain a reliable electric generation, transmission, and distribution system. For example, since 2002, the cost of aluminum overhead wire has increased 93%, the cost of copper underground cable has increased 147%, and the prices of wood poles and transformers have jumped 34% and 57%, respectively;

4. A changing and volatile energy marketplace, which can result in significant variations in off-system sales margins and purchased power costs;

5. Rising interest rates, as evidenced by the Federal Reserve's 17 increases in interest rates over the past 24 months, with further increases possible;

6. The difficulty of maintaining and improving capacity and availability at aging power plants and in meeting the operational challenges posed by increasing environmental requirements;

7. The need to continue to make substantial infrastructure investments. Since our last rate case, AmerenUE has invested approximately $2.6 billion in its electric operations, including $700 million for 2,600 megawatts ("MW") of new generation to meet growing customer demands. The need for significant infrastructure investments in the future will continue, including an estimated $1.2 – 1.6 billion in environmental investments at AmerenUE plants over the next 10 years, additional maintenance and capital expenditure requirements to maintain plant capacity and reliability, additional transmission investments to meet the ever-increasing demands placed on the system, and within the foreseeable future, the need to add baseload generation to meet growing customer demands;

8. The desire for renewable sources of generation by many stakeholders;

9. Investor expectations of a higher return on their investments, driven in large part by the riskier environment in which electric utilities must operate today, which directly impact the cost and availability of capital; and

10. Political and regulatory uncertainty which also has a profound effect on returns demanded by investors and on credit ratings agencies' opinions of the quality of utility debt, both of which affect the availability and cost of the large sums of capital needed to run an electric utility business today.

In support of its case, the Company is presenting direct testimony from 26 witnesses on a variety of topics. Key aspects of the Company's proposal include:

- The appropriate recovery of costs and investments in utility plant based upon a test year for the 12 months ending June 30, 2006, updated for material known and measurable changes through January 1, 2007, including for known and measurable increases in coal and coal transportation prices effective January 1, 2007. Because, as of the date of this filing, the test year data includes three months of forecasted information, AmerenUE witnesses will file supplemental direct testimony, as necessary, on or before September 30, 2006 to include the results of the updated revenue requirement analysis using 12 months of actual test year data.
- A fair return on equity of 12%, as discussed in more detail in the direct testimony of AmerenUE witnesses Dr. James L. Vander Weide and Kathleen C. McShane, that reflects current capital market conditions for utility equity. As AmerenUE witness Lee R. Nickloy explains in his direct testimony, these capital market conditions justify an overall rate of return of 8.869%.

- To appropriately recover those costs and to achieve the required rate of return on its investments, the Company's revenue requirement analysis, as detailed in the direct testimony of AmerenUE witness Gary S. Weiss, reflects the necessity of an aggregate increase in revenues over those produced by existing rates of $360,709,000, a 17.67% increase over current rate levels.
- Although the requested increase is reasonable and not unexpected given the rising cost environment in which the Company is operating, the Company proposes to mitigate the impact of the rate increase on individual consumers by limiting the residential rate increase to no more than 10%, with all other rate classes to bear their proportionate share of the revenue required to produce the required revenue requirement increase, as discussed in the direct testimony of AmerenUE witness Wilbon L. Cooper.
- Because of changes in the electric industry including dispatch of the Company's generating units by the MISO, AmerenUE and Ameren Energy Generating Company ("AEG") have announced that the Joint Dispatch Agreement ("JDA") will terminate, by mutual consent, on December 31, 2006, subject to any necessary regulatory approvals. Consequently, the Company's revenue requirement analysis presented in connection with Mr. Weiss' direct testimony reflects that any excess AmerenUE energy is sold into the market as off-system sales at market prices rather than being transferred to AEG under the JDA at incremental cost.
- The Company's proposal, through the direct testimony of Company witnesses Michael L. Moehn and Professor Robert C. Downs, also discusses the Company's ownership of 40% of the shares of stock in Electric Energy, Inc., which were

purchased with shareholder funds and which have always been accounted for as a below-the-line item for ratemaking purposes. Moreover, the expiration of the AmerenUE's 400 MW cost-based contract with EEInc. is also addressed in our filing, including EEInc.'s decision to sell power at market rates, which as Company witness Professor Downs explains, was consistent with and indeed required by the fiduciary duties owed by the members of EEInc.'s Board of Directors to EEInc. and its shareholders.

- The Company's proposal reflects a normalized level of expected off-system sales margins ($180 million) as a credit to the revenue requirement. In addition, in order to address the risks inherent in establishing a normalized level of off-system sales margins under volatile energy market conditions, as well as provide a balanced incentive to control production costs and run our generating plants more efficiently, the Company has outlined an alternative off-system sales sharing mechanism, according to the following formula:

Level of Off-System Sales Margins (in millions of $)	Customer Share	AmerenUE Share	Effective Share for Customers
$0 - $120	100%	0%	100%
$121 - $180	80%	20%	100% - 93%
$181 - $360	50%	50%	92% - 72%
Over $360	100%	0%	72% or more

From a regulatory policy perspective, this sharing mechanism provides a constructive regulatory framework in a number of important ways, including:

- It ensures that customers will always receive the lion's share of off-system sales margins earned by the Company under any scenario. Under this mechanism,

ratepayers will never receive less than 72% of all of the off-system sales margins achieved by the Company, even should extraordinary off-system sales margins be achieved in the future due to, among other things, very strong energy prices;

- It provides customers with the opportunity to benefit from greater levels of off-system sales margins in excess of the amount of margins included that would be included in base rates under traditional regulation, which would otherwise go 100% to the utility. In the example I set forth above, customers would receive $8 million in credits to their rates greater than they would have received under traditional regulation based upon an appropriate level of normalized off-system sales margins ($180 million) should actual off-system sales margins in a given 12-month period equal $220 million;
- It addresses a significant uncertainty associated with determining the appropriate level of off-system sales margins to include in base rates by establishing a baseline target that is likely to be achieved under most circumstances, thereby mitigating the possibility that the baseline amount will not be achieved due to uncontrollable, volatile market conditions or uncertain operating conditions;
- It provides important, yet balanced incentives to the Company to improve its plant operations and lower its costs in a safe and reliable manner;
- The utility's sharing percentage in the grid never exceeds the benefits that customers will receive because no sharing band gives customers less than 50% of the margins within that band; and
- The off-system sales margins subject to sharing are capped at two times the appropriate normalized level of off-system sales established in base rates under

traditional regulation. This would give customers 100% of off-system sales margins above the cap if margins exceeded the cap due to unusually high power prices or other factors that would result in an extremely high level of off-system sales margins.

