Exhibit No.: 109 NP
Issue(s): Sioux Scrubbers
Witness: Jerre E. Birdsong
Sponsoring Party: Union Electric Company
Type of Exhibit: Rebuttal Testimony
Case No.: ER-2011-0028
Date Testimony Prepared: March 25, 2011

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2011-0028

REBUTTAL TESTIMONY

OF

JERRE E. BIRDSONG

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a Ameren Missouri

DENOTES PROPRIETARY INFORMATION

St. Louis, Missouri
March, 2011

NP

REBUTTAL TESTIMONY

OF

JERRE E. BIRDSONG

CASE NO. ER-2011-0028

Q. Please state your name and business address.

A. My name is Jerre E. Birdsong. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, MO 63103.

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

A. I am employed by Ameren Services Company ("AMS"). AMS provides various business and corporate support services for the operating companies owned by Ameren Corporation ("Ameren"), including Union Electric Company d/b/a Ameren Missouri ("Ameren Missouri" or "Company"). I am also Vice President and Treasurer for Ameren Missouri. Among the services provided by AMS to Ameren Missouri are cash and liquidity management services, and services relating to the placement of debt, when necessary.

Q. Please summarize your educational background and professional experience.

A. I graduated Phi Beta Kappa with a Bachelor of Arts degree in Economics and Mathematics from Rhodes College in Memphis, Tennessee in 1976. I then received a Master of Science degree in Management from the Krannert Graduate School of Management at Purdue University with the distinction of Krannert Scholar. My area of concentration in the Master's program was Managerial Applications of Mathematical Modeling.

I was employed by Union Electric Company in August 1977 as an economist in the Economic Research Department. In this position, I conducted various economic, financial, and statistical studies. In October 1979, I began reporting to the Vice President-Rates and was responsible for the determination of the Company's cost of capital, marginal cost of service by customer class, and economic forecasts. While in this position, I also assumed responsibility for coordinating the Company's load research activities and assessing alternatives for the collection of monies to cover the decommissioning expenses which will arise at the end of the operating life of the Callaway nuclear plant. In November 1984, I was appointed Assistant Treasurer with primary responsibility for the investment of the Company's employee benefit and nuclear decommissioning funds. I was promoted to the position of Manager of the Financial Planning and Investments Department in August 1989, at which time the responsibilities of planning the Company's long-term capital structure and of administering the justification of capital expenditures were added.

I was elected Treasurer of Union Electric Company effective July 1, 1993, of Ameren effective April 23, 1996, and of Ameren's other operating companies on various dates thereafter. I was elected Vice President of Ameren and its operating subsidiaries including Union Electric Company effective October 12, 2001.

I am on the Board of Directors of the Greater St. Louis YMCA and its Finance Committee, on which I previously served as Chairman and past-Chairman of its Investment Subcommittee. I have also served as Treasurer of the Citizens for Missouri's Children, the Diocese of Missouri, and the Episcopal-Presbyterian Health Foundation. I have served on the Investment Policy Committee of the St. Louis Equity Fund and as an Adjunct Professor of Finance in the Master of Business Administration program at Webster University.

Q. What are your responsibilities in your current position?

A. In my current position, my principal duties involve the planning of the Ameren subsidiaries' long-term capital structures; negotiation and completion of financings; securing short-term liquidity for the day-to-day operation of the subsidiaries; and the management of the subsidiaries' employee benefit funds. In addition, the companies' cash management, dividend reinvestment stock purchase program, insurance and credit risk management, first mortgage bond transfer and paying agency, and investor services are under my direction and supervision. In performance of these duties, I have on-going contact with investment bankers, commercial bankers, pension fund investment managers, security analysts, rating agencies, institutional investors, and corporate insurance brokers and carriers.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the stated justification for Staff's proposed disallowance of costs related to the delay of the Sioux wet flue gas desulfurization ("WFGD") Project due to the financial crisis that occurred in late 2008 and early 2009, as set out in Staff's Construction Audit and Prudence Review of the Sioux Wet Flue Gas Desulfurization Project for Costs Reported as of September 30, 2010, at pages 41-42.

