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Witness:	Warner L. Baxter
Sponsoring Party:	Union Electric Company
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Case No.:	ER-2007-0002
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2007-0002

REBUTTAL TESTIMONY

OF

WARNER L. BAXTER

ON

BEHALF OF

**UNION ELECTRIC COMPANY
d/b/a AmerenUE**

**St. Louis, Missouri
January, 2007**

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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **WARNER L. BAXTER**

4 **CASE NO. ER-2007-0002**

5 **I. INTRODUCTION**

6 **Q. Please state your name, business address, and position.**

7 A. My name is Warner L. Baxter. My business address is One Ameren Plaza,
8 St. Louis, Missouri 63103. I am the President and Chief Executive Officer of Ameren
9 Services Company and the Chief Financial Officer of Ameren Corporation (“Ameren”)
10 and Union Electric Company d/b/a AmerenUE (“AmerenUE” or “Company”).

11 **Q. Have you previously submitted testimony in this proceeding?**

12 A. Yes. My direct testimony was submitted in July 2006.

13 **Q. What is the purpose of your rebuttal testimony?**

14 A. My testimony is in rebuttal to the direct testimony submitted on December
15 15, 2006, by a number of the parties in this case, including in rebuttal of the rate
16 reduction recommended by the Staff and other parties. In response to the various parties,
17 I will: (1) provide a perspective on AmerenUE’s rates and the Staff’s and State’s
18 proposed rate reductions; (2) explain, in general, the primary reasons for the large
19 disparity in the Company’s filing vs. that of the Staff and other parties; (3) address the
20 proposed treatment of 2006 storm restoration costs and emission allowance sales
21 revenues; (4) reiterate the Company’s commitment to hold customers harmless from the
22 loss of the Taum Sauk pumped storage plant as a result of this case; and (5) provide an
23 update to our position on employee incentive compensation in this rate case. Finally, I

1 will present an overview of the Company's rebuttal case reflected in the testimonies of
2 various Company witnesses we have filed today.

3 **II. AMERENUE'S RATES AND THE STAFF'S AND STATE'S PROPOSED**
4 **RATE CUT**

5
6 **Q. The Staff alleges that a rate cut of as much as \$168 million is**
7 **warranted and witnesses for the State of Missouri recommend a rate cut of \$53**
8 **million. What is your reaction to these proposals?**

9 **A.** I believe both the Staff's and the State's recommendations that
10 AmerenUE's rates should be reduced are inconsistent with the objectives of sound
11 regulatory policy, industry-wide cost and rate trends, and the evidence presented in this
12 case. I recognize that any rate increase is unpopular and that this is a complicated case
13 which is before the Commission at a very difficult time. However, I believe it is
14 important to step back and consider the relevant facts and context within which the
15 Staff's and State's rate cut recommendations have been made:

- 16 ▪ AmerenUE has been able to avoid a rate increase of any kind for nearly 20
17 years and, in fact, has consistently reduced its rates over that time period.
- 18 ▪ As shown on Schedule WLB-12, we have decreased rates even during the last
19 several years when the sharp industry-wide rise in costs has increased utility
20 rates virtually everywhere. Rates of other Missouri utilities (including
21 cooperative utilities as shown in Schedule WLB-8 of my direct testimony)
22 have been increasing as well. Schedule WLB-12 shows that the average rates
23 of the three other Missouri investor-owned utilities ("IOUs") have already
24 increased by approximately 13% since 2003, and another 22% rate increase
25 request by Aquila is currently pending.

- 1 ▪ AmerenUE's rates are already among the absolute lowest among utilities in
2 the entire country today. Should AmerenUE not receive a rate increase of any
3 kind, much less a rate decrease, its average retail rates in 2007 would be 37%
4 below the U.S. average, at least 24% below the average of non-restructured
5 states, at least 21% below the Midwestern states' average, and at least 16%
6 below the average of the other Missouri IOUs. Should Aquila receive a rate
7 increase of any kind in its pending case, the disparity between AmerenUE and
8 the other Missouri IOUs would even be greater.
- 9 ▪ In contrast, if the Staff's proposed \$168 million rate reduction were accepted
10 by the Commission, AmerenUE's average retail rates in 2007 would be 42%
11 below the U.S. average, at least 30% below the average of non-restructured
12 states, at least 27% below the Midwestern states' average, and at least 23%
13 below the average of the other Missouri IOUs (again, not counting an Aquila
14 rate increase).
- 15 ▪ Finally, as also shown in Schedule WLB-13, even if AmerenUE's rate
16 increase request of \$361 million were granted by the Commission in its
17 entirety, its rates would still be 26% below the U.S. average, at least 11%
18 below the average of non-restructured states, at least 7% below the average of
19 Midwestern states, and at least 2% below the average of the other Missouri
20 IOUs' rates. If Aquila's pending rate increase request were granted in its
21 entirety, our requested rates would still be 9% below the other Missouri IOUs
22 rates.