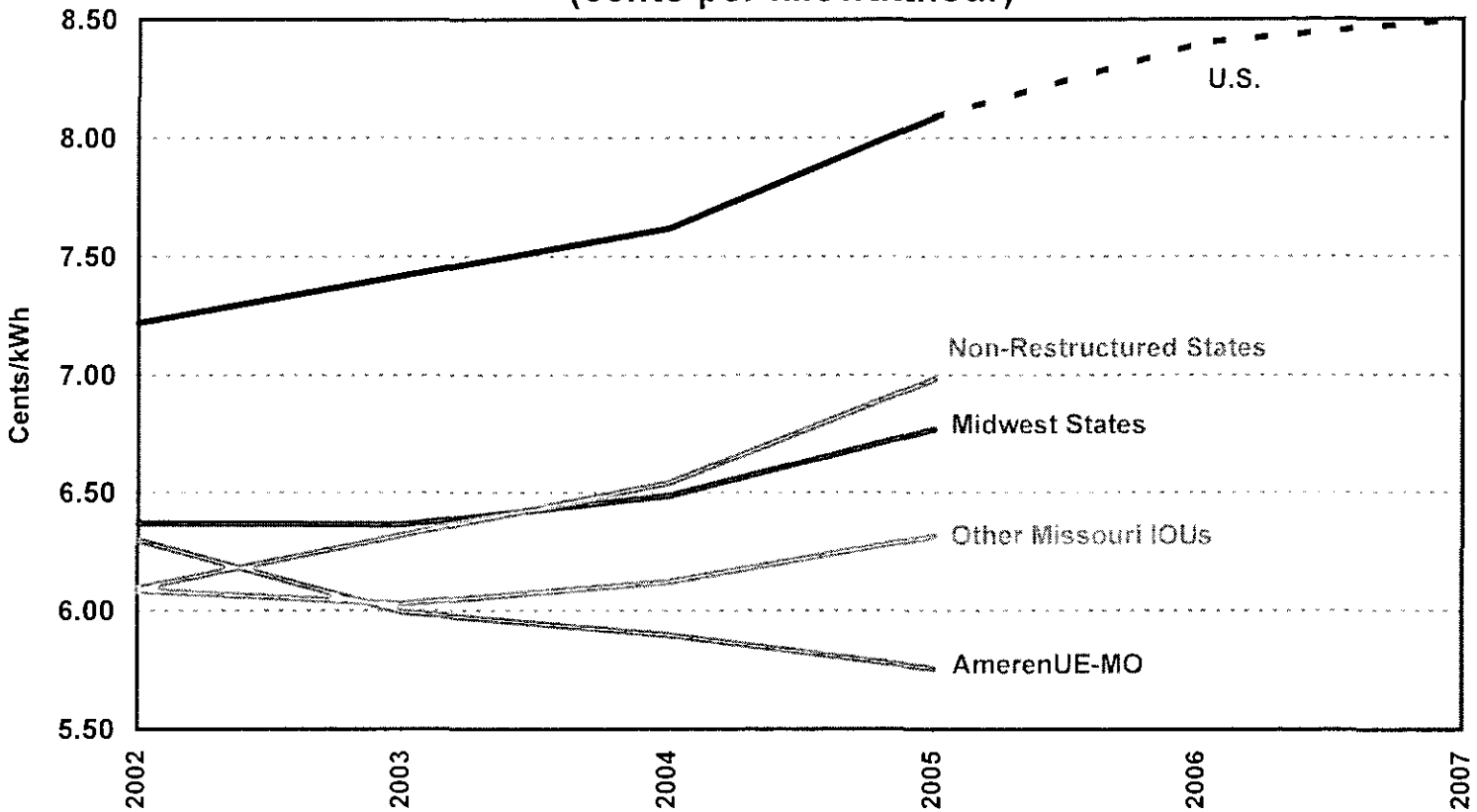
These matters are discussed by AmerenUE witness Shawn E. Schukar.

- In anticipation of the finalization of administrative rules relating to fuel adjustment clauses ("FAC") enabled by Senate Bill 179 ("S.B. 179"), the Company requests the ability to implement an appropriate FAC, subject to the promulgation of satisfactory rules and a satisfactory FAC mechanism. The Company's proposal also includes evidence allowing fuel and purchased power costs to remain in base rates, if a satisfactory FAC mechanism cannot be obtained. Similarly, the Company requests to establish an environmental cost recovery rider ("ECR") which can be used to address environmental costs, again subject to timely promulgation of necessary rules as required by S.B. 179 and satisfactory terms for any ECR.
- Consistent with recent policies employed by the Commission relating to pensions, the Company is also proposing a pensions and other post-retirement benefits ("OPEBs") tracking mechanism that removes volatility (for both the Company and ratepayers) associated with changes in appropriate pension and OPEB expenses, all as addressed by AmerenUE witness C. Kenneth Vogl.
- To ensure that the Company has the cash flow it needs to make timely investments in infrastructure, as well as address intergenerational equity matters, among other things, the Company's proposal, as explained by AmerenUE witness William M. Stout, reflects adoption of the life span approach to straight-line whole life depreciation, in

accordance with sound depreciation practices. The Company's proposal also includes recovery of terminal net salvage costs to cover costs to be incurred when power plants are retired, and continues to appropriately depreciate the Callaway Plant over its current depreciation period (ending when its current license ends) in accordance with sound depreciation principles and the Commission's decommissioning fund regulations.

