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Issues: AAO

Witness: Lynn M. Barnes

Sponsoring Party: Union Electric Company

Type of Exhibit: Direct Testimony

Case No.: EU-2012-0027

Date Testimony Prepared: October 20, 2011

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO. EU-2012-0027**

**DIRECT TESTIMONY**

**OF**

**LYNN M. BARNES**

**ON**

**BEHALF OF**

**UNION ELECTRIC COMPANY**

**d/b/a Ameren Missouri**

**St. Louis, Missouri  
October, 2011**

*Ameren* Exhibit No. 2  
Date 5-03-12 Reporter KF  
File No. EU-2012-0027

**DIRECT TESTIMONY**

**OF**

**LYNN M. BARNES**

**CASE NO. EU-2012-0027**

1           **Q.     Please state your name and business address.**

2           A.     My name is Lynn M. Barnes. My business address is One Ameren Plaza,  
3     1901 Chouteau Avenue, St. Louis, Missouri 63103.

4           **Q.     Please describe your educational background and qualifications.**

5           A.     I have a Bachelor of Science degree in Accounting from Millikin  
6     University, Decatur, Illinois. I am also a licensed Certified Public Accountant in the  
7     states of Missouri and Illinois.

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

9           A.     I am employed by Union Electric Company d/b/a Ameren Missouri  
10    ("Ameren Missouri" or the "Company") as Vice President, Business Planning and  
11    Controller.

12          **Q.     Please describe your employment history.**

13          A.     After 11 years in public accounting with Deloitte & Touche as an auditor  
14    and, subsequently, 16 months with the Boeing Company (formerly McDonnell Douglas  
15    Corporation), as Manager of Financial Reporting, I joined the Company in 1997 as  
16    General Supervisor of Financial Communications. I was promoted to Manager of  
17    Financial Communications in 1999, and my responsibilities included managing the  
18    financial reporting department, the regulatory accounting department, and investor  
19    relations during the period of transition from a single utility to a public utility holding

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1 company with multiple operating companies. I directed financial management functions  
2 including preparation and analysis of monthly/quarterly financial statements and external  
3 reports for all Ameren Corporation subsidiaries. In 2002, I transferred to Ameren  
4 Services Company's Energy Delivery Department as Controller, and in 2005 I was  
5 promoted to Director of Energy Delivery Business Services. In July 2007 I was  
6 promoted to Controller for the Company and in October 2007 I was promoted to Vice  
7 President, Business Planning and Controller for the Company.

8 **Q. Please describe your duties and responsibilities as Vice President,**  
9 **Business Planning and Controller for Ameren Missouri.**

10 A. In my current position as Vice President, Business Planning and  
11 Controller, I supervise the Company's financial affairs, including nearly \$2 billion of  
12 annual operations and maintenance expenses and capital expenditures. I direct Ameren  
13 Missouri's financial management functions, including analysis of monthly/quarterly  
14 financial statements, financial forecasting, budget development and management, and  
15 management of the customer accounts department. I also coordinate the performance  
16 management reporting and the business planning process used throughout the Company.  
17 I interact with Ameren Missouri's Chief Executive Officer and senior leadership  
18 concerning strategic initiatives, financial forecasts and reports. I also serve as liaison  
19 between Ameren Missouri's management and the Ameren Corporation controller  
20 function.

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

22 A. The purpose of my testimony is to summarize the facts supporting Ameren  
23 Missouri's request for an accounting authority order ("AAO") to address the Company's

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1 accounting for fixed costs it was unable to recover due to an extraordinary, unanticipated  
2 and devastating ice storm that struck Southeast Missouri in late January 2009.

3 **Q. Please describe the events that resulted in this request.**

4 A. Certainly. On January 27, 2009, an extraordinary, unanticipated and  
5 unusually devastating ice storm struck Southeast Missouri. In addition to impacting  
6 service to approximately 95% of Ameren Missouri's customers in six counties  
7 (approximately 36,500 customers), the storm also resulted in the loss of approximately  
8 3,800 electric distribution poles, the most Ameren Missouri has ever lost in a storm.  
9 Governor Nixon declared a state of emergency for the area of Missouri affected by the  
10 ice storm, and it was many weeks before service was restored to all customers in the area.  
11 Noranda Aluminum, Inc. ("Noranda"), Ameren Missouri's largest customer by far, was  
12 seriously impacted by the storm.

13 **Q. How did the ice storm impact Noranda?**

14 A. Noranda lost power due to the ice storm taking down the electric  
15 transmission lines of Associated Electric Cooperative, Inc. ("AECI"), which delivers  
16 Ameren Missouri's power to Noranda's smelter located in New Madrid, abruptly cutting  
17 off power to the plant. As a consequence, Noranda's smelter was shut down in mid-  
18 cycle, and molten aluminum "froze" throughout the plant, rendering the facility  
19 inoperable. Ultimately the frozen aluminum had to be jack-hammered out to restore the  
20 plant to full service. The plant was completely out of service immediately following the  
21 ice storm and approximately two-thirds of Noranda's electrical load was lost for many  
22 months. At the time, it was unclear whether Noranda would ever be able to restore its  
23 smelter to full service.