Q. Why does Staff recommend disallowance of the costs associated with the delay of the Sioux WFGD Project?

A. Staff rejects the explanation offered by the Company in its response to Staff Data Request No. 139 which stated that the Sioux WFGD Project was delayed due to the Company's decision to reduce capital expenditures as a result of concerns about having the necessary access to capital and about the cost of that capital due to the global financial crisis in late 2008 and early 2009. Instead, Staff contends that both Ameren and Ameren Missouri had sufficient liquidity available in December 2008, and that both had the ability to issue long-term capital as evidenced by Ameren's issuance of $535 million in common equity in September 2009 and Ameren Missouri's issuance of $350 million of debt in March 2009.

Q. Please summarize your response to Staff's reasoning.

A. While Staff admits that Ameren and Ameren Missouri were limited in their access to the commercial paper market in the fall of 2008 due to both a Moody's downgrade of their short-term credit ratings in August 2008 and the credit crisis in the fall of 2008, Staff fails to appreciate the true extent and severity of the financial crisis. In addition, Staff fails to understand the impact of this crisis on Ameren's and Ameren Missouri's liquidity in light of valid concerns about the inability to access both short-term credit facilities and long-term capital markets. Finally, Staff illogically relies upon the ability of Ameren and Ameren Missouri to issue long-term capital in 2009 to suggest that the concerns of Ameren and Ameren Missouri in the fall of 2008 were not justified.

Q. First, what led to the financial crisis that came to a head in the fall of 2008?

A. The roots of the financial crisis stretch back to the beginning of the decade. A large segment of the banking industry expanded their loan business by providing mortgages to sub-prime borrowers. There was widespread belief in the banking sector that the lending bank could hedge its increased risks by issuing a plethora of newly-devised complex financial instruments which would slice up and resell the mortgage-backed securities to a wider spectrum of investors. When the technology bubble in the stock market of the late 1990's burst in 2000, the economy slipped into recession and the Federal Reserve responded with sharply lowered interest rates. These lower interest rates made mortgage payments cheaper, and demand for homes rose, driving up housing prices. With the increased housing prices, many homebuyers had to leverage themselves beyond a level of prudence in order to purchase a home – but the banking industry continued to supply the sub-prime loans since they believed their risk was hedged. Because of the imprudent level of leverage in the overall residential housing sector, default and delinquency rates began to rise in 2006. Hundreds of billions of dollars in mortgage-related investments went bad by 2008. The rising number of foreclosures sped the fall of housing prices, and the number of prime mortgages in default began to increase. Both the originating banks and the holders of the mortgage-backed securities had to write off the value of the "toxic mortgages," reducing the amount of capital they had available to provide as credit to all sectors of the economy, including large, financially healthy businesses.

The credit losses to banks did not stop with the mortgage sector. Because of the slowdown in the overall economy, a new wave of credit losses extended to consumer loans, credit cards, commercial real estate, and commercial loans.