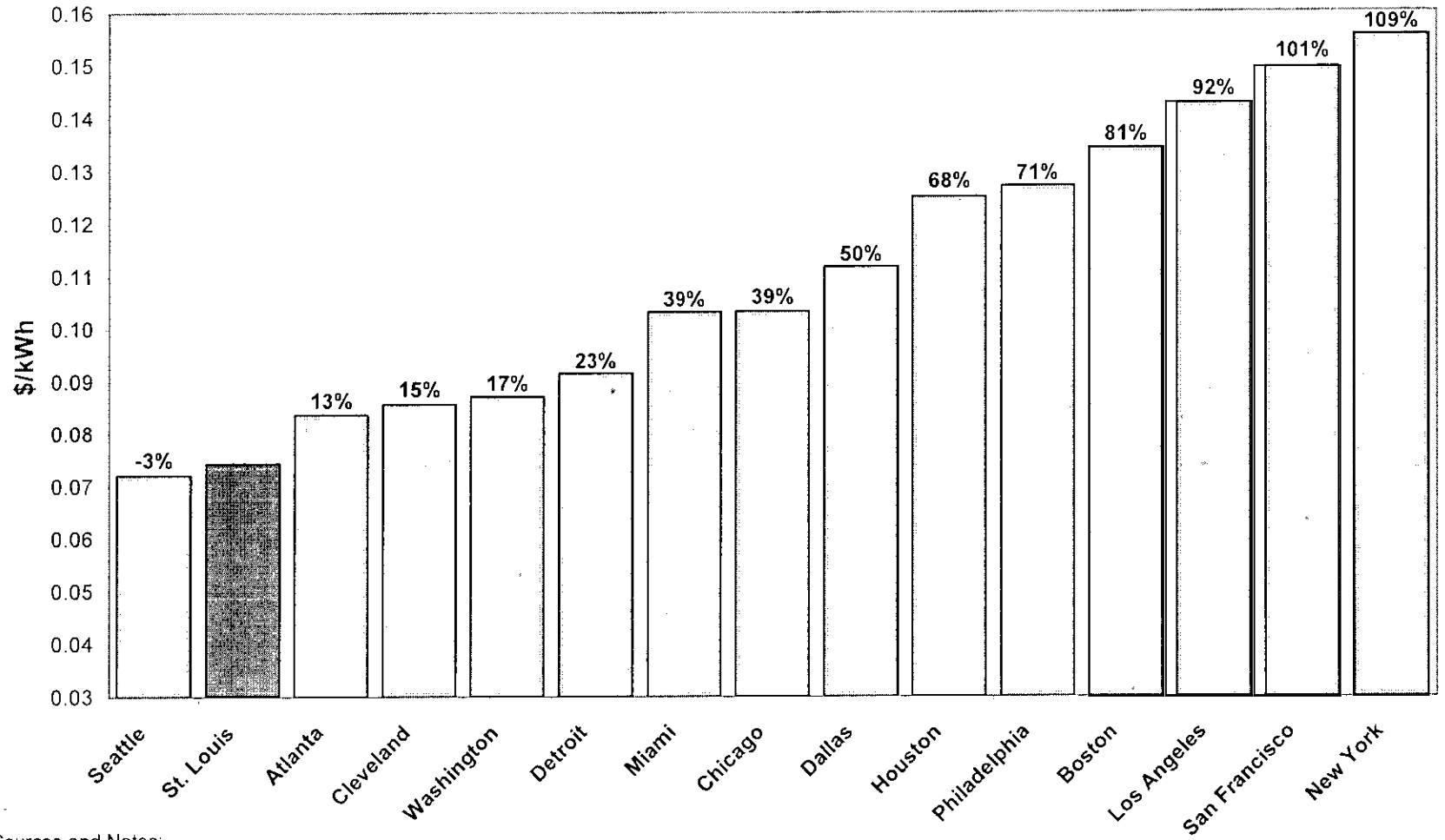
- The Company's proposal also includes consideration of the use of low-income assistance programs, and energy conservation programs, as discussed by AmerenUE witness Richard J. Mark. The Company is interested in working with the other stakeholders to continue its sponsorship of such programs.
- As explained by Mr. Moehn in his direct testimony, the Company is also supporting consideration of pursing greater renewable energy sources, including a commitment to construct 100 megawatts of wind power by 2010.
- The Company's proposal also includes the introduction of two new economic development tariffs to provide for discounts and incentives to attract new customers or retain existing customers, as well as encourage increased investment inside the City of St. Louis. These tariffs are explained in more detail by Company witness Robert J. Mill.

Comparison of AmerenUE-Missouri Average Retail Rates
(cents per kilowatthour)



Source: DOE/EIA. 2006-2007 rates based on DOE forecast.
Non-restructured states are those states that have not deregulated the generation of electricity, similar to Missouri.
Midwest states based on Census Region definitions.
Other Missouri IOUs are Aquila, Empire District Electric, and Kansas City Power & Light.
Retail customers include residential, commercial, and industrial customers.

