AMERENUE EXHIBIT NO. 3.0NP

ILLINOIS COMMERCE COMMISSION

DOCKET NO. __________

DIRECT TESTIMONY

OF

MICHAEL G. O'BRYAN

Submitted On Behalf

Of

UNION ELECTRIC COMPANY

d/b/a AmerenUE

November 27, 2002

****DENOTES PROPRIETARY INFORMATION****

NP

ILLINOIS COMMERCE COMMISSION

DOCKET NO. __________

DIRECT TESTIMONY OF

MICHAEL G. O'BRYAN

SUBMITTED ON BEHALF OF

UNION ELECTRIC COMPANY

d/b/a AmerenUE

Q. Please state your name and business address.

A. My name is Michael G. O'Bryan. My business address is 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. By whom are you employed?

A. I am employed by Ameren Services Company.

Q. Please summarize your educational background, work experience and current duties and responsibilities.

A. My educational background, work experience and current duties and responsibilities are described on AmerenUE Exhibit No. 3.1 attached hereto.

Q. What is the purpose of your direct testimony?

A. The purpose of my testimony is to recommend an overall fair rate of return for Union Electric Company d/b/a AmerenUE's ("AmerenUE" or "Company") gas utility business. I determine AmerenUE's capital structure, embedded cost of long-term debt and embedded cost of preferred stock. I also calculate the overall fair rate of return applied to rate base which is utilized in AmerenUE's filing in this case. I do so by using the fair rate of return applicable to the common equity component of AmerenUE's capital structure as developed by AmerenUE witness Ms. Kathleen McShane in her direct testimony submitted in this case.

Q. Have you prepared or has there been prepared under your direction and supervision any schedules relating to overall fair rate of return in this proceeding?

A. Yes, I am sponsoring AmerenUE Exhibit Nos. 3.2 through 3.5 for that purpose. These exhibits are based upon a test year ended June 30, 2002, and are designated as follows:

Exhibit No. 3.2	Capital Structure
Exhibit No. 3.3	Embedded Cost of Long-Term Debt
Exhibit No. 3.4	Embedded Cost of Preferred Stock
Exhibit No. 3.5	Weighted Average Cost of Capital

Q. How did you calculate the overall fair rate of return or weighted average cost of capital for AmerenUE?

A. In order to derive AmerenUE's overall fair rate of return, I multiplied the relative weighting or proportion of each component of AmerenUE's capital structure by the cost developed for that component. I then summed these weighted costs by component to arrive at AmerenUE's overall fair rate of return or weighted average cost of capital.

Q. What is the primary standard for determining a fair rate of return?

A. The primary standard used in the determination of a fair rate of return is the cost of capital. This cost, the overall rate of return or weighted average cost of capital, must produce sufficient earnings/cash flow when applied to AmerenUE's rate base at book value to enable the Company to accomplish the following:

1) maintain the financial integrity of its existing invested capital;
2) maintain its creditworthiness; and
3) attract sufficient capital on competitive terms to continue to provide a source of funds for continued investment and enable the Company to continue to meet the needs of its customers.

Q. Why must AmerenUE meet these requirements?

A. Beyond the fact that these three standards are mandated by the landmark Bluefield and Hope U.S. Supreme Court decisions[1], meeting these requirements is necessary in order for AmerenUE to effectively meet the gas utility services requirements of its customers and provide an adequate and reasonable return to its investors, debtholder and equity holder alike. The assets owned by AmerenUE are employed in meeting its customers' gas utility services requirements. These assets exist and are available for this purpose only because investors have entrusted their funds with AmerenUE and deemed an investment in the securities issued by the Company to be sound and capable of providing a competitive return.

AmerenUE must maintain its creditworthiness in order to continue to attract capital on a competitive basis. This is important to assure future opportunities for AmerenUE to replace capital and various securities which must be refinanced in the future at reasonable cost. Also, the ability of AmerenUE to attract new capital on

[1] Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923) and Federal Power Commission v. Hope Natural Gas Company, 320 U.S. 391 (1944).

competitive terms is critical in order for the Company to continue to replace and upgrade facilities used to meet the gas utility services needs of its customers.

Further, this is also important due to the fact that AmerenUE has approximately $448 million of debt that will mature and may require refinancing during the next five years.

Q. Please describe the capital structure of AmerenUE.

A. As outlined on AmerenUE Exhibit No. 3.2, the capital structure of AmerenUE on June 30, 2002 consisted of 37.094% long-term debt, 2.594% preferred stock and 60.312% common equity.