Q. Please describe the events and circumstances of the financial crisis that came to a head in the fall of 2008.

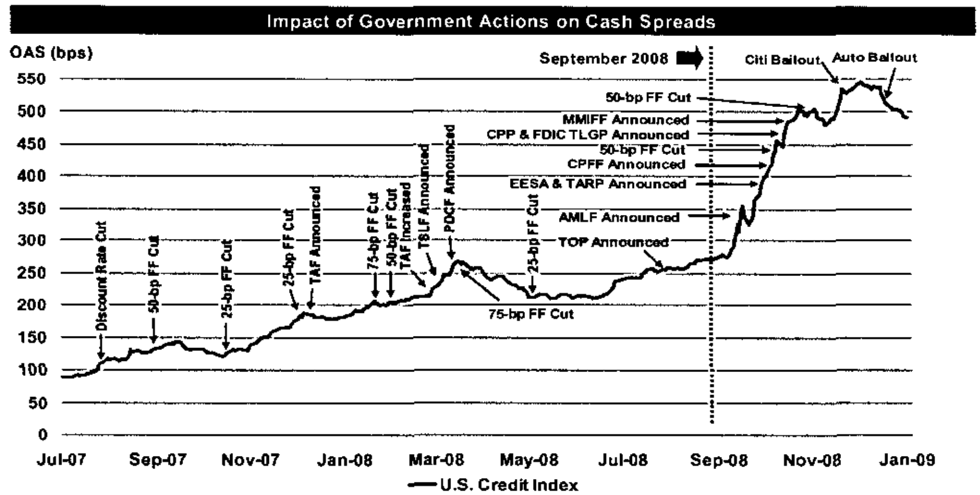
A. Turmoil in the capital markets arising from the subprime mortgage problems became a serious concern in June 2007 when Bear Stearns suffered significant losses related to two hedge funds with significant subprime mortgage holdings. Despite the Fed's intervention, several large bank groups (UBS, Bear Stearns, Morgan Stanley, etc.) announced significant write-downs in December 2007. Despite the Fed's single deepest cut in interest rates in more than two decades being made in January 2008, Bear Stearns collapsed in March

2008. As shown in Chart 1 below, the Fed continued to cut interest rates during 2008, but by September it was evident that this strategy had become increasingly ineffective. That the Fed's strategy was ineffective is demonstrated by the rapidly escalating spread between the yields on non-government bonds and the yields on U.S. treasury securities, which were just approximately 100 basis points (1%) in July 2007. The widening of this spread indicates that the market viewed non-government bonds as becoming far more risky than normal vis-à-vis U.S. treasury securities. By October 2008, the spread had increased five-fold to approximately 500 basis points, which indicated a true crisis in the capital markets presenting real risks to business liquidity, including Ameren Missouri. And while alternative measures were taken in an attempt to help mitigate market volatility and halt further credit deterioration, there was no confidence that Congress would approve funding or that such alternative measures could in any event prevent a financial meltdown.

Chart 1

Governments Intervened To Stabilize The Financial System

As Federal Reserve rate cuts became increasingly ineffective, alternative solutions were created to help mitigate market volatility and alleviate credit concerns



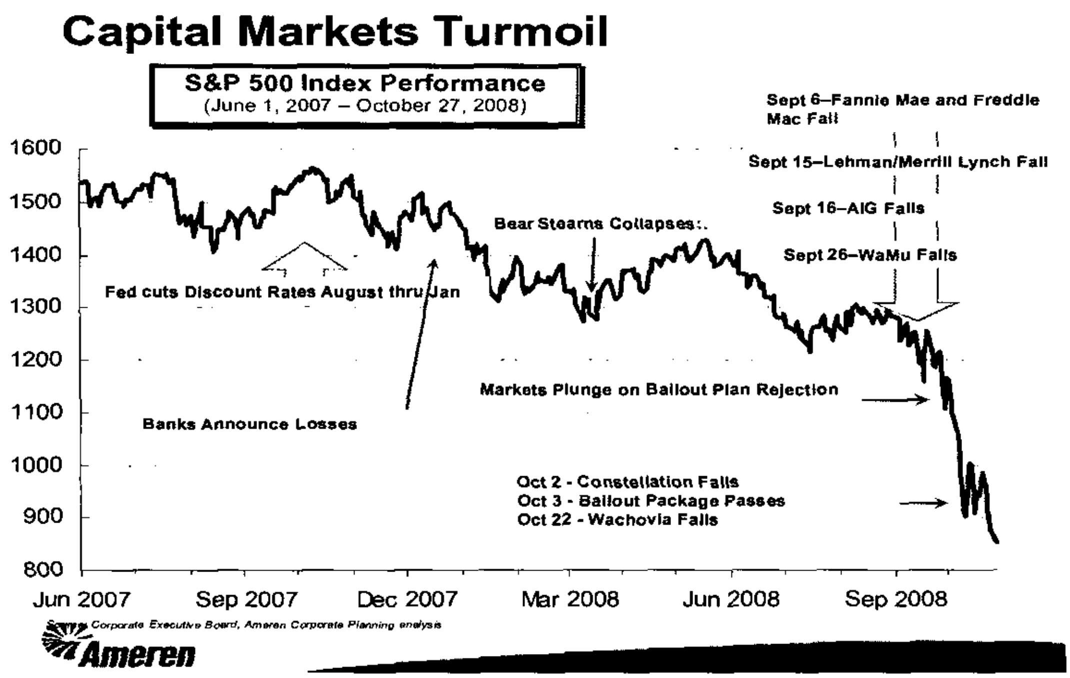
Source: Barclays Capital.