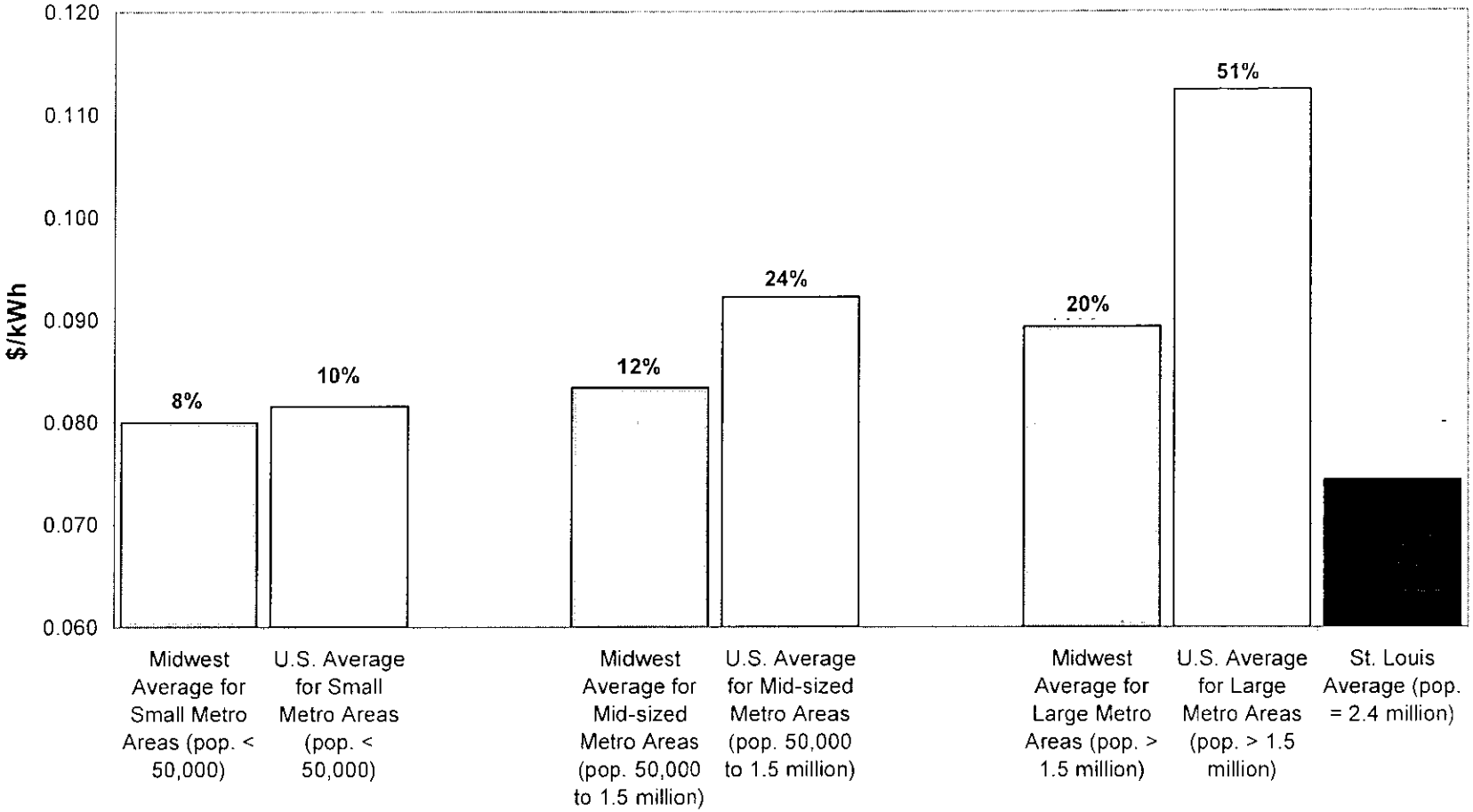
Average Consumer Electricity Prices (2005) for All Major Metropolitan Areas Reported by the Bureau of Labor Statistics



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.

Consumer Electricity Prices by Size of Metro Area -- U.S. and Midwest Data for 2005

(Based on Monthly Consumer Price Surveys 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 region's rates are higher than rates in St. Louis.

Schedule WLB-3

PSC NEWS
Missouri Public Service Commission

Contact: Kevin Kelly Phone: (573) 751-9300 *Governor Office Building, Suite 600*

FY-06-109

FOR IMMEDIATE RELEASE **DECEMBER 19, 2005**

MISSOURI ELECTRIC RATES FOR HOMES, BUSINESSES AMONG LOWEST IN NATION

JEFFERSON CITY -- Missouri's electrical rates for homes and businesses are among the lowest in the nation, making the state an increasingly better place to live and do business, according to a report released by the research arm of the Missouri Department of Economic Development.

Missouri had the eighth lowest for residential users and sixth lowest for commercial users of electricity as measured in cents per kilowatt-hour in 2004. The average residential rate in Missouri was 7.06 cents per kilowatt-hour and the commercial rate 5.86 cents per kilowatt-hour.

"Our state's low electrical costs are good news for Missouri families who have to devote less of their hard-earned dollars to pay for electricity," said Public Service Commission Chairman Jeff Davis. "The low cost and availability of a solid electrical generation and transmission system helps improve the quality of life for all Missourians and will help attract economic development opportunities and jobs."

The state's rates have also been going down relative to other states since 1997. In that year, Missouri's commercial electrical rates were the 15th lowest of all 50 states plus the District of Columbia and residential rates were the 19th lowest. Among its neighboring states, Missouri ranks third to Kentucky and Arkansas for the lowest commercial rate in cents per kilowatt-hour and fourth behind Kentucky, Tennessee and Nebraska for the lowest per kilowatt-hour residential rate.

Since 1997, Hawaii has been consistently the most expensive state for electricity costs while the coal-producing state of Kentucky and the hydroelectric-fueled states of Idaho and Washington have consistently been the lowest.

In a recent survey by Bank of America Business Capital, CFOs from the manufacturing sector were generally positive about revenue growth and profit margins for 2006, but about 80 percent sited energy costs among their most urgent financial concerns.

Earlier this year, the Milken Institute reported that the cost of doing business in Missouri was 13 percent below the national average index that is based on wage costs, tax burden, electricity costs and industrial and office rent costs.

-30-

Schedule WLB-4

PSC NEWS
Missouri Public Service Commission

Contact: Kevin Kelly Phone: (573) 751-9300 *Governor Office Building, Suite 600*

FY-06-234

FOR IMMEDIATE RELEASE **JUNE 28, 2006**

MISSOURI ELECTRIC RATES FOR RESIDENTIAL AND BUSINESS CUSTOMERS AMONG THE LOWEST IN THE COUNTRY

Consumers urged to safely conserve energy

JEFFERSON CITY—Missouri's residential, commercial and industrial customers benefit from some of the lowest electric rates in the country, according to information from the United States Energy Information Administration (EIA).

Commercial electric customers in Missouri have the lowest electric rates in the nation according to the EIA's Electric Power Monthly (June), which reflects March 2006 data. That information shows Missouri residential customers have the seventh lowest electric rates in the nation and industrial customers the sixth lowest.

"This is good news for Missouri consumers as energy costs and the impacts of those costs on customer budgets continues to be a story of national interest," said PSC Chairman Jeff Davis.

"Low electric rates are not a reason to avoid efficient energy consumption. Everyone is encouraged to carefully evaluate their energy needs to determine ways they may be able to safely conserve energy," said Davis.

