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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2012-0166

DIRECT TESTIMONY

OF

WARNER L. BAXTER

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a Ameren Missouri

St. Louis, Missouri
February, 2012

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DIRECT TESTIMONY

OF

WARNER L. BAXTER

CASE NO. ER-2012-0166

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Warner L. Baxter. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri.

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

A. I am employed by Union Electric Company d/b/a Ameren Missouri ("Company" or "Ameren Missouri") as President and Chief Executive Officer. I have held that position since May 1, 2009.

Q. Please describe your educational background and employment experience.

A. I graduated from the University of Missouri-St. Louis in 1983 with a Bachelor of Science degree with a major in Accounting and later passed the Certified Public Accountant examination. I am also a member of the Missouri Society of Certified Public Accountants.

I joined Union Electric Company in 1995, first as the Assistant Controller. I have received several promotions since that time. In 1996, I became the Controller of Union Electric Company, and was then promoted to Vice President and Controller of Ameren Corporation ("Ameren") and AmerenUE[1] in May 1998. In 1999, I was appointed to the

[1] AmerenUE is a d/b/a under which Union Electric Company formerly conducted its business. As noted earlier, Union Electric Company now conducts its business using the d/b/a "Ameren Missouri."

AmerenUE Board of Directors and I continue to serve as an Ameren Missouri director. I was elected Senior Vice President-Finance of Ameren and AmerenUE in 2001. In October of 2003, I was also named Executive Vice President and Chief Financial Officer of Ameren Corporation and AmerenUE. In addition to my finance duties, I oversaw corporate planning in this role. On July 1, 2007, I was named President and Chief Executive Officer of Business and Corporate Services, and I also retained my responsibilities as Chief Financial Officer. In this role, I was responsible for the oversight of many administrative functions, including strategic planning, business risk management, environmental compliance, fuels, and information technology, in addition to my finance duties. On May 1, 2009, I was named President and Chief Executive Officer of Ameren Missouri, where I am responsible for all the operating, regulatory, strategic, and other business-related functions for the Company.

Prior to my employment at Union Electric Company in 1995, I was a Senior Manager for Price Waterhouse LLP (now PricewaterhouseCoopers LLP) in Price Waterhouse's St. Louis and New York City offices. My principal responsibilities at Price Waterhouse included supervising audit and consulting services provided to clients (including Union Electric Company) in the public utility and manufacturing industries, among others. In addition, I authored various sections of Price Waterhouse's annual Survey of Financial Reporting and Industry Developments for the public utility industry. I was a member of Price Waterhouse's National Public Utilities Industry Services Group and their National Accounting and SEC Services Department.

I formerly served as Chairman of the executive committee of the chief accounting officers of Edison Electric Institute member companies. I currently serve on the Nuclear

Energy Institute Board of Directors, the National Academy for Nuclear Training Accrediting Board, the Chancellor's Council of the University of Missouri-St. Louis, as a member of the St. Louis Community Board of Directors of UMB Bank, as a member of the Board of Trustees of the Wyman Center, Chairman of CEOs Against Cancer for the American Cancer Society, as a member of the Gateway Leadership Foundation Board, and as a member of the Missouri 100 of the University of Missouri.

II. PURPOSE AND SUMMARY OF TESTIMONY

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

A. The purpose of my testimony is to:

(a) Provide the Missouri Public Service Commission ("Commission") with an overview of Ameren Missouri's operations;

(b) Provide the Commission with a summary of our request;

(c) Explain the key drivers of our request;

(d) Provide important perspective surrounding our past rate increase requests;

(e) Describe the Company's ongoing and concerted efforts to control its costs and to manage its business efficiently for the benefit of its customers;

(f) Provide information about programs Ameren Missouri has initiated to assist customers in meeting their energy needs;

(g) Outline some of the primary challenges facing Ameren Missouri in its efforts to continue to provide the level of service our customers expect;

(h) Explain how granting the relief requested in this case is essential to enabling the Company to continue to deliver safe, reliable service to its customers and to

otherwise meet customer expectations over the long run, as well as to maintain its financial health; and

(i) Provide a list of the other Ameren Missouri witnesses that are filing direct testimony in this case and the topics each witness will address.

III. OVERVIEW OF CASE

Q. Please provide a description of the Company's operations.

A. Ameren Missouri is an integrated electric utility operating across a wide and diverse service territory, primarily in the eastern half of Missouri, but also in northern Missouri, southeast Missouri and in limited areas of northwest Missouri. Ameren Missouri also operates a smaller gas utility in central Missouri. The Company's electric service territory contains several Missouri cities, including the City of St. Louis and the municipalities in St. Louis County. Ameren Missouri owns and operates four large base load coal-fired generating plants with a combined generating capacity of approximately 5,500 megawatts ("MW"). Those plants are the Labadie, Rush Island, Sioux and Meramec Energy Centers, all which are located in eastern Missouri in or near St. Louis County. The Company also owns and operates the Callaway Nuclear Energy Center, located near Fulton, Missouri. The Callaway Energy Center has a generating capacity of approximately 1,200 MW. The Company also owns and operates 44 combustion turbine generator ("CTG") units, most of which are fired by natural gas, and which are located at 15 different plant sites in Missouri and Illinois. The combined generating capacity of these CTG units is just over 3,000 MW. Finally, the Company operates the Osage, Keokuk and Taum Sauk Hydroelectric Energy Centers, which have a combined generating capacity of approximately 810 MW.

Ameren Missouri serves approximately 1.2 million retail electric customers in Missouri, more than 1 million of which are residential customers. These customers are located in approximately 500 communities in 61 of Missouri's counties. Ameren Missouri's service territory is large (approximately 24,000 square miles) and diverse, ranging from the large urban areas in and around St. Louis to mid-sized communities, such as Cape Girardeau and Jefferson City, to small towns, like Irondale and Pilot Grove.