1 Simply put, these data are relevant and cannot be ignored – especially in
2 light of the fact that AmerenUE continues to face a number of key challenges, including:
3 (1) sharply increasing fuel and fuel transportation costs; (2) rising operating costs,
4 including medical and benefit costs for employees and retirees; (3) substantial increases
5 in the cost of equipment and materials; (4) the need to continue to make substantial
6 infrastructure investments (see Schedule WLB-10 of my direct testimony) to meet
7 growing customer demands and growing customer expectations for reliable service; (5) a
8 changing and volatile energy market place; (6) rising interest rates; (7) the difficulty of
9 maintaining and improving the performance of aging power plants and of meeting the
10 operational challenges posed by increasing environmental requirements; (8) the desire to
11 add renewable sources of generation; (9) investors’ higher return expectations due to
12 increasing operating risks; and (10) political and regulatory uncertainty and its effect on
13 investor expectations, credit quality, and the availability of the capital needed to support
14 an electric utility business today.

15 Sound regulatory policy requires that rates be set at a level that will allow
16 the Company to continue to invest in its energy infrastructure in order to provide safe,
17 adequate and reliable service, to earn a fair return on investment, to generate sufficient
18 cash flows to meet its operating needs, and to attract capital on reasonable terms. It is for
19 these reasons that the Company has requested its first rate increase in nearly two decades.
20 In the face of significant cost increases and investment requirements, among other things,
21 that have already increased the rates of many other utilities over the past few years, I
22 strongly believe it would be short-sighted to force further rate reductions or, for that
23 matter, to hold rates constant. Consequently, I believe adoption of the Staff’s and State’s

1 proposed rate cut for AmerenUE would constitute poor regulatory policy that would
2 strike at the very heart of the Company's financial health and its ability to continue to
3 provide reliable service at reasonable rates.

4 **Q. In his December 15, 2006 testimony, Missouri Industrial Energy**
5 **Consumers' (MIEC) witness Maurice Brubaker suggests that the Commission**
6 **ignore the fact that AmerenUE has not increased its rates in nearly 20 years, has cut**
7 **its rates several times, and has some of the lowest rates in the country. Mr.**
8 **Brubaker then claims that AmerenUE has earned high returns and stresses that its**
9 **rates today are roughly 35% higher than they were in 1980. How do you respond?**

10 A. It is noteworthy that neither Mr. Brubaker nor any other witness disputes
11 the fact that AmerenUE's rates are very low compared to the rates of other utilities in the
12 state, region and nationwide. (See Schedules WLB-12 and 13; similar charts were
13 attached to my direct testimony as WLB-1 and WLB-7). Rather, it appears Mr. Brubaker
14 simply recommends that the Commission ignore the fact that cost increases and
15 investment requirements have been increasing rates of utilities everywhere. The only
16 testimony Mr. Brubaker presents in response to these facts are (1) his claim that
17 AmerenUE earned high rates of return; (2) his suggestion that a comparison of the
18 Company's rates to rates of customers in other major metropolitan areas should not be
19 given any weight, and (3) his attempt to compare AmerenUE's current rates with rates in
20 1980.

21 With respect to the first point, I would like to note that I see nothing
22 wrong with a utility that is able to offer very low retail rates to its customers while
23 maintaining the financial strength to also offer competitive returns to its shareholders.

1 However, I do want to respond more directly to the misleading nature of Mr. Brubaker's
2 discussion of AmerenUE's return on pages 8 and 9 of his testimony, his Schedule 2, and
3 the work papers to that schedule which compare these earned returns with what Mr.
4 Brubaker calls the "authorized return." First, the earned return for AmerenUE listed by
5 Mr. Brubaker includes returns from various unregulated, below-the-line activities. If
6 these are excluded, AmerenUE's Missouri-jurisdictional earned ROE for 2005 was only
7 11.3%, which significantly exceeds what we expect AmerenUE's Missouri-jurisdictional
8 ROE for 2006 to be, and does not reflect the very significant cost increases occurring
9 since 2005 that justify the current rate increase request. Of the 65 non-restructured
10 utilities in Mr. Brubaker's sample, 17 have earned returns in excess of 12% and the
11 average 2005 return of the top half of all utilities was 12.6%.

12 In response to Mr. Brubaker's second point, it should be clear that by
13 serving one of the country's major metropolitan areas, AmerenUE faces additional costs,
14 including higher labor costs, higher taxes, and various costs associated with large
15 metropolitan areas. The fact that AmerenUE, despite facing these higher costs, has been
16 able to provide its service at the second-lowest rates of major metropolitan areas in the
17 U.S. (see Schedule WLB-2 of my direct testimony) is a testament to our great efforts and
18 efficiencies, which even Mr. Brubaker has acknowledged on page 6 of his direct
19 testimony.

20 Finally, with respect to the third point, I agree with Mr. Brubaker's
21 observation that AmerenUE's current rates are roughly 35% higher than they were in
22 1980. However, considering the sharp increase in utility investments following 1980,
23 including in AmerenUE's case, the completion of the Callaway Plant, Mr. Brubaker's

1 comparison only serves to emphasize just how low AmerenUE's rates are. In fact, as
2 shown in Schedule WLB-14, the modest overall increase in AmerenUE's rates over the
3 almost thirty years since 1980 compares extremely well to trends in other utilities' rates
4 and is far below the 1980-2006 inflation trends of other energy and consumer products.