BARCLAYS CAPITAL 3 Ameren

As Chart 2 (below) shows, September 2008 was particularly dark. On September 6, 2008, Treasury Secretary Henry Paulsen announced the takeover of Fannie Mae and Freddie Mac. Nine days later, Bank of America acquired Merrill Lynch, and Lehman Brothers filed for bankruptcy—the largest bankruptcy in U.S. history. The next day, the Fed agreed to provide A.I.G. a two-year loan of up to $85 billion and, in return, gained nearly 80% ownership of the insurer. In late September, Paulsen proposed a bailout plan in which the federal government would buy up to $700 billion in troubled assets. The largest bank failure in history occurred on September 26, 2008, when Washington Mutual was seized by regulators. Three days later, the bailout plan was rejected in the House of Representatives, and the Dow Jones Industrial Average took its largest point loss on record, losing $1.1 trillion in market value. The Dow continued to plummet throughout October and November

2008, and the VIX Index, which measures volatility in the markets, continued to increase and spiked to an all-time high in late November 2008.

Chart 2



As shown on Chart 3 below, no segment of the economy was able to escape the impact of the 2008 financial crisis as credit spreads exploded for virtually all borrowers and for companies with all credit ratings. Utility stocks were not unaffected; between August 1, 2008, and October 10, 2008, for example, stock values declined by 30% or more. As a result of these volatile financial conditions, a credit freeze occurred.

Chart 3

Across Asset Classes, Sectors And Credit Ratings

Extreme volatility, risk aversion and a declining economic environment contributed to the poor performance of equity and credit indices throughout 2008

Select 2008 Index Performance						
Indicator	1/2/08	High	Low	Average	12/31/2008	2008 Change
Equity Indices:						
DJIA (pts)	13,264	13,264	7,552	11,244	8,776	-4488 pts
S&P 500 (pts)	1,468	1,468	752	1,220	903	-565 pts
Commodities:						
Crude Oil ($)	99.62	146.93	35.35	98.90	44.60	-$55.02
Synthetic Indices (bps):						
CDX.IG	83	272	83	150	198	+115 bps
CDX.HVOL	204	609	202	359	489	+285 bps
CDX.HY	495	1,569	510	798	1,147	+652 bps
CMBX AAA	65	646	65	215	527	+462 bps
LCDX	314	1,612	314	556	1,125	+811 bps
Barclays Capital Indices (bps):						
Global Aggregate Index	49	156	49	90	145	+96 bps
US Credit Index	182	545	182	304	493	+310 bps
Industrials	182	559	182	298	500	+318 bps
Utilities	188	569	188	302	537	+349 bps
Financials	220	707	220	400	629	+409 bps
Double-A	153	431	153	249	324	+172 bps
Single-A	189	578	189	329	497	+308 bps
Triple-B	229	737	229	381	688	+459 bps
Euro-Aggregate Index	24	160	17	60	160	+137 bps
Sterling Aggregate Index	67	179	67	109	179	+112 bps