In addition to operating and maintaining the approximately 10,500 MW of generating capacity needed to serve its customers, the Company operates and maintains approximately 33,000 miles of distribution lines, approximately 650 distribution substations, and approximately 2,900 miles of transmission lines, all of which are necessary to serve its customers located across its wide service territory.

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

Q. Please summarize the relief Ameren Missouri is seeking in this case.

A. We are seeking a total increase in our revenue requirement of approximately $376 million, which represents a 14.6% increase in rates. Significant factors driving our need for a rate increase are (a) increases in net fuel costs needed to serve our customers, including coal costs and coal transportation costs, as well as

decreases in off-system sales revenues due to lower power prices (reflecting approximately $103 million of the total increase); (b) the significant investments we have made and continue to make in the infrastructure needed to provide safe, reliable service, as well as to meet legislative mandates, including environmental and renewable laws (approximately $85 million); (c) the need to reflect in rates the costs of the significantly expanded energy efficiency programs the Company has proposed (approximately $81 million); (d) the impact of the reduction of normalized revenues the Company is experiencing due to a continuing decline in electricity demand from our customers (approximately $31 million); (e) higher pension/OPEB and medical costs (approximately $24 million); and (f) higher operating and other costs.

Also, the Company is proposing some additional regulatory mechanisms that will provide it with a better opportunity to obtain full and timely recovery of the costs it incurs to provide safe and reliable service to its customers, and help reduce the barriers to investment that currently exist. Specifically, the Company is proposing a two-way storm restoration cost tracker which will provide it with the opportunity to obtain recovery of the full cost of responding to major storms; "Plant-In-Service Accounting," which will permit it the opportunity to fully recover a return on and a return of its prudently incurred investments in new assets placed in service to meet customers' needs between rate cases by allowing deferral of those costs on the Company's books until the Company can seek to include them in its rate base in a subsequent rate case; and energy efficiency cost recovery, which will permit the Company to recover its full costs associated with pursuing aggressive energy efficiency measures. We are also proposing to continue our

previously approved fuel adjustment clause, vegetation management and infrastructure inspection tracker, pension/OPEB tracker and FIN 48 tracker.

Q. Since 2006, the Company has received four base rate increases and now it is seeking yet another increase. Why are all these rate increases needed?

A. It is true that the Company has been granted a total of $608 million in electric base rate increases from 2007 through 2011 and is seeking an additional customer rate increase that will be effective next year. These increases have provided funds necessary for us to meet our operating requirements and make important investments to meet our customers' expectations for safe, reliable service. These investments are delivering value to our customers and the entire State of Missouri at a price that is among the lowest in the nation.

Q. Please explain.

A. In order to put our recent rate increases and our current rate increase request in perspective, it is important to understand the primary drivers for our rate increases during this period – rising net fuel costs (including transportation), rising costs of operations, and the significant amount of investments we have made in our energy infrastructure to meet our customer's needs and expectations, as well as to meet regulatory and legislative requirements. From 2007 to 2011, our electric base rates have reflected significant increases in our net fuel costs, which we "rebase" each time a rate case is filed. For example, just since 2009 our net fuel costs have risen by approximately $170 million. Rising commodity prices for coal and the fuel consumed in transporting our low sulfur coal from the Powder River Basin in Wyoming, and lower energy prices associated with our off-system sales, are key contributors to these increases. Net fuel

costs continue to rise, and as I noted earlier, approximately $103 million of the increase in our electric rates we are seeking in this case consists of these higher net fuel costs. Receiving funds in a timely fashion through rates to cover these costs is critical to our operations.

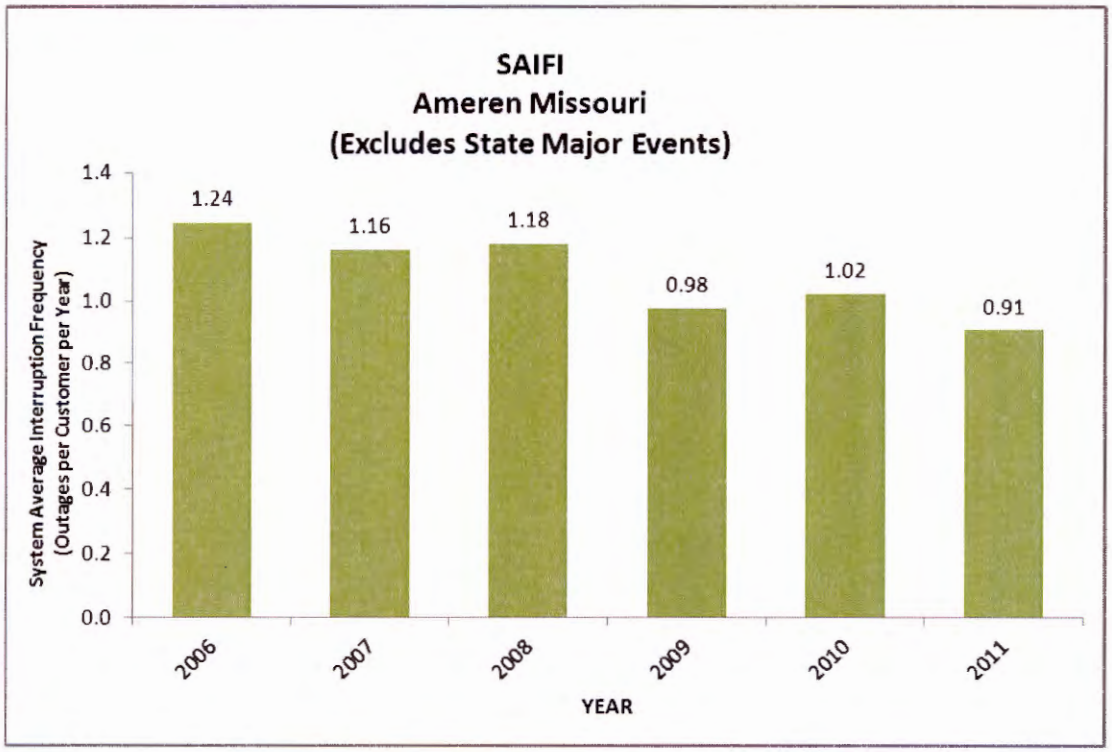
In addition, we face rising operating costs in many areas. Persistent inflationary pressure affects our labor costs, our employee benefit costs, the cost of materials and equipment, and virtually all of our other expenses. In addition, during this period of time, regulatory requirements associated with vegetation management (i.e., tree trimming) to improve the reliability of our system increased significantly.