5 **Q. Considering that a company's revenue requirement as determined by**
6 **the traditional regulatory process is not based on the rates of other utilities, why are**
7 **these rate comparisons important?**

8 A. Our case is not premised on the rates data and trends I have discussed in
9 my direct and rebuttal testimonies. Rather, our case is premised on compelling evidence
10 that reflects the true costs, investments and related returns we need to recover in order to
11 deliver safe and reliable service to our customers. However, as I already noted in my
12 direct testimony, a rate case is not merely an exercise of evaluating competing testimony
13 and briefs from attorneys, engineers, accountants and consultants, and mechanically
14 applying formulas to calculate rates. When testing the credibility of those who argue for
15 substantial cost disallowances and rate cuts, the Commission also needs to be mindful of
16 the overall effect of the decisions it makes when setting rates for the utilities under its
17 jurisdiction, as well as of the larger industry and regional context in which those
18 decisions are to be made. The Commission does not operate in a vacuum and
19 Commissioners don't have to leave their common sense at the door when they enter the
20 hearing room. This is where providing a perspective of how utility rates compare and
21 how they have trended over time is helpful.

22 The Company is very proud of its ability to become more efficient over
23 the years enabling the Company to keep its rates extremely low, even as costs have risen

1 dramatically. One needs only to review Schedules WLB-6, WLB-9, and WLB-10 of my
2 direct testimony and Schedule WLB-14 attached hereto to see that the cost of virtually
3 everything has gone up dramatically while the Company's electric rates have continued
4 to fall. However, efficiency gains cannot continue to force rates down in perpetuity. At
5 some point, and that point has now been reached, increasing operating costs and
6 investment needs necessitate rate increases.

7 Stated another way, the Commission must judge the credibility of the
8 positions taken by those who argue rates should be reduced even further, despite the
9 substantial cost increases and investment needs we are seeing and the current
10 environment where utility rate increases are being granted locally, regionally and
11 nationally. The credibility of those positions must also be checked against the fact that
12 even with the Company's requested rate increase in its entirety, the Company's rates will
13 still be the lowest in the state and very low relative to other utilities' rates.

14 To summarize, the Company's rate increase request is grounded upon
15 solid, compelling evidence presented by our witnesses in this case, is consistent with
16 industry-wide trends shown in Schedule WLB-12, and promotes sound regulatory policy.

17 **III. THE LARGE DISPARITY IN PROPOSED REVENUE REQUIREMENTS**

18 **Q. How can there be such a large disparity between Staff's and the**
19 **State's recommended revenue requirement levels and that recommended by the**
20 **Company?**

21 **A.** Based on the direct testimony filed by the Company and other parties to
22 the case, the disparity between the Company's rate increase request and the other parties'
23 rate decrease proposals are in excess of \$500 million. Over the course of this case, I
24 would estimate that hundreds of issues have been considered and discussed, thousands of

1 data requests responded to, and thousands of pages of testimony filed. Yet, when it is all
2 said and done, the vast majority of the discrepancy between the parties are driven by five
3 major issues: (1) the fundamentally different treatment of Electric Energy, Inc. (EEInc.);
4 (2) different approaches to setting depreciation rates; (3) various errors made in the
5 calculation of revenue requirements; (4) different estimates of off-system sales margins;
6 and (5) different recommendations for the allowed rate of return.

7 **Q. Please briefly address each of these five issues.**

8 A. With respect to EEInc., which is an unregulated generating company, what
9 is at issue is an improper attempt by Staff and the State – as well as OPC and The
10 Commercial Group (TCG)¹—to confiscate the financial benefits of AmerenUE’s below-
11 the-line shareholder investment in EEInc. stock. Stated bluntly, the Staff and the other
12 parties seek to improperly and unlawfully take shareholder monies from this unregulated
13 investment, and in the process they ignore a number of important facts, as discussed in
14 the rebuttal testimony of Michael L. Moehn. They also ignore the controlling law
15 relating to corporate governance, as discussed further in the rebuttal testimony of
16 Professor Robert C. Downs, and similarly ignore regulatory principles, as discussed
17 further in the rebuttal testimony of Former NARUC and MARC Chair David Svanda.

18 Depreciation is another area causing a substantial part of the disparity
19 between the Company and others. For example, the Staff and others unreasonably make
20 the implicit assumption that every one of the Company’s main generating units, which on
21 average are already between 30 and 50 years old, will last forever. As explained in the
22 rebuttal testimony of William M. Stout, P.E., the parties’ refusal to recognize that utility
23 plant must be depreciated using defined life spans leads to unreasonably low depreciation

¹ Whom I understand to essentially be made up of Wal-Mart and Lowe’s Stores.

1 expense recommendations by Staff, OPC and MIEC and are inconsistent with the
2 mainstream of U.S. regulatory policy.

3 The third area that explains the large discrepancy in recommended rate
4 levels are errors made in the various parties' determination of the AmerenUE revenue
5 requirement. However, based on preliminary discussions and agreements between the
6 parties, I anticipate that at least some of these errors will be corrected in the parties'
7 rebuttal and surrebuttal filings. These corrections should reduce the discrepancy that
8 exists in the parties' direct cases.

9 With regard to the different estimates associated with off-system sales
10 margins, the disparity between the parties lies in both the level of off-system sales and
11 related prices for those sales. AmerenUE witness Shawn E. Schukar addresses our
12 fundamental difference with the parties on this issue.

13 The last major issue between the Company and other parties relates to the
14 determination of an appropriate level of return on equity (ROE). This is an area of
15 dispute which is not foreign to the Commission and involves substantial sums.