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1           **Q.     In your opinion, was the impact of the ice storm on Noranda unusual**  
2           **and extraordinary?**

3           A.     Yes. The impact of ice storms on customers is typically much less severe.  
4     When service is restored customers typically resume taking service immediately and  
5     there is minimal impact on the recovery of the Company's fixed costs through the rates  
6     paid by the affected customers. Damage is typically limited to lost refrigerated food or in  
7     a worst case, frozen water pipes. The damage that Noranda suffered in the 2009 ice  
8     storm is more than unusual and extraordinary. It is completely unprecedented in my  
9     experience.

10          **Q.     What was the impact to Ameren Missouri of Noranda's loss of**  
11          **service?**

12          A.     The loss of load to Noranda had an immediate and devastating financial  
13     impact on the Company. Sales to Noranda represent approximately 11% of the  
14     Company's system-wide native load sales. Annual revenues from Noranda, which do not  
15     vary significantly due to Noranda's 98% load factor, were approximately \$139 million at  
16     the time of the ice storm.

17                 Additionally, as described in Mr. Wills' Direct Testimony, approximately \$36  
18     million of the Company's fixed costs were not recovered as they represented the portion  
19     of those costs that were allocated to the Large Transmission Service class (of which  
20     Noranda is the only member). Thus, without Noranda's revenue contribution, the  
21     Company had no opportunity to recover these fixed costs because while the ice storm  
22     caused the Company's kilowatt-hour sales to be reduced by approximately 11%, its fixed  
23     costs were not reduced at all. Noranda was not able to restore its service to pre-storm

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1 levels for more than 14 months, and during that entire period the Company was unable to  
2 recover the fixed costs that had been allocated to Noranda.

3 **Q. Did Ameren Missouri take any steps to mitigate this devastating**  
4 **financial loss?**

5 A. Yes. To mitigate the material financial loss it was facing due to the  
6 drastically lower sales without an accompanying reduction in its fixed costs, the  
7 Company entered into contracts with AEP Operating Companies ("AEP") and Wabash  
8 Valley Power Association, Inc. ("Wabash") for sales of the power which Noranda was no  
9 longer able to take. Ameren Missouri believed that these contracts reflected long-term  
10 partial requirements sales with these counter-parties that were thus excluded from the  
11 Company's fuel adjustment clause ("FAC") tariff. Based on this assumption, the  
12 Company would have received revenues through those contracts that would offset its  
13 inability to recover the fixed costs that had been allocated to Noranda.

14 **Q. Was the Company able to offset through revenues from the AEP and**  
15 **Wabash contracts its inability to recover the fixed costs resulting from the**  
16 **extraordinary loss of sales?**

17 A. No. In Case No. EO-2010-0255, Ameren Missouri's first FAC prudence  
18 review, the Staff and other parties challenged the Company's classification of the AEP  
19 and Wabash contracts as long-term partial requirements sales, and thus challenged the  
20 exclusion of said contracts from the FAC. The Commission ultimately concluded that  
21 under the terms of the Company's FAC tariff these contracts do not reflect long-term  
22 partial requirements sales. As a consequence, the Commission determined that all of the

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1 costs and revenues associated with these contracts will have to be flowed through to  
2 customers via the FAC.

3 **Q. Exactly what accounting authorization is the Company requesting?**

4 A. We are requesting authority to defer the lost fixed costs, which are  
5 precisely quantified in the Direct Testimony of Ameren Missouri witness Steve Wills, in  
6 Account 182.3, Other Regulatory Assets, to permit the Company to seek recovery of  
7 these costs in a future rate proceeding commencing no later than two years after the  
8 effective date of the Commission's order approving the requested AAO.

9 **Q. Please summarize your testimony and conclusions.**

10 A. Ameren Missouri's inability to recover the fixed costs that had been  
11 allocated to Noranda was attributable to an extraordinary, unanticipated and unusual ice  
12 storm. Despite attempts to mitigate the loss resulting from this event, the Company was  
13 unable to successfully recover those lost costs with income from other sources.  
14 Ultimately, the Company's inability to recover these fixed costs would have a significant  
15 and detrimental financial impact on Ameren Missouri, absent the granting of an AAO by  
16 the Commission. As a consequence the Company is requesting that the Commission  
17 issue an AAO that allows it to defer the unrecovered fixed costs attributable to the loss of  
18 the Noranda load.

19 **Q. Does this conclude your direct testimony?**

20 A. Yes it does.

In the Matter of the Application of )  
Union Electric Company d/b/a Ameren )  
Missouri for the Issuance of an )  
Accounting Authority Order Relating to )  
its Electrical Operations. )

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

Lynn M. Barnes  
Lynn M. Barnes

*Belva J. Patterson*  
Notary Public

Debra K. Patterson - Notary Public  
Notary Seal, State of  
Missouri - St. Louis County  
Commission #08482293  
My Commission Expires 10/31/2012