Our investments in our energy infrastructure have been significant as well. From 2007 to 2011, our capital investments in energy infrastructure were approximately $3.2 billion. Our past rate increases and our current request are necessary to provide important cash flows to meet our energy infrastructure needs for several reasons. First, they are necessary to enable us to address our Company's steadily aging infrastructure. Large portions of our distribution and generation systems that were built out in the 1950's and '60's to serve suburban expansion and new air conditioning loads are comprised of equipment and facilities that are at or nearing the end of their useful lives. As a consequence, like other electric utilities across the country, we have faced and continue to face a bow wave of investment to replace these facilities that simply cannot be avoided or postponed indefinitely. Second, increasingly stringent federal environmental regulations have required and continue to require the Company to make other types of investments in its system and to incur incremental operations and maintenance expenditures necessary to meet these requirements. For example, in our last rate case, we

placed the nearly $600 million Sioux scrubber in service, which has significantly reduced emissions from the Sioux plant, and improved the quality of the air in our service territory. In this case, we expect to place the new Maryland Heights landfill gas plant in service to help meet the state's renewable energy mandates. There also continue to be efforts at the federal level to further increase environmental requirements for air quality, ash and water, which we expect to become final in the next year or two and which continue to require increases in the costs the Company must incur to meet these ever-more-stringent regulations. Third, funds are needed to finance system improvements necessary to meet increasing customer expectations. Our customers expect extremely reliable service and we have made investments in our system infrastructure and storm response capability to meet those expectations, including utilizing "smart grid" technologies where feasible to improve reliability.

Q. Are the Company's investments in its infrastructure producing tangible results for customers?

A. Absolutely. The Company has made every effort to be a good steward of the monies it has been provided to the benefit of our customers. For example, our steady investment in infrastructure has resulted in measurable reliability improvements since 2006 as reflected in the chart below, which shows the average outages per customer per year. As you can see, our reliability has improved nearly 27% since 2006. Further, we expect our 2011 average outages per customer per year to be in the top quartile in the electric industry and it reflects the lowest level we have achieved in recent history.



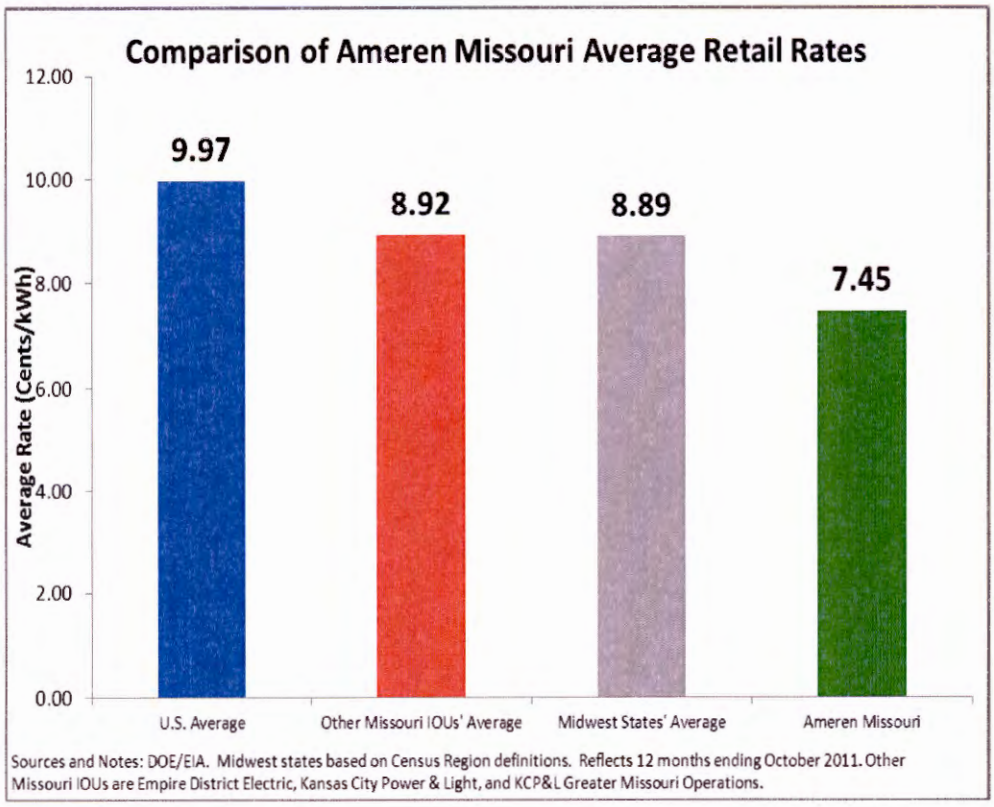
We have also invested in enhanced storm response capability, which has materially improved our ability to quickly restore service to customers following storms, an aspect of our service which is critically important to customers. Just last year, we responded to two significant tornadoes in the St. Louis area. Despite the extensive damage, virtually all of our customers' power was restored in a few days, and we were able to restore service to the St. Louis airport, which suffered extensive damage, within 24 hours.