16 **IV. STORM COSTS AND SO2 EMISSION ALLOWANCES**

17 **Q. How do you propose to address the significant storm restoration costs**
18 **that the Company experienced in July and November/December 2006 arising from**
19 **the severe storms that occurred after the end of the test year in this case?**

20 A. As the Commission is aware, on July 19 and July 21, 2006, the St. Louis
21 area experienced the worst summer storms in the Company's history, resulting in the
22 collapse of several buildings in town and extensive damage to properties, trees, and
23 AmerenUE's distribution facilities. From November 30 to December 1, 2006, the St.

1 Louis area experienced a severe ice storm, again with extensive property damage,
2 including damage to our distribution system. As the most recent January 12, 2007 ice
3 storm has also shown with respect to other utilities in Missouri and surrounding areas,
4 these types of severe storms result in lengthy power outages despite the utilities'
5 unwavering efforts to repair the distribution system and restore service as quickly as
6 possible. As AmerenUE witness Ronald C. Zdellar discusses in his rebuttal testimony,
7 these 2006 summer and winter storms were truly extraordinary events that imposed
8 considerable hardship on our customers and required extensive repair and restoration
9 efforts. Based on the most recent data available, we estimate that approximately
10 ****__**** million in total costs were incurred due to these severe storms in 2006.

11 Approximately ****__**** million of total costs from these storms reflect capital
12 investments made to restore the system. These capital investments will be reflected in
13 the Company's rate base update through January 1, 2007 to be completed as part of the
14 true-up in this case.

15 The approximately ****__**** million in remaining costs incurred are the operating
16 and maintenance (O&M) expenses arising from the storm restoration efforts. As stated
17 previously, these costs were clearly extraordinary. Based upon past Commission practice
18 (including the handling of costs for Kansas City Power & Light Company (KCPL) and
19 other Missouri utilities affected by the severe ice storms that hit Western Missouri in
20 2002), these costs are often recovered in rates from customers over a period of time.
21 While these extraordinary costs created a significant financial burden for the Company,
22 we recognize that the severe storms also created a hardship for many of our customers.
23 In an effort to address the cash flow needs of the Company, while mitigating the rate

1 impact of these storms on our customers, the Company proposes that the July and
2 November/December storm-related O&M expenditures be offset directly by the
3 approximately **____** million of SO2 allowances sales revenues that the Company was
4 able to realize during the second half of 2006. We believe such an approach is a win-win
5 for all stakeholders. If the approach is approved, the Company will not seek to recover
6 the approximately **____** million in O&M costs related to these storms from ratepayers
7 in this or any other rate case.

8 **Q. If the Commission does not adopt AmerenUE's proposal to use SO2**
9 **allowance revenues realized during the second half of 2006 as a direct offset to the**
10 **July and November/December 2006 storm-related O&M expenditures, how should**
11 **these storm-related O&M costs be recovered in rates?**

12 A. If the Commission does not adopt AmerenUE's proposed offset, these
13 costs should be recorded as a regulatory asset that should be recovered over a four-year
14 amortization period effective when rates to be set as a result of this case take effect. The
15 end of this four-year amortization period would coincide with the next rate case filing
16 that would be required under the Company's request for a fuel adjustment clause under
17 Senate Bill 179. Such amortization of storm-related O&M costs would be consistent with
18 the ratemaking treatment the Commission applied in other cases, such as the recovery of
19 storm damage costs allowed for Western Missouri utilities in the wake of the 2002 ice
20 storm, as noted above.

21 **Q. Could this approach of offsetting the storm-related O&M costs**
22 **through SO2 allowance revenues also be applied to restoration costs associated with**
23 **the January 12, 2007 ice storm?**

1 A. Yes. I believe given the similarly extraordinary nature of the most recent
2 ice storm, the proposed approach could also be considered for the 2007 storm costs.

3 **Q. Staff recommended that all SO2 allowance revenues realized after the**
4 **July 2005 start of its test year should be accumulated as a regulatory liability (*see***
5 **direct testimony of Staff witness John Cassidy at page 25) for the purpose of**
6 **offsetting the cost of the significant environmental capital investments that the**
7 **Company is facing at its generating plants in coming years. Is the creation of such a**
8 **regulatory liability a reasonable proposal?**

9 A. The creation of a regulatory liability has merit, but only on a going-
10 forward basis. Aside from the legal issues associated with retroactively moving
11 allowance revenues into the proposed regulatory liability, I strongly believe that using the
12 recent SO2 allowance revenues as an offset to storm-related O&M costs from the July
13 and November/December storms constitutes better regulatory policy. The direct offset of
14 nearly 100% of storm-related O&M costs with SO2 allowance revenues avoids rate
15 increases that would otherwise be needed to recover the extraordinary and very
16 significant O&M costs from these storms.

17 However, on a going-forward basis, AmerenUE supports the concept of
18 creating a regulatory liability for SO2 allowance sales revenues. This regulatory liability
19 would be held for the sole purpose of offsetting the cost of future capital investments
20 related to environmental compliance at the Company's generating plants. The proposal is
21 attractive not only because it avoids controversy over setting the proper base-rate amount
22 of SO2 allowance revenues, but also because it will help defray the rate impacts of the
23 large environmental-compliance-related capital expenditures faced by the Company (and

1 other utilities with coal-fired generation) in the near future. As stated in Ameren's 2006
2 Form 10-K, AmerenUE's environmental capital expenditure requirements are estimated
3 to range from \$365 million and \$505 million during the 2007 to 2010 period, with an
4 additional \$750 million to \$1.04 billion of investments required in the 2011 to 2016 time
5 frame. Of course, recent proposals related to carbon emission standards could
6 significantly increase these expenditure levels in the future. However, should any SO2
7 allowance revenues be reflected in base rates (a position the Company does not support in
8 the context of this proposal), then only the SO2 allowance sales revenues above these
9 base rate amounts should be reflected in the regulatory liability.