Q. How were the balances of the components of AmerenUE's capital structure determined?

A. The balance of long-term debt, $1,637,741,353, is the total carrying value of the Company's long-term debt using the net proceeds method (as outlined on AmerenUE Exhibit No. 3.3).

The balance of preferred stock, $114,502,040, is also the carrying value or net proceeds amount of AmerenUE's preferred stock as found in the embedded cost calculation for this component of capitalization.

The balance of common equity, $2,662,834,920, represents AmerenUE's stated value of common equity at June 30, 2002 adjusted to remove the effects of its investments in its subsidiaries.

Q. What is the embedded cost of AmerenUE's long-term debt?

A. AmerenUE's embedded cost of long-term debt was 5.941% as of June 30, 2002. AmerenUE Exhibit No. 3.3 provides the calculation of the embedded cost of long-term debt. AmerenUE has about $436.6 million principal amount of variable rate environmental improvement indebtedness (in various series) outstanding under which the interest rates are reset by a Dutch auction process every 7 or 35 days. The effective cost used for the test year period ended June 30, 2002 for this indebtedness was derived by calculating the effective interest cost and associated auction broker/dealer fees paid during the test year.

Q. Did you make any adjustments to AmerenUE's long-term debt balance?

A. Yes. On August 22, 2002, subsequent to the end of the test year, AmerenUE issued $173 million principal amount of new debt which was used to redeem/refinance the Company's $125 million principal amount 8.75% first mortgage bonds and its $41.4 million principal amount $1.735 series preferred stock. **

** Accordingly, the calculation of the Company's cost of long-term debt and the balance of long-term debt in its capital structure reflect these refinancing activities.

Q. What is the embedded cost of AmerenUE's preferred stock?

A. AmerenUE's embedded cost of preferred stock was 5.189% as of June 30, 2002 calculated on a pro-forma basis to reflect the redemption of the Company's $41.4 million principal amount $1.735 series preferred stock subsequent to the end of the test year as described above. AmerenUE Exhibit No. 3.4 provides the calculation of the embedded cost of preferred stock. Using the net proceeds method of calculating the balance of preferred stock, the balance outstanding as of June 30, 2002 was $114,502,040 which also reflects the subsequent redemption.

Q. Did you consider expenses associated with AmerenUE's issuance of preferred stock in developing the embedded cost of this component of the Company's capital structure?

A. Yes, I did. I included expenses associated with the issuance of preferred stock, including discount and premium, plus any loss incurred in acquiring/redeeming prior series, in the embedded cost calculation. These costs are illustrated in the cost calculations shown on AmerenUE Exhibit No. 3.4. Unlike similar expenses incurred in connection with the issuance of long-term debt, these expenses are not amortized over the life of the particular series of preferred stock due to the perpetual nature of this form of capitalization. Nonetheless, for economic purposes it is reasonable to recognize these costs in establishing an overall fair rate of return for the Company.

Q. In what manner will AmerenUE obtain debt and preferred stock capital in the future?

A. AmerenUE expects to continue to issue its own long-term debt and preferred stock securities in the external capital markets. Short-term borrowings can be obtained from the capital markets, Ameren Corporation, or through Ameren Corporation's Utility Money Pool, depending on the best borrowing rates available.

Q. Please describe your calculation of AmerenUE's balance of common equity.

A. I derived AmerenUE's balance of common equity, $2,662,834,920, by adjusting the Company's stated value of common equity at June 30, 2002 of $2,655,076,011 by amounts representing the acquisition costs and undistributed earnings ($7,758,909 net total) associated with AmerenUE's investment in two subsidiaries, Union Electric Development Corp. and Electric Energy, Inc.

Q. What is the cost of common equity for AmerenUE?

A. In her direct testimony in this case, Ms. Kathleen McShane develops and supports a fair return on common equity for AmerenUE's gas utility operations in the range of 12.0 – 14.0% with a recommended cost of equity for AmerenUE of 12.75%. For purposes of determining the overall fair rate of return for AmerenUE in this proceeding I use Ms. McShane's recommendation, 12.75%, as the Company's cost of common equity.

Q. What is the overall fair rate of return for AmerenUE for this proceeding?

A. As shown on AmerenUE Exhibit No. 3.5, as of June 30, 2002, the overall fair rate of return for AmerenUE is 10.029%. I derived this result by using the capital structure and embedded costs of long-term debt and preferred stock discussed above, and shown on the various attached Exhibits, along with the cost of common equity for AmerenUE developed by Ms. McShane in her direct testimony.