As I previously mentioned, we have also made considerable investments in environmental infrastructure, most notably the Sioux scrubbers, which are significantly reducing emissions for the benefit of our customers and the public as a whole. In fact, sulfur dioxide emissions from our coal plants have been reduced by 27% since 2006. And finally, we have invested in our generating facilities to improve reliability. At the end of 2011, our fossil plant fleet's equivalent availability improved to 89%, which

compares favorably to other fossil fleets. Moreover, in 2012 our Labadie Energy Center, the Company's largest plant, received Navigant's Operational Excellence Award in the large coal plant category. This award is presented annually to the North American coal plant that has demonstrated excellence in cost-efficient and reliable plant performance over the preceding five-year period.

Q. After four rate increases in the recent past, and another rate increase proposed in this case, are Ameren Missouri's rates out of sync with electric rates in the rest of the country?

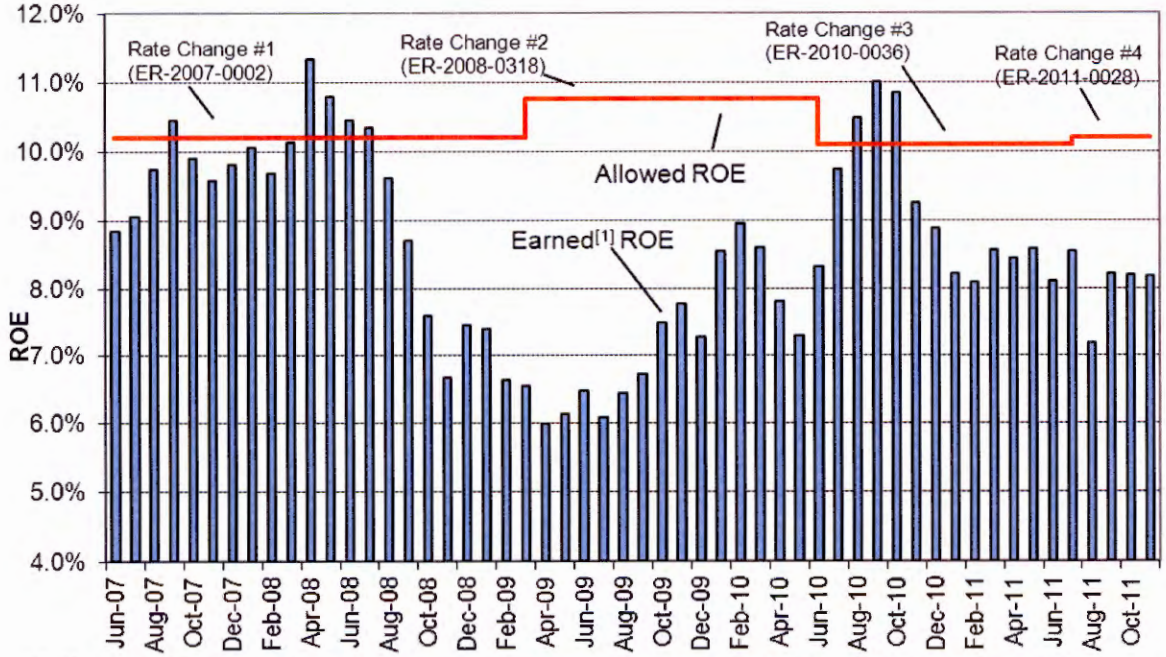
A. Yes, but in a positive way. Despite the four prior base rate increases and net fuel cost recoveries through our fuel adjustment clause, our rates continue to be among the lowest in the nation. Based on the most current data available at the time of this filing, as reflected in the chart below, Ameren Missouri's retail rates are approximately 25% below the national average, well below the Midwest average, and the lowest among all investor-owned utilities in the state.



Q. Have the rate increases that Ameren Missouri has been granted in recent years allowed the Company to earn excessive profits?

A. Not at all. As the chart below shows, since 2006, on a twelve-month rolling basis, Ameren Missouri has earned below the return that this Commission itself indicated was a fair return to earn in 46 out of 54 months—or nearly 85% of the time. In many months it has earned far below its authorized return.