10 **Q. Instead of using allowance revenues to defray the cost of upcoming**
11 **environmental compliance investments, OPC witness Ryan Kind and State witness**
12 **Michael Brosch are recommending that \$16 to \$20 million in average annual SO2**
13 **allowance revenues be credited against the Company's revenue requirement. Is this**
14 **a reasonable proposal?**

15 **A.** No. I believe the proposal to use that level of SO2 allowance revenues as
16 a reduction of normalized test-year revenue requirement constitutes poor regulatory
17 policy for several reasons. First, as addressed in more detail in the rebuttal testimony of
18 AmerenUE witness James C. Moore II, past sales of SO2 allowances have varied greatly,
19 and given recent changes in environmental regulations now in effect, the level of
20 allowance sales at any particular point in the past, both in terms of the number of
21 allowances sold and the prices that could be realized, is a poor indicator of allowance sales
22 levels that may occur in the future.

1 Second, the inclusion of a \$16 to \$20 million allowance offset in rates as
2 proposed by Messrs. Kind and Brosch constitutes poor regulatory policy because it will
3 mean that for AmerenUE to recover its expected costs on a going forward basis
4 AmerenUE would, on average, have to sell \$16 to \$20 million worth of SO2 allowances
5 each year. This need to sell a substantial amount of SO2 allowances may not be
6 consistent with environmental compliance planning or in the long-term interest of
7 AmerenUE's customers.

8 Finally, the OPC's and State's proposals could also cause unnecessary rate
9 changes by initially reducing rates through SO2 allowance revenue credits even though
10 substantial environmental compliance investments with sizeable rate impacts are on the
11 immediate horizon. The Staff's proposal to create a regulatory liability to help finance
12 these investments makes inherently more sense and will serve to reduce these
13 environmental compliance-related rate fluctuations. As stated above, AmerenUE
14 supports use of a regulatory liability on a going-forward basis. With respect to SO2
15 allowance revenues realized in the second half of 2006, I believe a better regulatory
16 policy is to use them as a nearly 100% offset to the extraordinary July and
17 November/December storm-related O&M expenditures that the Company incurred in
18 2006.

19 **V. TAUM SAUK**

20 **Q. In his December 15, 2006 testimony on behalf of the State, Mr. Brosch**
21 **raised the concern that it would be difficult to ensure that customers are held**
22 **harmless from the loss of the Taum Sauk pumped storage plant. Is AmerenUE still**

1 committed to hold its customers harmless and how does the Company propose to
2 implement that commitment?

3 A. AmerenUE is absolutely committed to its promise to hold its customers
4 harmless from the effects of Taum Sauk in this rate case. Mr. Brosch seems to be
5 particularly concerned about the possibility that the implementation of a fuel adjustment
6 clause could interfere with our commitment. However, as we will explain in the
7 February 5, 2007 filing of AmerenUE's rebuttal case addressing the December 29, 2006
8 testimonies on fuel adjustment clause issues, his concern is unwarranted: AmerenUE's
9 proposed fuel adjustment clause is designed to ensure customers receive the benefit of
10 any appropriate adjustments, including Taum Sauk-related adjustments. We will also
11 explain in more detail in our February 5 fuel adjustment clause rebuttal filing how the
12 hold harmless value associated with Taum Sauk will be determined.

13 **VI. EMPLOYEE INCENTIVE COMPENSATION**

14 **Q. The Staff proposes to disallow 100% of the Company's test year**
15 **employee incentive compensation costs. How do you respond?**

16 A. As a general principle, I disagree with the Staff's rationale to disallow
17 employee incentive compensation costs. I believe these costs should generally qualify
18 for recovery in utility rates. However, the Company has decided to remove the issue of
19 employee incentive compensation from this case by accepting, for purposes of this
20 particular case, the Staff's proposal to remove all test-year incentive compensation costs
21 from revenue requirement.

1 **VII. OVERVIEW OF REBUTTAL TESTIMONY**

2 **Q. You have already referenced the testimonies of several AmerenUE**
3 **rebuttal witnesses. Please present an overview of the subject matters covered in the**
4 **rebuttal testimonies filed by the various Company witnesses.**

5 **A.** In addition to my rebuttal testimony, the Company is filing rebuttal
6 testimonies by the following witnesses:

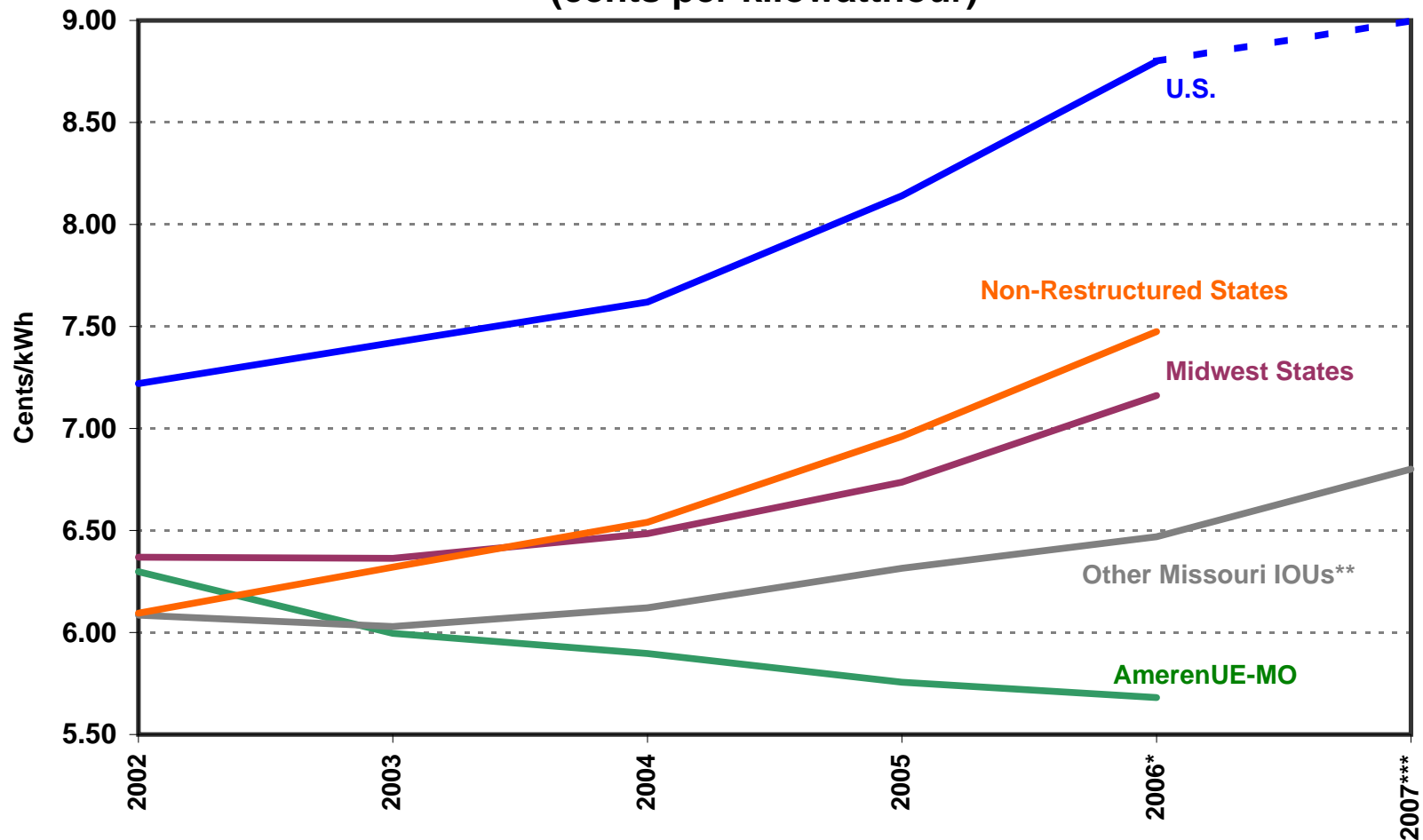
- 7 • **David A. Svanda** – Mr. Svanda addresses his concerns, as a matter of
8 regulatory principles, relating to the attempts of Staff and other parties in
9 this case to confiscate the financial benefits of the unregulated, below-the-
10 line investment in EEInc. by AmerenUE shareholders.
- 11 • **Professor Robert C. Downs** – Professor Downs explains why the
12 position of the Company’s opponents respecting EEInc. is unlawful under
13 controlling principles of corporate governance law.
- 14 • **Michael L. Moehn** – Mr. Moehn addresses the apparent
15 misunderstanding about, or disregard of, the facts relating to the
16 Company’s below-the-line investment in EEInc. and relating to the
17 Company’s now-expired purchase power agreement with EEInc.
- 18 • **William M. Stout, P.E.** – Mr. Stout demonstrates several important
19 principles of depreciation policy.
- 20 • **John F. Wiedmayer** – Mr. Wiedmayer will testify in support of the
21 Company’s depreciation rates.

- 1 • **Kathleen C. McShane** – Ms. McShane will address why the ROE
2 recommendations filed by Staff and other parties’ witnesses are
3 insufficient.
- 4 • **Professor James H. Vander Weide** – Professor Vander Weide will also
5 address the inadequacy of Staff and other parties’ ROE recommendations.
- 6 • **Shawn E. Schukar** – Mr. Schukar explains why the estimated normalized
7 market prices for wholesale power sponsored by Staff witness Dr. Michael
8 S. Proctor and various intervenor witnesses are overstated, which results in
9 significantly overstated estimates of test-year off-system-sales revenues.
10 Mr. Schukar also responds to certain intervenors’ direct testimonies
11 related to the sharing of off-system sales margins.
- 12 • **Timothy D. Finnell** – Mr. Finnell identifies a number of mistakes and
13 unreasonable assumptions contained in Staff’s production cost modeling
14 effort, which have a significant effect on estimated test-year fuel costs and
15 off-system sales margins as reflected in the revenue requirement under
16 consideration in this case.
- 17 • **Gary S. Weiss** –Mr. Weiss responds to testimony on a number of
18 miscellaneous revenue requirement issues.
- 19 • **Ronald C. Zdellar** – Mr. Zdellar will address various operational and
20 factual issues related to storm restoration efforts and costs, as well as
21 service and reliability issues.
- 22 • **Robert K. Neff** – Mr. Neff will respond to certain issues related to fuel
23 and fuel transportation costs.