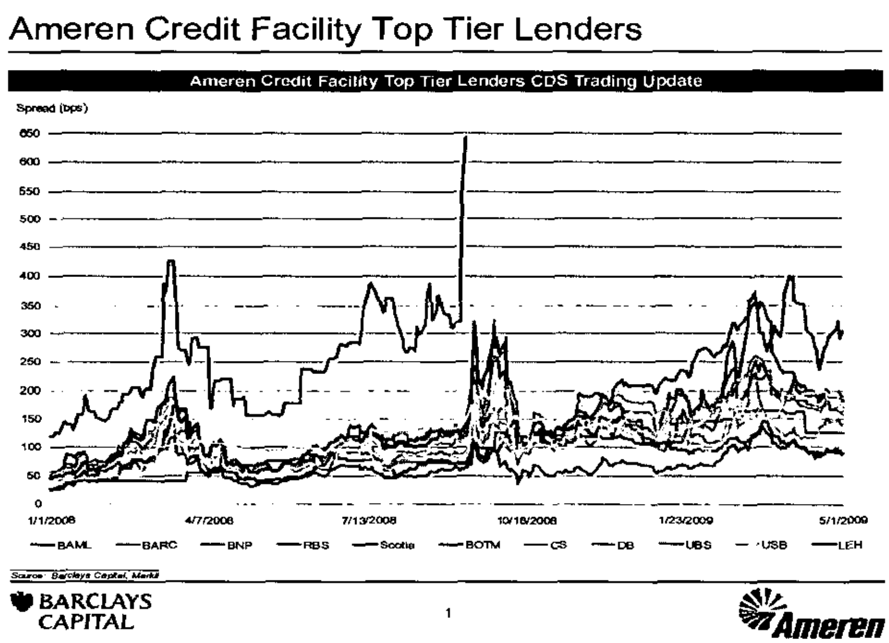
Source: Barclays Capital, Bloomberg
Note: All credit spreads are OAS

BARCLAYS CAPITAL 4 Ameren

Q. What do you mean by the term credit freeze?

A. By credit freeze, I mean that the banking sector, whether by necessity or by choice, has severely restricted the channels of credit which are crucially needed by consumers and small and large businesses for their normal working capital and expansion needs. In the credit freeze of the fall of 2008, both the necessity and choice elements were in place with the banks. The large number of mortgage write-offs which I previously mentioned meant that banks had less capital to lend. As banks attempted to replace this capital with new money from investors, these potential investors required that the banks be much less levered and more liquid than they had been. Thus, banks chose to hold on to any capital they had to decrease their leverage instead of providing credit even to large, credit-worthy businesses. Even after the government injected capital into the troubled banks, banks used the funds to strengthen their balance sheets rather than to lend. Nevertheless, credit default swap prices of major financial institutions indicated that investors still lacked confidence about their solvency, implying serious downside risks persisted well into the fall of 2008. A bank's credit default swap is an instrument in which the risk of a credit default by that bank is transferred from the buyer of the swap to the seller. The greater the risk of the bank's credit default, the higher the swap is priced in order to induce the seller to take on that increased risk. As shown on Chart 4, this was true of the largest providers of credit to Ameren and Ameren Missouri.

Chart 4



By October 2008, the situation had become so dire that former Federal Reserve Chairman Alan Greenspan testified to the House Committee of Government Oversight and Reform that "we are in the midst of a once-in-a century credit tsunami." He further testified that "the crisis, however, has turned out to be much broader than anything I could have imagined. It has morphed from one gripped by liquidity restraints to one in which fears of insolvency are now paramount." Prepared remarks of Alan Greenspan before the House Committee of Government Oversight and Reform, as reported in the *Wall Street Journal* on-line October 23, 2008, 8:27 am.

In the presidential debate in September 2008, now-President Obama stated that "We are going through the worst financial crisis since the Great Depression." Even looking back on the situation, in January 2010, President Obama stated that "Our financial system teetered on the brink of collapse, and the threat of a second Great Depression loomed large." President Obama's response to questions at the 2010 House Republicans Retreat, Baltimore, Maryland - January 29, 2010.