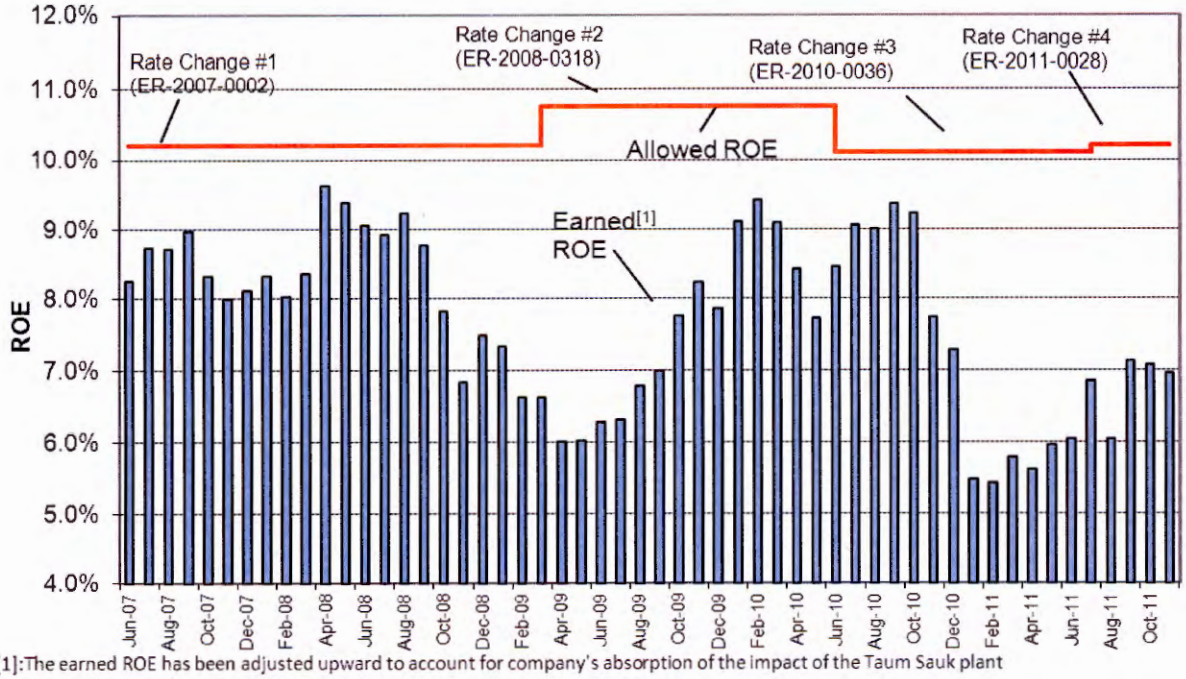
Comparison of Ameren Missouri Earned[1] ROEs and Allowed ROEs
Reflects Four Rate Changes - *Not* Weather-Normalized



[1]: The earned ROE has been adjusted upward to account for company's absorption of the impact of the Taum Sauk plant being out-of-service from Dec. 2005 to April 2010.

On a weather normalized basis, the Company's under-earnings would be even more striking. As shown in the chart below the Company would ***never*** have earned its authorized return over this entire 54-month period, if it had experienced normal weather.

Comparison of Ameren Missouri Earned[1] ROEs and Allowed ROEs
Reflects Four Rate Changes - *Weather-Normalized*



[1]:The earned ROE has been adjusted upward to account for company's absorption of the impact of the Taum Sauk plant being out-of-service from Dec. 2005 to April 2010.

There are several factors which are driving this result, the most notable of which is the excessive regulatory lag inherent in the Missouri regulatory framework for our operating costs and investments. I will discuss this important issue later in my testimony.

Q. Are you concerned about the impact of this rate increase request on Ameren Missouri's customers?

A. Yes I am. Particularly in these difficult economic times, a rate increase presents a serious challenge to some of our customers. In the past, I have attended numerous local public hearings, and I am fully aware of the significant impact that rate increases can have, particularly on our most vulnerable customers. In recognition of this, we have made a concerted effort to control the costs that can be controlled for the benefit of our customers, yet still ensure that we are able to deliver safe, reliable service. Since

the 2008 financial crisis and subsequent economic recession, we have reduced our non-fuel expenditures each year in spite of inflation. In 2011, our expenditures were in excess of $300 million less than those in 2008. In addition, we recently reduced our staffing levels at Ameren Missouri and Ameren Services by 340 employees as part of a voluntary separation plan at the end of 2011. As of January 1, 2012, our employee headcount has fallen to approximately 4,000 employees, a reduction of 9% since the end of 2009. The bottom line is that we have implemented disciplined cost control measures in every area of our business. Like everyone else, we are tightening our belts and we are doing more with less to minimize the level of rate increases for our customers.

Q. Does the Company sponsor any programs to assist customers who have difficulty paying their bills?

A. Yes. Ameren Missouri has for many years sponsored numerous programs which assist customers least able to afford higher energy costs. These programs include the Dollar More Program, which provides direct payment of energy bills for low-income customers, our low-income weatherization program, and our air conditioner give-away program. We have also provided energy assistance to military families and not-for-profit organizations. Just recently, we have committed that we will provide an additional $2 million of energy assistance to low-income families. In addition, in this case we are proposing to continue the Keeping Current Program, in which the Company and its customers share the cost of longer-term bill paying assistance for low-income customers. Finally, Ameren Missouri provides substantial support to low-income customers through contributions to local charities through the United Way, and directly to such charities as the Salvation Army. These programs help our most vulnerable customers cope with the

challenges posed by rising energy costs. All of these programs are entirely funded by Ameren shareholders with the exception of Keeping Current, whose costs are shared by shareholders and ratepayers.

Q. You mentioned earlier that you would address challenges facing the Company. Please elaborate.

A. Our Company has been able to manage many challenges over the past several years, including the financial crisis in 2008, an economic recession, storm restorations, and the design and completion of several major construction projects. Despite these challenges, we have continued to deliver safe and reliable service to our customers at low rates. As I look ahead, there are several key challenges that must be effectively addressed to meet the future needs and expectations of all our stakeholders, including our customers, our shareholders and the entire State of Missouri.

Q. What are those key challenges?

A. One of the more significant challenges facing our Company, and frankly the entire electric utility industry, is our aging infrastructure. As I discussed earlier, much of the energy infrastructure serving our customers today was built many decades ago. For example, the average age of our base load coal-fired power plants is 45 years, the Callaway nuclear plant is 27 years old, and many substations built in the 1950's and '60's are still serving customers. While we have certainly made investments in the past to address, at least in part, our aging infrastructure, the bow wave of investment needs continues to grow. Simply put, our ability to continue to meet our customers' rising expectations for safe, reliable and affordable service grows ever more challenging.