- 1 • **Richard A. Voytas** – Mr. Voytas addresses unreasonable rate base
2 adjustments proposed by Staff, OPC and the State relating to the
3 Pinckneyville and Kinmundy combustion turbines and inappropriate rate
4 base adjustments proposed by OPC relating to the Company’s Penno Creek
5 combustion turbines.
- 6 • **Charles D. Naslund** – Mr. Naslund explains why it is inappropriate to
7 make the premature assumption today, as advocated by certain other
8 parties, that the Callaway Plant’s operating license, which expires in 2024,
9 in fact, will or can be extended for an additional 20 years.
- 10 • **Randall J. Irwin** – Mr. Irwin addresses certain issues intervenors have
11 raised about nuclear fuel costs.
- 12 • **Alan Rutz** addresses Callaway operating and maintenance costs.
- 13 • **Mark C. Birk** – Mr. Birk provides retirement dates for AmerenUE’s
14 fossil plants in response to Staff’s and certain intervenors’ depreciation
15 testimonies.
- 16 • **Chuck Mannix** – Mr. Mannix addresses certain tax issues raised in the
17 December 15, 2006 filings.
- 18 • **Michael Adams** – Mr. Adams responds to testimonies on cash working
19 capital.
- 20 • **Wilbon C. Cooper** – Mr. Cooper addresses Staff’s customer growth
21 adjustment, and explains problems with Staff’s use of kWh sales on load
22 research data.

- 1 • **James C. Moore, II** – Mr. Moore’s rebuttal testimony addresses SO2
- 2 allowance sales issues raised by Staff, State, and OPC witnesses.
- 3 **Q. Does this conclude your rebuttal testimony?**
- 4 **A. Yes, it does.**

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



Source: DOE/EIA.

* U.S. based on 2006 annual DOE data; rest based on rates in effect for twelve months ending October 2006.

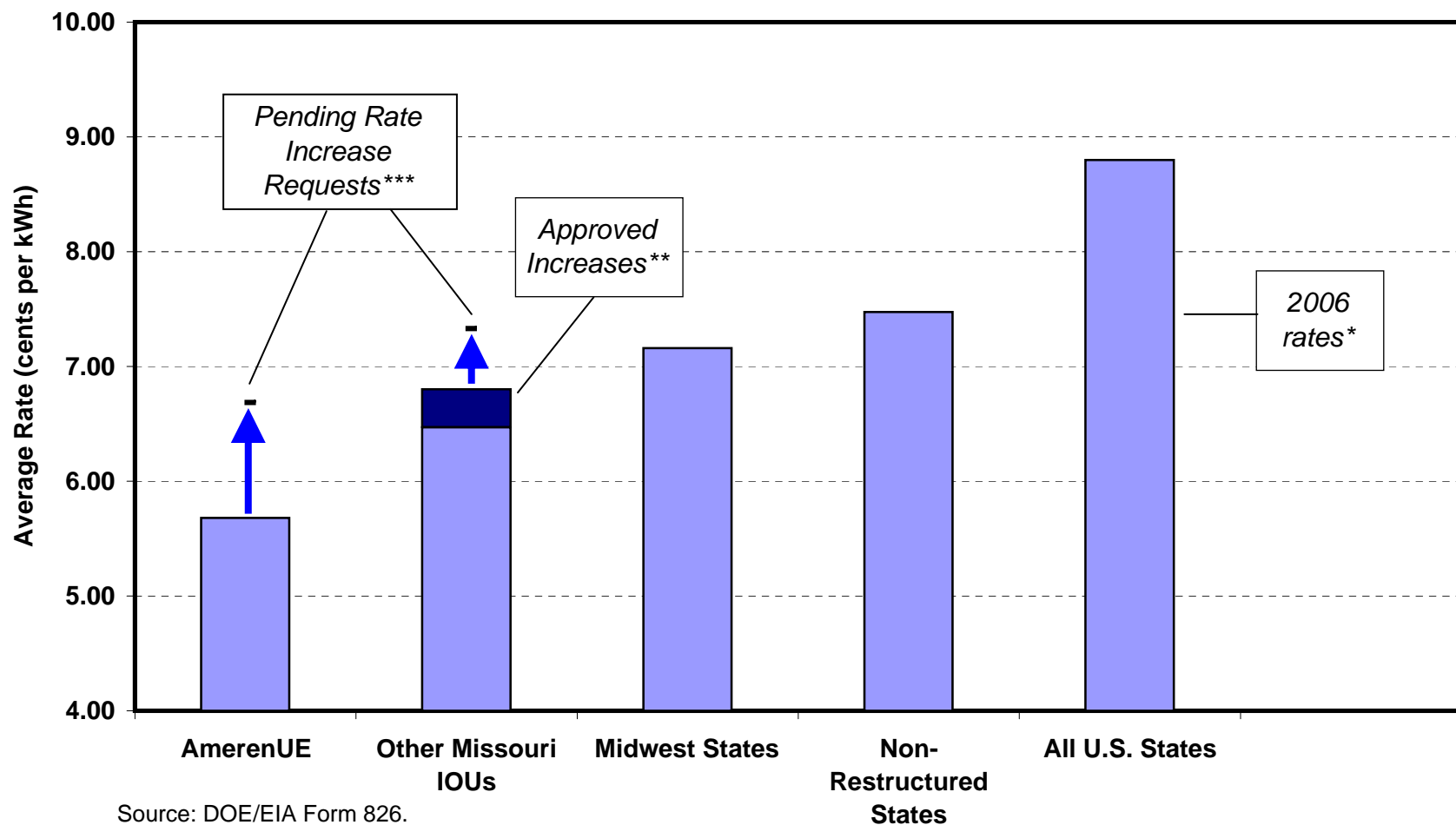
** Other Missouri IOUs are Aquila, Empire District Electric, and Kansas City Power & Light.