Q. What was the impact of these events on Ameren and Ameren Missouri?

A. The electric utility industry represents the second most capital-intensive sector in the United States. Of primary concern to all electric utilities and to both Ameren and Ameren Missouri was its current liquidity and inability to obtain necessary capital through their respective credit facilities. Liquidity is the ability to meet expected and unexpected demands for cash at an acceptable cost at the time when needed. As explained by Ameren Missouri witness Michael O'Bryan in his direct testimony, a credit facility is essentially a committed revolving bank credit line under which funds may be borrowed on a short-term basis—typically 30 days. These facilities are syndicated by a group of bank lenders which lend by funding borrowing requests under the facility on a pro-rata basis. Funds available from credit facilities are used to fund large cash requirements such as payments to equipment suppliers for components purchased for construction projects, payments to suppliers of coal and natural gas, funding payroll and making tax payments. On a given day, payments such as these or other large payments may need to be made, but the Company's incoming cash receipts, surplus cash, and cash equivalents may be insufficient to provide the necessary funding. In those instances, the Company could borrow under its bank facility to obtain the funds it needed to make the payments.

In fact, at this time Ameren Missouri was operating with negative free cash flow, that is, capital expenditures were greater than the net cash flows (after paying operating expenses) provided by rate revenues. This meant that credit was part of the lifeblood of Ameren Missouri's operations. If substantial amounts of that credit became unavailable, as we feared, our operations would literally be threatened.

With the Lehman Brothers bankruptcy, the Company's exposure in terms of a reduction in its credit facility totaled $171 million. We were also quite concerned that other banks in our credit facilities would not be able to provide the credit to replace this amount (in fact, other banks did *not* replace $121 million of the $171 million). We were also very concerned that other banks might also fail, further reducing available credit. In fact, an additional imminent reduction in the credit facility was averted when Wells Fargo Bank agreed in October 2008 to purchase the failing Wachovia Corp., which had held a significant portion of that credit facility. Fully one third of our credit commitment was with banks that were rumored to be on the brink of insolvency. As previously shown, our fears were shared by the overall market as indicated by their credit default swap prices. And as the securities of financial institutions are highly interconnected, we could only speculate about the effect that these bank failures would have on the remaining banks providing our credit. In a worst case, which certainly could not have been ruled out in the fall of 2008, a few bank failures could have caused a domino effect of failures across the banking industry.

These events led to the very real concerns regarding the ability to renew our existing credit facility at its existing size and our hesitation to depend on this facility as a reliable source of short or long-term capital. *

*

In October 2008, one of our primary banks indicated that "we are entering a world where credit is scarce and more expensive. Corporations must adjust to a world where even those with the strongest balance sheets cannot take access to capital for granted." They further indicated that "the capital pressure will remain intense for years to come." "*Navigating Troubled Waters: What the Credit Market Turmoil Means for Corporations*," Citigroup Global Markets, Inc., October 2008.

Q. But Staff contends that both Ameren and Ameren Missouri had sufficient liquidity available in December 2008 in that Ameren's 10-Q for that period showed $540 million was available to them under a credit facility. Did Ameren Missouri have sufficient credit available in the fall of 2008?

A. Not at all. $540 million in available liquidity is not adequate—especially when it is understood that (a) we had no idea how long the liquidity crisis would last, and (b) this credit facility was dedicated not just to the needs of Ameren Missouri, but also to the needs of Ameren and Ameren Energy Generating Company, Ameren's Illinois generating

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company. *

* Other factors which could have caused our liquidity to be exhausted sooner were extreme cold weather, reduced electricity load due to the recessionary economy, calls for collateral, or even normal working capital fluctuations. Adequate levels of liquidity must be maintained on a daily basis to allow us to manage expected and unexpected cash flow fluctuations in the interest of maintaining basic service at all times.