Another challenge we must address in light of our aging infrastructure is that customer expectations continue to increase. Customers demand higher levels of reliability and quicker restoration in the wake of storms that seem to be increasingly severe. Widespread reliance on computers and digital appliances makes even momentary outages very inconvenient to customers.

Legislative mandates pose another challenge. Existing environmental laws have already meaningfully increased our customer rates. And as I stated previously, we expect additional air quality, ash and water regulations to drive up costs further in the future. What is often not considered is that these mandated investments also significantly impact the cash flows we have available to address our aging infrastructure; that is, there is only so much capital we can reasonably invest at a given time, especially in light of the existing regulatory framework in Missouri. And, under certain scenarios, environmental regulations could result in the shutdown of some of our older coal-fired power plants which would have to be replaced.

Renewable energy requirements are also impacting our cash flows and customer rates. Some groups are proposing even more aggressive standards that will magnify these impacts.

Finally, one of the most significant challenges facing our Company today is the excessive regulatory lag created by the Missouri regulatory framework.

Q. What is regulatory lag?

A. Regulatory lag is the time period between when the Company incurs changes in costs and investments and the time in which these changes are reflected in

rates. Regulatory lag also occurs when weather normalized revenues change between rate cases due to changes in customer usage.

Q. Does the regulatory framework in Missouri facilitate the full recovery of costs in this environment?

A. No, it does not. As I have outlined in the past, there are several reasons for this. One reason is that the rates we charge to customers are largely based on historical costs. Consequently, the revenues we collect from customers often "lag" behind the actual costs we pay, which is especially detrimental to the Company in an environment in which costs are steadily increasing. The impact of steady inflation on many costs, including labor, medical costs, materials and equipment, creates a level of regulatory lag that cannot practically be offset by other factors. As I noted earlier, we have worked very hard to control the costs we can control. In addition, as recently as a few years ago, consistent growth in electricity sales provided some offset to these cost increases, but this is not the case currently, as weather normalized electric loads are stagnant or even declining, creating additional regulatory lag pressures. This is in contrast to some jurisdictions that use projected costs or formula rates in establishing rates in an effort to address this issue. In addition, in Missouri, it typically takes 11 months between the date a rate case is filed and when new rates actually go into effect. This time period is longer than the time period for rate cases in many other jurisdictions and further contributes to excessive regulatory lag.

Also, in Missouri, electric utilities are prohibited by statute from recovering the cost of investment in plant, as well as related financing costs incurred during construction, until the plant is "fully operational and used for service." That means that

during the period of construction for a plant or a major piece of equipment, which can sometimes last several years, the utility must pay all of the cost of construction with no opportunity to recover those costs (including financial costs) or any return on its investment until that asset goes into service. This delay in recovering construction costs does not occur in some other states which allow construction work in progress to be included in rate base or permit rates to be adjusted between rate cases for new assets that are actually serving customers. The impact of this delay is material. For example, from the end of the update period in the Company's last rate case (March 2011) through the end of the Company's recommended true-up period in this case (July 31, 2012), the Company expects to place approximately $700 million of new assets into service for our customers. Rate changes to reflect these assets will not take place until January 2013. Not only does the regulatory framework significantly delay the cash flows to our Company for these projects, but the significant depreciation expense and cost of capital related to these assets that are incurred between rate cases are permanently lost to the Company under the current regulatory framework. The bottom line is that regulatory lag is a misnomer in that recovery of costs incurred to provide services which are not immediately reflected in rates is not merely delayed, but rather, these costs are lost forever. These items represent some of the notable examples of why regulatory lag in Missouri is excessive and greater than regulatory lag in many other jurisdictions.

Q. What are the consequences of this regulatory framework in Missouri?

A. As discussed in greater detail in the direct testimony of John Reed, who is an economist with over 30 years of experience in the utility industry, there are several significant consequences. One main consequence is that utilities are systematically

deprived of the opportunity to fully recover the costs they prudently incur in providing service to their customers and are systemically deprived of a reasonable opportunity to earn a fair return on their investments. This is quite evident based on the charts I presented earlier depicting the significant gaps between our earned and allowed returns on equity. As I stated previously, "regulatory lag" is really a misnomer because it suggests that costs are eventually recovered. To the contrary, costs that are not recovered during a particular time period are lost to the utility forever.

What is particularly troubling is that it is effectively impossible for an electric utility to recover the full cost and related cost of capital of its capital additions. The inability to fully recover capital costs provides a strong disincentive for utilities to proactively invest in their systems. As Mr. Reed discusses in his testimony, utilities have no reasonable choice but to align their expenditures with the amount of money that is provided through the regulatory process, even if the expectations of their customers are for them to invest more, not less; to make their systems more, not less reliable; and to provide even better customer service. The need to align spending means that projects which could be beneficial to customers are delayed or even eliminated. And utilities have no reasonable choice but to delay addressing the consequences of their aging infrastructure as long as they possibly can, which will create greater challenges in the future.

To be clear, I recognize that in all circumstances it is our obligation to provide safe and adequate service to our customers and we have certain minimum expenditure requirements we must meet for reliability, or mandated renewables or environmental investments. Those investments have been and will continue to be made. However,

there are discretionary projects that I believe would have long-term benefits for our customers and the state (e.g. more timely investment in smart grid technology, undergrounding of certain portions of our system, substation and power plant upgrades, discretionary environmental projects, etc.). Excessive regulatory lag is constraining our ability to move forward with these projects notwithstanding their benefit to our customers and to the State of Missouri as a whole. Second, excessive regulatory lag (and the Company's inability to have a reasonable opportunity to earn a fair return) puts upward pressure on the cost of equity (an important source of capital), resulting in a higher ultimate cost to ratepayers.