Some ways to conserve energy include:

- ✓ Don't constantly move the thermostat up or down throughout the day; this wastes energy and money;
- ✓ Use ceiling fans to help assist in cooling;
- ✓ Turn off lights when they are not in use and consider installing compact fluorescent light bulbs whenever possible;
- ✓ Make sure air conditioner filters are clean;
- ✓ Plug air leaks around doors, windows and the fireplace;
- ✓ Make sure furniture and drapes are not blocking cooling outlets;
- ✓ Close drapes and blinds during the day to keep the sun from heating the home;
- ✓ Use clothes dryers or dishwashers in the early morning or evening; and
- ✓ Consider a microwave instead of an oven to cook meals.

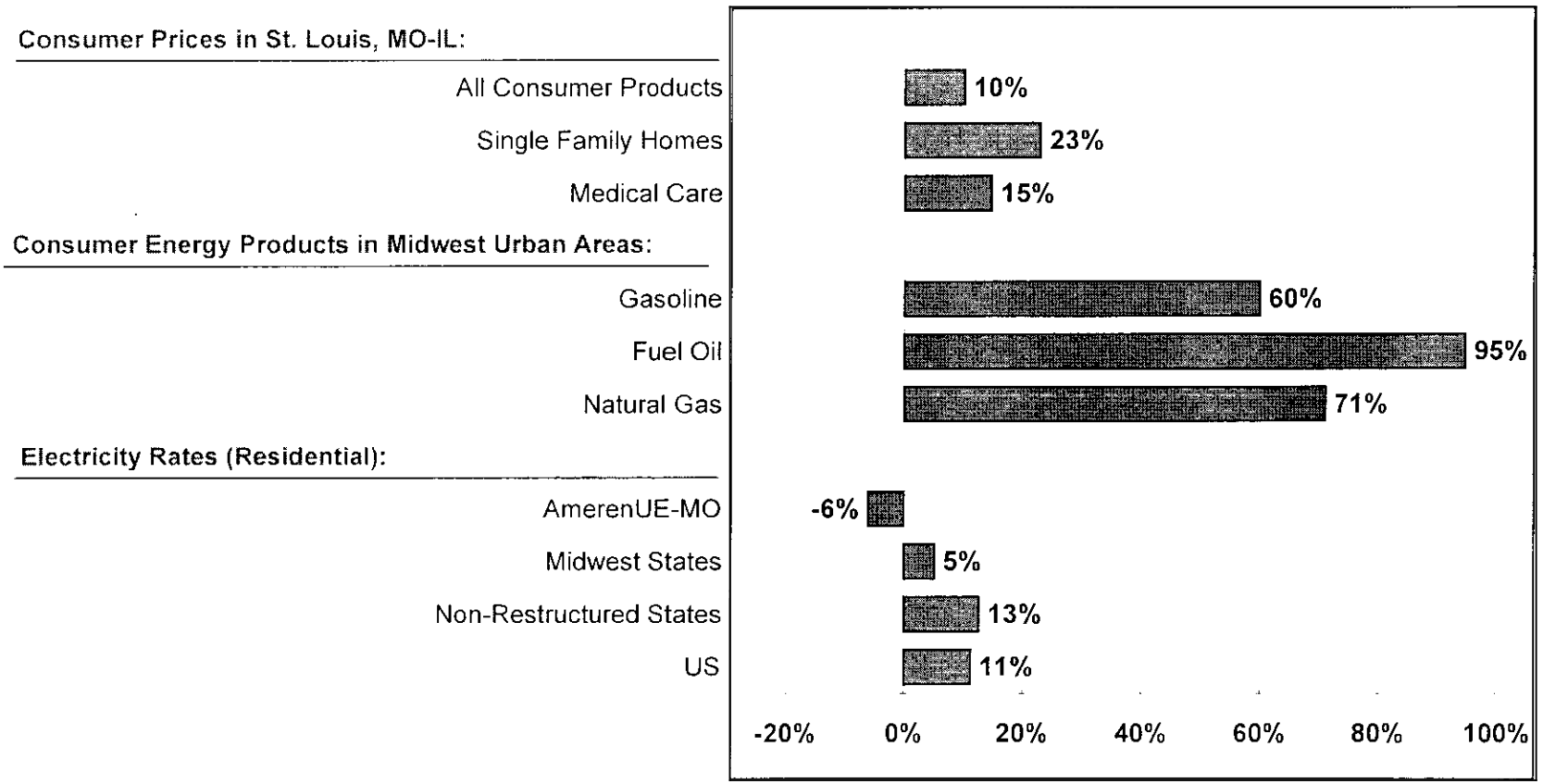
According to the EIA (for the month of March 2006), the average residential rate in Missouri is 6.69 cents per kWh (kilowatt-hour). The United States average residential rate is 9.86 cents per kWh. The average Missouri commercial rate is 5.38 cents per kWh with the national average at 9.02 cents per kWh. For industrial customers, the Missouri average rate is 3.99 cents per kWh with the national average at 5.76 cents per kilowatt-hour.

The state's rates have been going down relative to other states since 1997. In that year, Missouri's commercial electric rates were the 15th lowest of all 50 states plus the District of Columbia. Residential rates were the 19th lowest in 1997. EIA information in May of 2004 showed Missouri's residential rate was 15th lowest in the country with commercial rates being the 13th lowest in the nation.