Q. What other risks faced the Company because of the financial turmoil and decreased credit availability?

A. Generally speaking, where there is stress on a company's liquidity and it is potentially unable to meet its day-to-day cash flow needs, the company will experience a loss of counterparty/supplier confidence, a ratings downgrade, and higher interest rates. In addition, a company in this situation poses a credit risk to counterparties for certain transactions (i.e., power, coal, or natural gas purchases), which could require additional significant collateral postings. If the threat of the inability to meet its day-to-day cash flow needs persists, it can result in the inability to meet its operational responsibilities—in the case of a public utility, that means its ability to provide service to its customers. And while a non-utility might have the option to curtail day-to-day operations in such circumstances, a public

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utility like Ameren Missouri has a statutory obligation to generate and deliver power to customers. It is thus even more critical for a public utility not to "take chances" in terms of running out of the cash needed to deliver utility service.

In 2008, Ameren was projected to spend $1.2 billion more than it took in and $1.3 billion more than it took in during 2009 – this reflects operating in a negative free cash flow situation, as I addressed earlier. Consequently, in the fall of 2008 an effort was made to identify options to balance cash inflows and outflows in light of the inability to access new sources of credit and the concern regarding the viability of the existing credit facilities. Strategies considered included reduction of inventories, deferral of payments, acceleration of receivables, alternative financing, reducing operating and capital spending to minimum levels, avoiding transactions requiring collateral, and the sale of non-core parts of the business.

Q. Did the Company take any steps in an attempt to increase its liquidity?

A. Yes. The entire utility industry, as well as most other industries, reduced near-term capital expenditures in order to preserve cash, and Ameren and Ameren Missouri were no different. In October 2008, Ameren and Ameren Missouri investigated ways to reduce capital expenditures, primarily by focusing on reductions in larger projects that could be made quickly, had minimal impact on employees, did not impact safety, would not result in the violation of any law or regulation, did not impact the actual delivery of utility service to customers, and involved heavy use of contractors. The Company first reviewed and categorized capital spending and major operations and maintenance (O&M) spending for the fourth quarter 2008 and for 2009 as mandatory or deferrable and then developed a contingency plan. Because of the market uncertainty and the need to increase liquidity—

particularly in light of a seasonal liquidity squeeze anticipated to occur in January 2009 – Ameren Missouri ordered in the fall of 2008 a reduction in capital expenditures classified as deferrable, which resulted in the deferral of all 2009 plant outages and plant upgrades, a delay in construction of the Sioux WFGD Projects (a delay of Ameren Energy Generating Company's Coffeen WFGD Project also occurred), a reduction in the undergrounding portion of the Power On initiative expenditures, the deferral of some fleet acquisitions, and deferral of certain Energy Delivery Technical Services capital projects. In all, Ameren Missouri put in place a plan to reduce its capital expenditures by approximately $420 million though 2009.