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

As Mr. Reed discusses in detail, the historical regulatory framework employed in Missouri is simply inadequate to address the fundamental changes that have occurred in the utility industry vis-à-vis conditions that existed when utility systems, including ours, were newer and were being built-out across expanding service territories, with ever-growing energy demands and steady customer growth.

Q. What can be done to address the challenges you have outlined?

A. The challenges that I have outlined are real and significant. To effectively address all of these challenges will be complex. Solutions to these challenges will require different approaches and tools. They will require consideration of our state's long-term energy and economic security because all of these challenges cannot and will

not be solved overnight. Yet, taking a longer term view does not mean that progress toward addressing those challenges is not needed today; in fact, I strongly believe solid progress can be made in addressing these challenges through the regulatory process. In particular, I believe the Commission should provide consistent, constructive treatment to utilities in addressing cost recovery to the extent the Commission has the power to do so under its current authority. This is critical in order for the utilities to continue to meet their customers' expectations, as well as address the State of Missouri's long-term energy needs. It is also critical to maintaining favorable investor/credit ratings agency perception which allows utilities access to capital on reasonable terms, and to encourage utilities to make the investments that in the long-run will benefit their customers. It is also critical if the Company is truly going to be afforded a reasonable opportunity to earn a fair return.

To do this will also require the Commission to enhance the regulatory framework beyond what is already in place today. Standing still means we are falling behind other states that provide better cost recovery mechanisms and do more to encourage utilities to invest in their systems for the long-term benefit of customers and our state.

In light of these considerations, and now focusing on our current request in this case, the Commission should retain all of the mechanisms that are in place today that assist our Company in recovering its costs in a timely manner and accessing capital needed to enhance its infrastructure. Specifically, the Commission should retain the Company's fuel adjustment clause ("FAC") as recommended in the direct testimony of Ameren Missouri witness Lynn Barnes, retain the existing vegetation management/infrastructure inspection tracker, retain the pension/OPEB tracker and the

FIN 48 tracker, and permit the Company to true-up its revenue requirement as has been done in each of the Company's last four rate cases, as recommended in the direct testimony of Ameren Missouri witness Gary Weiss.

In addition, the Commission should take steps to enhance the regulatory framework and improve the ability of the Company to timely recover its legitimate costs to the extent that it can. Specifically, the Commission should implement the Company's proposed two-way storm restoration cost tracker to support the Company's full recovery of volatile and unpredictable storm response costs and facilitate the prompt restoration of service to customers affected by severe storms. The Commission should also adopt the Company's proposed Plant-In-Service Accounting approach, which is similar to "construction accounting" that the Commission has previously used for the Company's Sioux scrubbers and other major capital projects. Adoption of this proposal will help reduce the financial disincentive for the Company to invest in its system by permitting the Company (a) to accrue its overall weighted average cost of capital on its net investment in non-revenue producing plant additions between the time plant additions go into service and the time the additions are reflected in rates, and (b) to defer depreciation on non-revenue producing plant additions until they can be reflected in rates. Finally, the Commission should implement the energy efficiency cost recovery mechanisms that the Company is proposing in its Missouri Energy Efficiency Investment Act ("MEEIA") filing. This will ensure that aggressive energy efficiency can be pursued to the ultimate benefit of our customers and the environment.

Q. Can you provide further explanation of the Company's need for a two-way storm restoration cost tracker?

A. Certainly. In recent years, the Company has incurred increasingly extreme variations in the restoration costs it experiences as a result of major storms, as explained in the direct testimony of Ms. Barnes. We know that prompt restoration in the wake of a storm is critical to our customers. Lack of electric service can lead to food spoilage, frozen pipes and even life-threatening heat or cold. As a consequence, we have focused our attention and our resources on improving our storm restoration capability to the ultimate benefit of our customers, and we have been successful in doing so.

The problem is that the Commission's current ratemaking process does not facilitate timely recovery of these variable storm restoration costs. For example, the Company experienced no extraordinary storm restoration costs in calendar year 2010. If that year had been the test year used to set rates there would be no major storm restoration costs included in rates, which is clearly inappropriate. To address this issue, the Commission has been approving, on a piecemeal basis, accounting authorizations which have allowed the Company to defer extraordinary storm costs that are not otherwise reflected in rates. But this piecemeal approach is an inadequate way to address this issue—storm restoration costs are never set at the right level no matter which test year is used. The truth is that storm restoration costs are extremely unpredictable, often significant in magnitude and completely outside the Company's control. The use of test year storm restoration costs to set rates will mean that the Company will either grossly over-recover or under-recover its major storm costs, depending on the luck of the draw. In addition, it is critically important to customers that the Company is willing and able to

spend whatever level of storm restoration costs is needed, whenever a severe storm strikes. These considerations support the adoption of a two-way storm restoration cost tracker.

Q. Can you provide further explanation of the Company's need for Plant-In-Service Accounting?

A. Yes. As I previously discussed, the current regulatory framework does not permit an electric utility to fully recover the cost of the capital investments it makes in its system. That is because once the plant goes in service, AFUDC, which provides the utility with the ability to capitalize and later recover a portion of the capital costs of the dollars it has committed to construction of new plant during the period of construction, stops. In addition, the moment the plant begins serving customers the Company must incur depreciation expense, which directly impacts the Company's bottom line, yet that depreciation expense is not reflected in the Company's rates. In previous cases, the Commission has addressed this problem for large rate base additions, such as the Sioux scrubbers, KCP&L's Iatan Plant and the Callaway and Wolf Creek Nuclear Plants by allowing "construction accounting." Construction accounting allowed the utility to continue to accrue AFUDC and defer depreciation expense until the cost of the plant could be reflected in rates in a later rate case. This gave the utility a better opportunity to recover the cost of its investment in the plant, and it mitigated some of the disincentive to invest in those large rate base additions that would otherwise exist.