*** In 2007, U.S. rate based on DOE forecast. Other Missouri IOU 2007 rates reflect recently approved rate increases for Empire and Kansas City Power & Light, but not Aquila's pending 22% rate increase request.

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

Midwest states based on Census Region definitions. Retail customers include residential, commercial, and industrial customers.

AmerenUE Average Retail Rates with Requested Increase Compared to Other Utilities



Source: DOE/EIA Form 826.

* U.S. based on 2006 annual DOE data; rest based on rates in effect for twelve months ending October 2006.

** Rate increases recently approved for Empire District Electric and Kansas City Power & Light.

*** Arrows reflect initially-requested increases by AmerenUE and Aquila in their 2006 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.

1980-2006 Changes in Electric Rates & Consumer Prices

Consumer Prices:

All Consumer Products

Medical Care

Consumer Energy Products:

Gasoline

Natural Gas

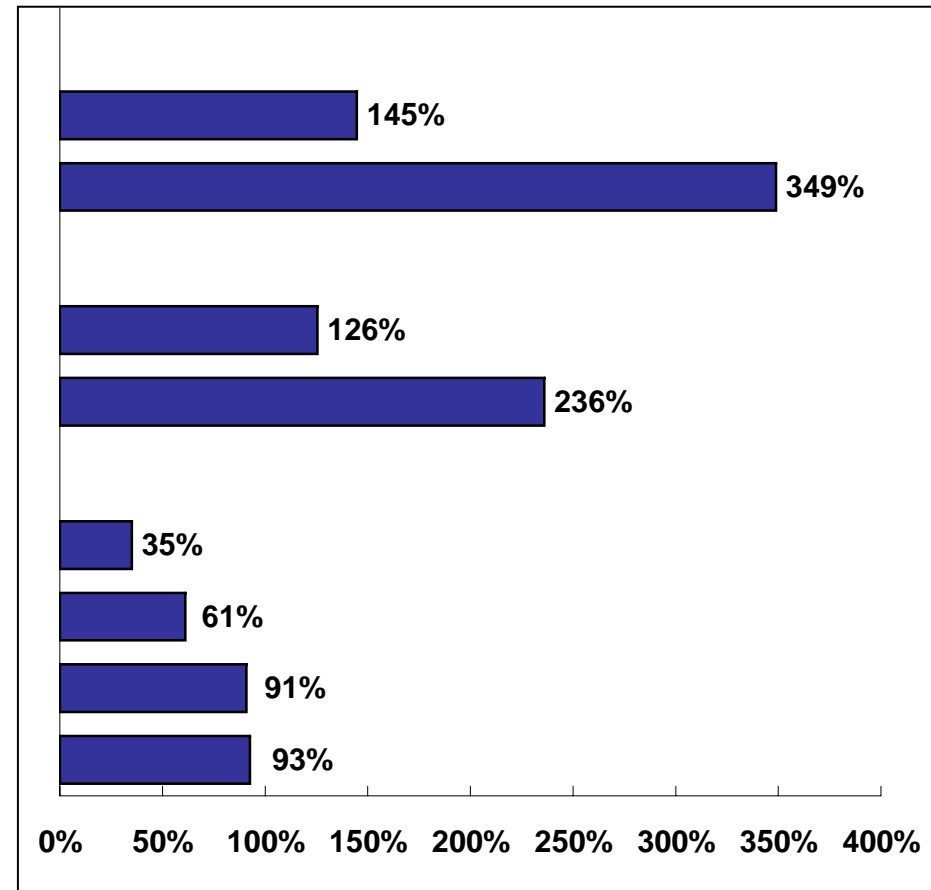
Electricity Rates (Residential):

AmerenUE-MO

Midwest States

Non-Restructured States

US



Sources and Notes:

Consumer prices based on Bureau of Labor Statistics (BLS) CPI indices.

Consumer energy prices based on BLS average prices.

Non-Restructured and Midwest Electricity Rates based on EIA Form 826 and EIA 861

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

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

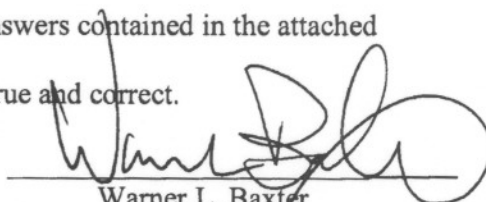
In the Matter of Union Electric Company)	
d/b/a AmerenUE for Authority to File)	
Tariffs Increasing Rates for Electric)	Case No. ER-2007-0002
Service Provided to Customers in the)	
Company's Missouri Service Area.)	

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 St. Louis, Missouri and I am employed by Ameren Services Company as President and Chief Executive Officer.
2. Attached hereto and made a part hereof for all purposes is my rebuttal Testimony on behalf of Union Electric Company d/b/a AmerenUE consisting of 20 pages and Schedules WLB-12 through WLB-14, which has 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 30th day of January, 2007.



Notary Public

My commission expires: July 21, 2009