-30-

Schedule WLB-5

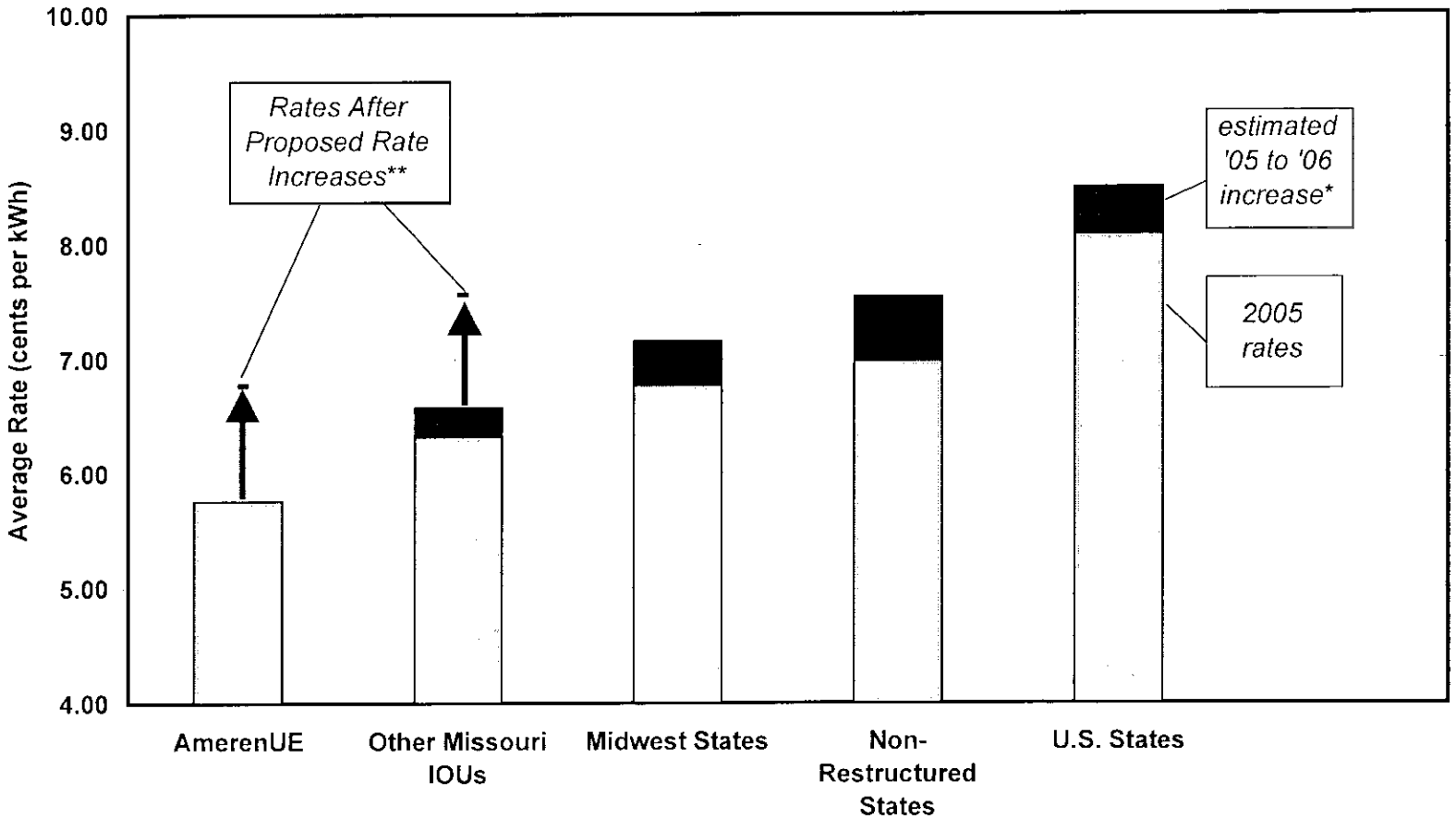
2002-2005 Changes in Electric Rates & Consumer Prices



Sources and Notes:
Consumer prices based on Bureau of Labor Statistics (BLS) St. Louis CPI indices and Office of Federal Housing Enterprise Oversight data.
Consumer energy prices based on BLS Midwest Urban average prices.
2002 rate data from EIA Form 861. 2005 rate data from DOE/EIA Form 826.
Midwest states based on Census Region definitions.
Non-restructured states are those states that have not deregulated the generation of electricity, similar to Missouri.

Schedule WLB-6

AmerenUE Average Retail Rates with Requested Increase Compared to Other Utilities



Source: DOE/EIA Form 826.

* U.S. based on DOE forecast; rest based on rates already in effect during the first quarter of 2006.

** Arrows based on requested percentage increases in company filings.

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

Midwest states based on Census Region definitions.

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

Retail customers include residential, commercial, and industrial customers.

Schedule WLB-7

member CONTACT
Boone Electric Cooperative
Volume 25 / Number 2 / February 2006

Answers to Your Questions

Our most frequently asked questions about the upcoming rate increase.

We know some of you have questions regarding the rate increase that takes effect on your April bill. This rate increase is a complicated issue, even for the folks inside the co-op headquarters. We will answer any question a member-owner has about the increase, beginning with these:

How much will my bill increase?
The rate is increasing from 7.1¢ per kilowatt hour (kwh) to 7.3¢. For the average residential member using 1120 kwh per month, the increase is approximately 11 percent. This means an estimated increase of $9.03 on your bill. However, this amount varies based on your usage.

Why do you keep raising rates?
Actually, BEC hasn't had a rate increase since 1991. If your bill is higher, it is due to increased kwh usage, which could be caused by colder or hotter weather or adding electronics in your home.

Why are our rates increasing?
For a variety of reasons:
1. To keep up with an ever-increasing demand for power. Our energy supplier, Associated Electric Cooperative, Inc., is building one new power plant and has purchased an existing plant. The new plant, located in northern Missouri, is expected to cost $1 billion over the next six years. AECI is purchasing a partially constructed, combined-cycle natural gas plant in Arkansas, which will also help meet demand.
2. The cost of inputs has increased. Most of our electricity is produced from coal-fired power plants. The price of coal has risen dramatically and may continue to rise due to the cost of rail transportation. AECI's peaking plants - plants that come on line during high times of kwh usage - are natural gas-fired plants. The cost of natural gas has also risen dramatically.
3. In 2005 the federal government mandated regulations involving power plants. AECI has already spent millions of dollars to improve air quality. It will cost an estimated $400 million to get our existing plants in compliance.

Single Phase Service Rate Schedule

	Existing Rates	New Rates
Service Availability	$9.25	$15
First 600 kwh	7.1¢	7.3¢
Next 1400 kwh	5.9¢	6.3¢
Excess over 2000 kwh	5.0¢	5.5¢

Examples:	Existing Bill	New Bill	Difference
600 kwh	$51.85	$58.80	$6.95
1120 kwh	$82.53	$91.56	$9.03
2000 kwh	$134.45	$147.00	$12.55

When will we have another rate increase?
This is the first of several increases we anticipate over the next 10 years. We will do everything possible to keep your rate from increasing more than is absolutely necessary.