In this case, we are proposing similar treatment for all of the Company's rate base investment (excluding investments related to new customers). The rationale is really quite simple. We believe we should recover all of our prudently incurred costs and the

related cost of capital for assets which are providing safe, reliable service to our customers—no more and no less. Specifically, once each capital addition goes into service we are requesting authority to defer depreciation until rates are set in the next rate case, and to begin accruing our cost of capital on the net rate base investment. Again this treatment will reduce the financial disincentive for Ameren Missouri to maintain or perhaps even increase its investment in its system.

Q. Will the proposed Plant-In-Service Accounting have a significant impact on customer rates?

A. No. Plant-In-Service Accounting will have no impact on customers' rates in this rate case. In future cases, it would have only limited impact on customer rates, since the accrued capital costs and the depreciation deferred between rate cases will be recovered over the life of the plant, which in most cases will be 30-40 years.

Q. Will adoption of the Company's proposed Plant-In-Service Accounting solve all of the problems of the regulatory framework in Missouri?

A. No. But it will be a step in the right direction which will provide much-needed support toward helping the Company to simply recover its legitimate capital investment costs, while mitigating the disincentive to invest that currently exists.

Q. Can you provide additional explanation about the Company's proposal to recover its energy efficiency costs?

A. Yes. On January 20, 2012 the Company made its filing under MEEIA, in which it requested regulatory treatment that would allow it to recover its energy efficiency program costs as well as a portion of the net shared benefits that would help offset the loss of fixed cost recovery, or "throughput disincentive," that results from the

successful implementation of energy efficiency programs. In recent years, because we have not had adequate cost recovery mechanisms, the Company expects to lose a total of approximately $60 million as a result of the implementation of its energy efficiency programs from 2009 to 2011. This is obviously not sustainable, nor is it a cost that should be borne by our shareholders.

Ameren Missouri believes in energy efficiency and wants to support it at a significant level (i.e. the Realistic Achievable Potential ("RAP") level), which would provide meaningful benefits to Ameren Missouri, its customers and the state as a whole. However, if this step change in energy efficiency investment is to occur, there needs to be a step change in the regulatory framework that permits full recovery of Ameren Missouri's costs and that properly addresses the throughput disincentive that indisputably exists. Our proposal accomplishes that and should be approved in the Company's MEEIA case, and implemented in this case.

Q. Please summarize at a high level what the Company is asking for in this case and why yon are asking for it.

A. Certainly. First, we are asking the Commission to allow us to recover the costs we are actually incurring to provide service to our customers, and meet their expectations for safe, reliable and cleaner energy, as well as provide our shareholders with a reasonable opportunity to earn a fair return on equity. Second, we ask that the Commission take steps within their authority to reduce the excessive regulatory lag the Company faces, steps that are critical to cover our costs and provide us a reasonable opportunity to earn a fair return. To that end, in this case, we are seeking approval of several important regulatory mechanisms, including the FAC and two-way storm

restoration cost tracking mechanism. We are also requesting that the Commission broaden its past practice, which it has employed for large assets placed in service, to all non-revenue producing assets that are serving customers through adoption of our Plant-in-Service Accounting proposal.

In addition to these important requests, we are asking one more thing from the Commission: specifically, we ask the Commission to carefully consider the challenges our Company and our state face in terms of providing safe and reliable energy to our customers in the future. In so doing, it is important to remember that ratemaking has long-term energy policy implications for customers, utilities and the state as a whole. Barriers to investing must be lowered if utilities are going to be in a position to make the investments needed in the near and medium term to replace aging infrastructure and meet environmental and renewable energy requirements, so that reliable, environmentally responsible service can be provided over the long run. What we are asking for in this case is for the Commission to make progress in improving the regulatory framework so such investments are encouraged. Our proposals are not a complete panacea, and we expect that there will be additional opportunities to further improve the regulatory framework in the future. But for now, I encourage the Commission to adopt our proposals in this case.

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

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

Witness	Principal Issues Addressed
John J. Reed	Regulatory and Economic Policy Issues
Robert B. Hevert	Cost of Equity
Lynn M. Barnes	FAC, Plant-In-Service Accting.; Storm Tracker
Jaime Haro	Off-System Sales
Wilbon L. Cooper	Rate Design
Gary S. Weiss	Revenue Requirement
Mark J. Peters	Production Cost Modeling
Ryan J. Martin	Cost of Debt/Capital Structure
William M. Warwick	Class Cost of Service Study
James R. Pozzo	Billing Units
Steven M. Wills	Weather Normalization
Michael J. Adams	Cash Working Capital
Mark F. Mueller	Keeping Current Customer Assistance Program
David N. Wakeman	Storm Cost Tracker

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 Ameren Missouri's Tariffs to Increase Its Revenues for Electric Service.	)))	Case No. ER-2012-0166

AFFIDAVIT OF WARNER L. BAXTER

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

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

1. My name is Warner L. Baxter. I work in the City of St. Louis, Missouri, and I am employed by Union Electric Company d/b/a Ameren Missouri as President and Chief Executive Officer.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Ameren Missouri consisting of 29 pages, and Schedules WLB-E n/a through WLB-E n/a, 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 2nd day of February, 2012.

Mary Hoyt
Notary Public

My commission expires: 4-11-2014

Mary Hoyt - Notary Public
Notary Seal, State of
Missouri - Jefferson County
Commission #10397820
My Commission Expires 4/11/2014