Q. Does this conclude your direct testimony?

A. Yes, it does.

QUALIFICATIONS OF MICHAEL G. O'BRYAN

My name is Michael G. O'Bryan, and my business address is 1901 Chouteau Avenue, St. Louis, Missouri 63103. I hold the position of Senior Capital Markets Specialist in Corporate Finance and Development for Ameren Services Company.

In my current position, I am involved in Ameren's corporate financing, cost of capital, financial analysis and modeling activities as well as monitoring capital markets and bank credit markets to stay current on rates, structures and opportunities. I communicate regularly with investment bankers and debt capital markets personnel to obtain market intelligence. I also closely follow the actions of the rating agencies for trends and changes in ratings methodology largely for internal ratings maintenance purposes.

Prior to accepting my current position at Ameren Services, I was employed by A.G. Edwards in St. Louis, Missouri as a Vice President in Investment Banking. I focused on business development and transaction execution with both investor-owned utilities and public power entities. I was also involved in structuring and analyzing fixed-income transactions for clients.

Upon graduation from undergraduate studies, I took a position at A.G. Edwards in Investment Banking as a Research Assistant and then an Analyst, focusing on the investor-owned utilities sector. I was responsible for transaction support and marketing as well as general financial analysis of clients, capital markets transactions and merger and acquisitions. I later was promoted to Senior Analyst where I focused to a greater degree on business development and the execution of clients' transactions. I then moved into Debt Capital Markets concentrating solely on fixed-income execution and business development for clients in several different industries.

I graduated Cum Laude with a Bachelor of Science in Business Administration with a concentration in Finance from the University of Missouri – Columbia in 1992. I later earned an MBA from Saint Louis University's John Cook School of Business in 1998.

Union Electric Company d/b/a AmerenUE
Capital Structure

as of the end of the test year 6/30/2002:

CAPITAL COMPONENT	AMOUNT	PERCENT OF TOTAL
Long-Term Debt	$1,637,741,353	37.094%
Preferred Stock	$114,502,040	2.594%
Common Equity	$2,662,834,920	60.312%
TOTAL	**$4,415,078,313**	**100.000%**

Union Electric Company d/b/a AmerenUE
Embedded Cost of Long-Term Debt

At June 30, 2002

SERIES	COUPON	ISSUED	MATURITY	PRINCIPAL	FACE AMOUNT OUTSTANDING	UNAMORTIZED BALANCES DISC/(PREM)	UNAMORTIZED BALANCES ISSUE EXP.	UNAMORTIZED BALANCES LOSS	CARRYING VALUE	ANNUALIZED COUPON INT.	ANNUALIZED AMORTIZATION DISC/(PREM)	ANNUALIZED AMORTIZATION ISSUE EXP	ANNUALIZED AMORTIZATION LOSS	ANNUALIZED INT. EXP.	EMBEDDED COST
C1	C2	C3	C4	C5	C6	C7	C8	C9	C10	C11	C12	C13	C14	C15	C16
First Mortgage Bonds	7.650%	28-Jan-92	15-Jul-03	$100,000,000	$100,000,000		$70,236			$7,650,000		$70,236			
First Mortgage Bonds	7.375%	15-Dec-92	15-Dec-04	$85,000,000	$85,000,000	$60,210	$127,050			$6,268,750	$24,084	$50,820			
First Mortgage Bonds	8.000%	15-Dec-92	15-Dec-22	$85,000,000	$85,000,000	$716,844	$534,558			$6,800,000	$34,968	$26,076			
First Mortgage Bonds	6.875%	01-Feb-93	01-Aug-04	$188,000,000	$188,000,000	$251,000	$244,325			$12,925,000	$120,480	$117,276			
First Mortgage Bonds	6.750%	01-May-93	01-May-08	$148,000,000	$148,000,000	$244,300	$473,340			$9,990,000	$41,880	$81,144			
First Mortgage Bonds	7.150%	01-Aug-93	01-Aug-23	$75,000,000	$75,000,000	$591,514	$583,924			$5,362,500	$28,056	$27,696			
First Mortgage Bonds	5.450%	15-Oct-93	01-Oct-28	$44,000,000	$44,000,000	$256,095	$470,295			$2,398,000	$9,756	$17,916			
First Mortgage Bonds	7.000%	15-Jan-94	15-Jan-24	$100,000,000	$100,000,000	$136,752	$667,443			$7,000,000	$6,336	$30,924			
First Mortgage Bonds, Series AA	5.250%	22-Aug-02	01-Sep-12	$173,000,000	$173,000,000	$202,410	$1,374,500			$9,082,500	$20,241	$137,450			
**												**			
Subordinated Debentures	7.690%	16-Dec-96	15-Dec-36	$65,500,000	$65,500,000	$494,316	$100,602			$5,036,950	$14,328	$2,916			
Environmental Improvement, Series 1991	2.349%	01-Dec-91	01-Dec-20	$42,585,000	$42,585,000		$296,540			$1,000,322		$16,056			
Environmental Improvement, Series 1992	2.244%	01-Dec-92	01-Dec-22	$47,500,000	$47,500,000		$325,306			$1,065,900		$15,888			
Environmental Improvement, Series 1998 ABC	2.203%	04-Sep-98	01-Sep-33	$160,000,000	$160,000,000		$1,497,424			$3,524,800		$48,036			
Environmental Improvement, Series 2000 ABC	2.152%	09-Mar-00	01-Mar-35	$186,500,000	$186,500,000		$1,385,410			$4,013,480		$42,276			
**															**