... continued on page 2

ON THE INSIDE

Schedule WLB-8-1

Community Support Programs You Can Add to Your Bill

Round-Up
Helps fund the Boone Electric Community Trust which provides financial assistance to charitable organizations in BEC's service area.

C.A.S.H.
Provides utility assistance to low-income senior citizens and persons with disabilities. Funds administered by City/County Health Department.

H.E.L.P.
Provides utility assistance to low-income families with children. Funds administered by City/County Health Department.

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Editor • Jessica Spencer
Editor • Christi Miller
Intern • Sara Muri

My increase calculates to more than 11 percent. Why is that?
Members who only pay a minimum bill will see more than an 11 percent increase. A minimum bill, also called a service availability fee, is the minimum charge each month to have electrical service to your home. Members pay this to have a meter turned on, regardless, of whether or not they use any kwhs. Previously, this fee was $9.25. It increases to $15. (In the January issue, we inadvertently published the wrong percentage increase. We apologize for the error.)

Are county residents paying more because of all the growth around Columbia?
No. While it's true that a large portion of our operating expenses are spent to build and maintain services to keep up with the growth in the outlying areas of the City of Columbia, members do not pay more so this area can grow.

Densely populated areas are good for the cooperative because the cost per member is actually less than if BEC built a line to serve just one member. A distribution line is more efficient when BEC can serve more members off of the same line. It all helps the bottom line and makes us more financially sound. As a member-owner, you win since all profits are returned back to you in the form of capital credits.

Why doesn't BEC stop giving back capital credit refunds rather than raise rates?
Boone Electric relies on the capital of our members to grow equity. We have to keep a certain level of capital, both to satisfy our lending agreements, as well as to simply stay in business. We use member capital on a rotating basis, keeping fairness to members in mind. Last December we returned capital credits to members who were on Boone Electric's lines in 1989 and 1990. The cooperative has been using those members' money since that time. We are returning their money now and investing the capital of the people who are currently on our lines. The process continues each year as we repay member-owners from the past and invest money from our current member-owners.

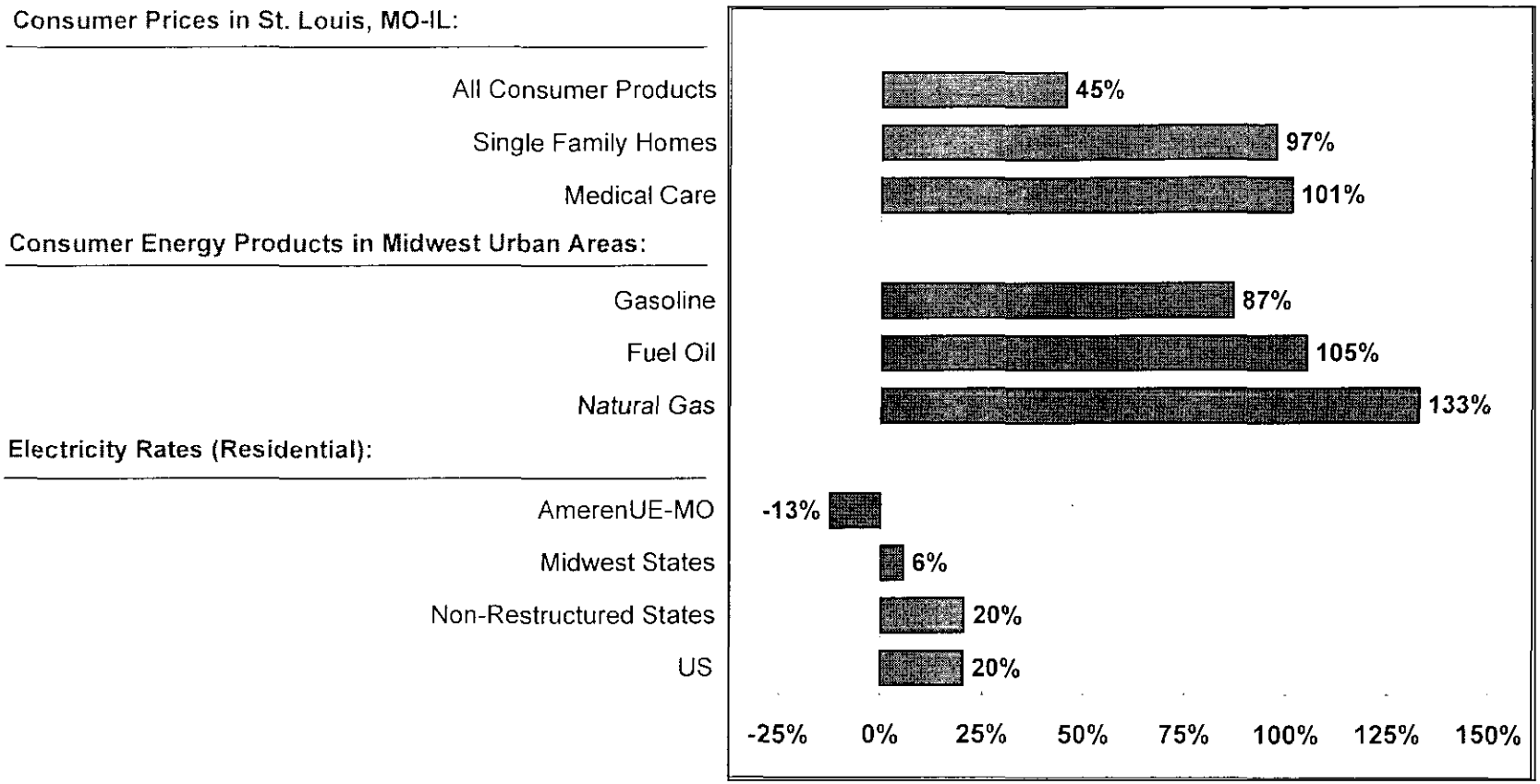
Why doesn't BEC cut its budget?
Our operating budget is as low as possible without negatively affecting service to our members. Internal cuts aren't enough to cover the rising costs of inputs. This is especially true given the significant growth we are experiencing.

What can I do about the size of my bill?
Energy conservation is always a good idea. The increase that appears on your April bill will be calculated on the electricity you use in March. So please keep that in mind.