Q. What other strategies did Ameren and Ameren Missouri use to address the risks posed by the financial crisis?

A. *

* As shown by Chart 5 below, investment grade bond issuance in the fall of 2008

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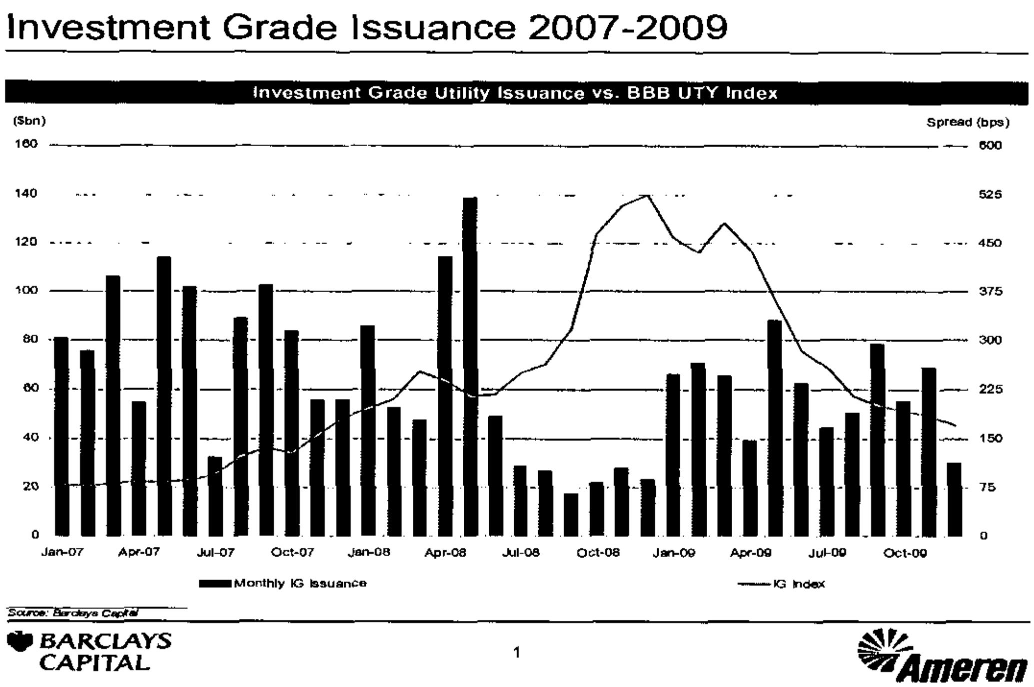
was well below historical levels and priced at credit spreads more typical of the junk bond market.

Chart 5



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Q. The decision to ramp back up construction on the Sioux WFGD Project was made in late January 2009. Had Ameren Missouri's financial situation improved so that the delay was no longer necessary?

A. At the time the decision to ramp the work back up was made, Ameren and Ameren Missouri had successfully taken steps to improve its liquidity position. In addition to the increased availability of cash resulting from the deferral of capital expenditures and certain O&M costs, Ameren was considering reducing its dividend in order to free up available cash. In early February 2009, Ameren's Board of Directors announced a 39% reduction in the Company's dividend, as well as a reduction in executive compensation in order to preserve cash. At that time, reduction of the annual dividend by $1 per share was expected to free up an extra $215 million of cash annually. Also at the time the decision was made, efforts were under way to raise cash through Ameren Missouri's issuance of $350 million of long-term debt, which ultimately occurred in March 2009. While this additional cash also improved the liquidity of Ameren Missouri at the time; obviously, its availability in March 2009 (and the availability of common equity to Ameren several months later in September 2009) was irrelevant to the decisions facing Ameren and Ameren Missouri in the fall of 2008—a point in time when it was unknown whether it could be accomplished or, if so, at what cost—despite the Staff's opinion otherwise.

Q. Was Ameren Missouri's decision to reduce its capital expenditures in the fall of 2008, including a reduction in the construction expenses for the Sioux WFGD Project, a prudent one?

A. Absolutely. Liquidity must be available on a daily basis in order for a company to operate, and this is particularly so for a public utility with an obligation to serve.

We could not risk running out of * *. The financial crisis was quite severe, and while Ameren Missouri was extremely fortunate that the doomsday scenario did not materialize, prudence required that the Company plan to address that risk to protect its customers who depend upon it for a reliable supply of power.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a AmerenUE for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in the Company's Missouri Service Area.	)))))	Case No. ER-2011-0028

AFFIDAVIT OF JERRE E. BIRDSONG

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

Jerre E. Birdsong, being first duly sworn on his oath, states:

1. My name is Jerre E. Birdsong. I work in the City of St. Louis, Missouri, and I am employed by Ameren Services Company as Vice President and Treasurer.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Ameren Missouri consisting of 19 pages, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

Jerre E Birdsong
Jerre E. Birdsong

Subscribed and sworn to before me this 25 day of March, 2011.

Amanda Tesdall
Notary Public

My commission expires:

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