Carrying Value = Face Amount Outstanding less Unamortized Discount, Issuance Expenses, and Loss on Reacquired Debt
C10 = C6 - C7 - C8 - C9
Annualized Interest Expense = Annual Coupon Interest plus Annual Amortization of Discount, Issuance Expenses, and Loss on Reacquired Debt
C15 = C11 + C12 + C13 + C14
Embedded Cost = Annualized Interest Expense divided by Carrying Value
C16 = C15 / C10

****Denotes that Entire Row is Proprietary****

AmerenUE Exhibit No. 3.3NP

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Union Electric Company d/b/a AmerenUE
Embedded Cost of Preferred Stock

at June 30, 2002

SERIES, TYPE, PAR C1	DIVIDEND C2	ISSUED C3	MATURITY C4	SHARES OUTSTANDING C5	PAR ISSUED/ OUTSTANDING C6	PREMIUM C7	ISSUANCE EXPENSE/DISCOUNT C8	NET PROCEEDS C9	ANNUAL DIVIDEND C10	EMBEDDED COST C11
$4.50 Series, Perpetual, $100 par	$4.500	01-May-41	-	213,595	$21,359,500	($825,000)	$440,294	$21,744,206	$961,178	
$5.50 Series, Perpetual, $100 par	$5.500	01-Oct-41	-	14,000	$1,400,000			$1,400,000	$77,000	
$3.70 Series, Perpetual, $100 par	$3.700	01-Oct-45	-	40,000	$4,000,000	($70,000)	$69,396	$4,000,604	$148,000	
$3.50 Series, Perpetual, $100 par	$3.500	01-May-46	-	130,000	$13,000,000	($910,000)	$252,772	$13,657,228	$455,000	
$4.30 Series, Perpetual, $100 par	$4.300	01-Jul-46	-	40,000	$4,000,000			$4,000,000	$172,000	
$4.75 Series, Perpetual, $100 par	$4.750	01-Oct-49	-	20,000	$2,000,000			$2,000,000	$95,000	
$4.00 Series, Perpetual, $100 par	$4.000	01-Nov-49	-	150,000	$15,000,000	($384,000)	$326,896	$15,057,104	$600,000	
$4.56 Series, Perpetual, $100 par	$4.560	01-Nov-63	-	200,000	$20,000,000	($266,000)	$297,633	$19,968,367	$912,000	
$7.64 Series, Perpetual, $100 par	$7.640	01-Jan-93	-	330,000	$33,000,000		$325,469	$32,674,531	$2,521,200	
TOTAL PREFERRED STOCK					**$113,759,500**	**($2,455,000)**	**$1,712,460**	**$114,502,040**	**$5,941,378**	**5.189%**

issuance expenses, discount/premium, and any loss incurred in acquiring/redeeming prior series are not amortized due to the perpetual nature of the company's preferred stock

Net Proceeds = Par Value Outstanding plus Premium less Issuance Expense and Discount

C9 = C6 + C7 - C8

Embedded Cost = Annual Dividend divided by Net Proceeds

C11 = C10 / C9

Union Electric Company d/b/a AmerenUE
Weighted Average Cost of Capital

as of the end of the test year 6/30/2002:

CAPITAL COMPONENT	AMOUNT	PERCENT OF TOTAL	COST	WEIGHTED COST
Long-Term Debt	$1,637,741,353	37.094%	5.941%	2.204%
Preferred Stock	$114,502,040	2.594%	5.189%	0.135%
Common Equity	$2,662,834,920	60.312%	12.750%	7.690%
TOTAL	**$4,415,078,313**	**100.000%**		**10.029%**