Set your thermostat at the lowest comfortable setting in the winter (the Department of Energy recommends 68 degrees). Caulk around doors and windows. Insulate your water heater. Lower the thermostat on your water heater to 120 degrees F. Replace or clean furnace filters once a month, even during the summer. Wash and dry full loads of laundry (but don't overload the dryer).

Our power use advisor can offer more tips and a free home energy audit. Please give the Member Services Department a call at (573) 449-4181 if you think your home uses more energy than it should.

1990-2005 Changes in Electric Rates & Consumer Prices



Sources and Notes:
Consumer prices based on Bureau of Labor Statistics (BLS) St. Louis CPI indices and Office of Federal Housing Enterprise Oversight data.
Consumer energy prices based on BLS Midwest Urban average prices.
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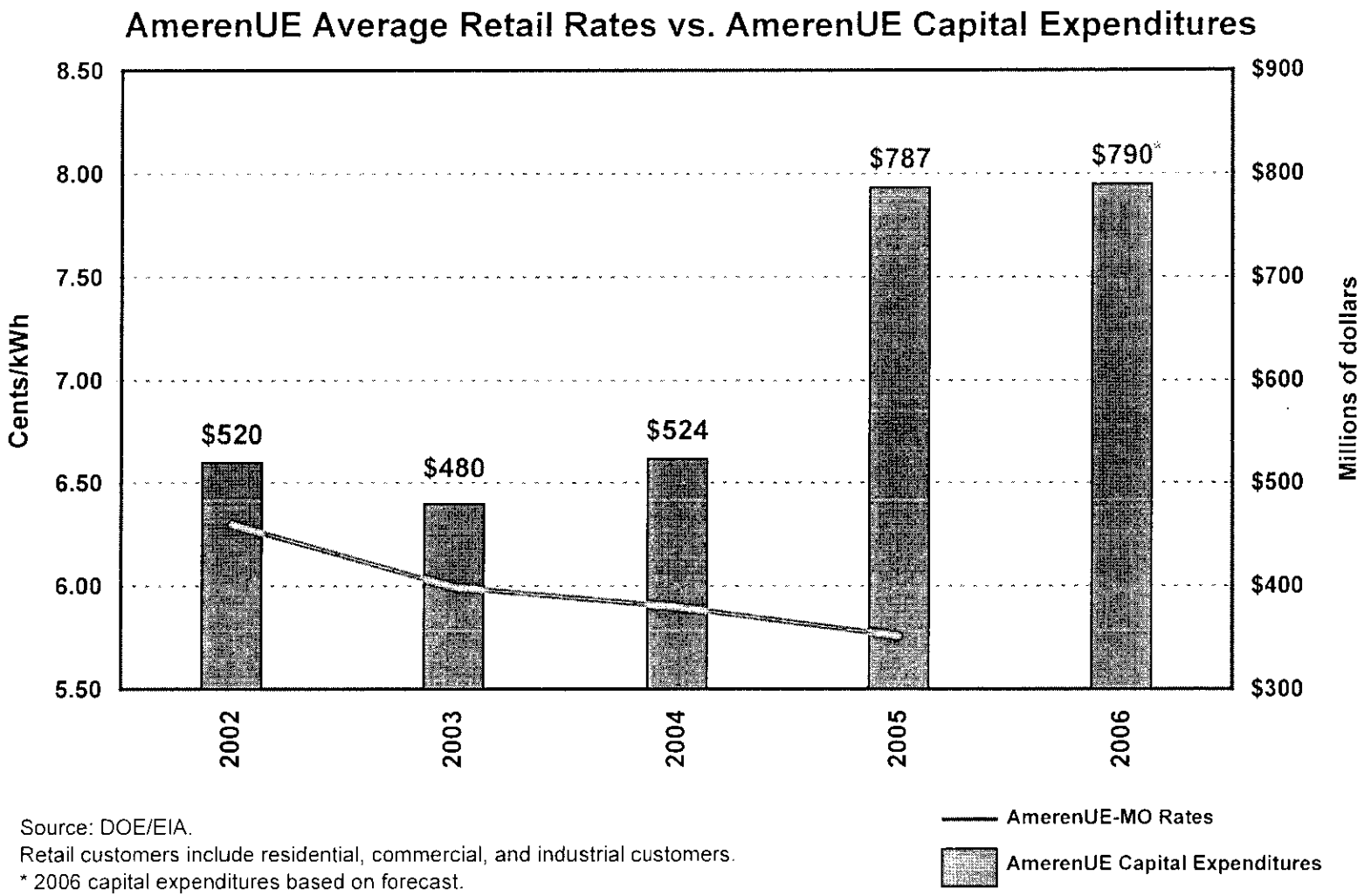

Source: DOE/EIA.
Retail customers include residential, commercial, and industrial customers.
* 2006 capital expenditures based on forecast.

Witness	Issue(s)
David A. Svanda	Ratemaking Policy
Gary S. Weiss	Revenue Requirement
Robert K. Neff	Coal and Transportation Costs
Kathleen C. McShane	Return on Equity
James H. Vander Weide	Rate of Return
Lee R. Nickloy	Cost of Capital, Capital Structure
Shawn E. Schukar	Pricing for Off-System Sales, Off-System Sales Incentive, MISO Market Charges
Timothy D. Finnell	Production Cost Model
Robert C. Downs	Corporate Governance Principles – Electric Energy, Inc.
Charles D. Naslund	Callaway Power Plant
Mark C. Birk	Generation Plant – Non-Callaway
William M. Stout	Power Plant Depreciation
John F. Wiedmayer	Depreciation
Thomas S. LaGuardia	Generation Plant Retirement
C. Kenneth Vogl	Pensions, OPEBs
Michael L. Moehn	Resource Planning, EEInc. Contract, DSM/Renewables
Richard J. Mark	Distribution, Customer Service, Low Income Programs
Maureen A. Borkowski	Transmission Additions, MISO
Wilbon L. Cooper	Rate Design, Billing Units
William M. Warwick	Class Cost of Service Study
Robert J. Mill	Rate Design, Riders
Philip Hanser	Rates, Rate Design
Michael Adams	Cash Working Capital
Richard A. Voytas	Weather Normalization
James R. Pozzo	Normalized Billing Units