

Filed
March 19, 2015
Data Center
Missouri Public
Service Commission

Exhibit No.: **3NP**
Issue(s): Fuel Adjustment Clause;
Noranda AAO; Board of
Directors Fees/Expenses
Witness: Lynn M. Barnes
Sponsoring Party: Union Electric Company
Type of Exhibit: Rebuttal Testimony
File No.: ER-2014-0258
Date Testimony Prepared: January 16, 2015

MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. ER-2014-0258

REBUTTAL TESTIMONY

OF

LYNN M. BARNES

ON

BEHALF OF

**UNION ELECTRIC COMPANY
d/b/a Ameren Missouri**

St. Louis, Missouri
January, 2015

NP

UE Exhibit No. 3
Date 2-25-15 Reporter XF
File No. ER-2014-0258

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REBUTTAL TESTIMONY

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FILE NO. ER-2014-0258

1 **I. PURPOSE AND SUMMARY OF REBUTTAL TESTIMONY**

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

3 A. My name is Lynn M. Barnes. My business address is One Ameren Plaza,
4 1901 Chouteau Avenue, St. Louis, Missouri 63103.

5 **Q. Are you the same Lynn M. Barnes who filed direct testimony in this**
6 **docket?**

7 A. Yes.

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

9 A. The purpose of my rebuttal testimony is to respond to (a) the fuel adjustment
10 clause (“FAC”)-related direct testimony of Office of the Public Counsel (“OPC”) witness
11 Lena Mantle, and the FAC-related recommendations of Staff witness Matthew Barnes, which
12 are reflected in the Staff’s Report – Revenue Requirement – Cost of Service (“Staff Report”);
13 (b) the direct testimony of Missouri Industrial Energy Consumers (“MIEC”) witness Greg
14 Meyer in opposition to the recovery of the lost fixed costs approved by the Commission for
15 deferral in File No. EU-2012-0027, and similar direct testimony submitted by Staff witness
16 John Cassidy on the same issue; and (c) Staff witness Jason Kunst’s testimony, which is also
17 contained in the Staff Report, which seeks to disallow Ameren Missouri’s allocation of the
18 actual fees paid to members of the Ameren Corporation board of directors and related board

1 of directors' expenses. I will briefly address my involvement in safety initiatives as an
2 officer of the Company.

3 **Q. Are there other Company witnesses that address any of these issues?**

4 A. Yes. Company witness Jesse Francis, who has had responsibilities related to
5 the Company's periodic FAC filings and FAC reporting since the Company's FAC was first
6 established in 2009, will address Ms. Mantle's contentions that OPC cannot determine the
7 costs and revenues included in the FAC. In summary, Mr. Francis will outline the significant
8 amount of information and data supplied to the Commission, OPC and others as part of its
9 periodic filings, monthly reports and rate case filings which, taken together, allow those
10 parties to determine the costs and revenues included in the FAC and to otherwise verify the
11 Company's compliance with its FAC tariff. Company witness Jeffrey S. Jones will address
12 the significant exposure to volatility and uncertainty in coal-related components of the FAC,
13 despite the Company's prudent hedging of coal and coal transportation. Company witness
14 Jaime Haro will also address volatility and uncertainty in FAC components. In addition, Mr.
15 Gary Rygh, who is a Managing Director with Barclay's Capital, Inc., and who has previously
16 testified before the Commission on FAC-related issues, will address the extreme importance
17 of continuing the Company's FAC in its current form from the standpoint of the investment
18 community. Company witness John Reed will also address the lost fixed cost amortization
19 issues noted above.

20 **II. FUEL ADJUSTMENT CLAUSE ISSUES**

21 **Q. What is Ms. Mantle's primary position regarding the FAC?**

22 A. Ms. Mantle indicates that she is presenting OPC's position on continuation of
23 Ameren Missouri's FAC. OPC's primary position is that the Company should not be

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1 allowed to continue its FAC. Although nothing material has changed regarding the FAC
2 over the past several years, Ms. Mantle, now on behalf of OPC, is taking a position that is at
3 odds with the position Ms. Mantle herself has taken as a representative of Staff in the
4 Company's last two rate cases, where she recommended continuation of the Company's
5 FAC. OPC's secondary or "fallback" position is that if the FAC is continued it should be
6 changed in certain respects.

7 **Q. What justification does Ms. Mantle give for eliminating the Company's**
8 **FAC?**

9 A. Ms. Mantle gives one, or perhaps two, explicit justifications for eliminating
10 the FAC, and her testimony appears to imply that there may be a third justification. Her first
11 argument is a reiteration of the arguments reflected in OPC's September 24, 2014 *Request*
12 *for Order* (and related OPC pleadings), and in data requests ("DRs") submitted to the
13 Company by Ms. Mantle in this case. In short, she claims the Company did not comply with
14 the Commission's minimum filing requirements ("MFRs") for continuing the FAC, which
15 are contained in the Commission's rules, and that the remedy for the claimed lack of
16 compliance should be termination of the FAC. Ms. Mantle's contentions are incorrect, and
17 the Company has fully complied with all FAC-related rule requirements. Second, Ms.
18 Mantle claims that the information that has been provided to her "suggests that the FAC
19 should not be continued."¹ I explain below why this contention is also incorrect. Finally,
20 Ms. Mantle's recitation of history appearing at pages three through eight of Ms. Mantle's
21 direct testimony, particularly when placed in the context of prior testimony from Ms. Mantle
22

¹ Mantle Direct, p. 9.

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1 about Ameren Missouri's utilization of a FAC, appears to be a suggestion on her part that
2 Ameren Missouri has not been a good steward of the privilege of utilizing its FAC. I will
3 explain why this too is not true later in my testimony.

4 A. **Minimum Filing Requirement-Related Issues.**

5 Q. **Has the Company complied with the Commission's MFRs?**

6 A. Yes, it has, and neither OPC, Ms. Mantle, the Staff nor the Commission has
7 ever claimed otherwise, save OPC's *Request for Order* filed in this case in September 2014.
8 Indeed, the Commission has previously ruled that explanations that are far less complete than
9 the explanations reflected in the Company's MFRs fully complied with the Commission's
10 FAC rules. For OPC to claim otherwise now is effectively an attempt to convince the
11 Commission to re-write the FAC rules in the middle of the Company's rate case, all in an
12 attempt to accomplish the obvious goal of OPC's *Request for Order* and Ms. Mantle's
13 testimony; that is, to deprive the Company of the utilization of its FAC, even though there is
14 a complete absence of any indication that the Company has failed to properly manage its
15 fuel, purchased power and off-system sales.

16 Q. **Please explain why the Company has complied with the MFRs.**

17 A. There are two parts of the Commission's FAC rules that call for a "complete
18 explanation" of costs and revenues in a FAC. Ms. Mantle claims that we have not complied
19 with these provisions. The first part is found at 4 CSR 240-3.161(2)(H) and (I), and applies
20 the first time a utility requests a FAC. The second part, which OPC has made an issue of in
21 this case, is found in 4 CSR 240.3.161(3)(H) and (I), and applies to requests to continue a
22 FAC. Both parts are identical, with subsection (H) in both parts calling for a complete
23 explanation of costs and subsection (I) in both parts calling for a complete explanation of

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1 revenues. The Commission addressed the language at issue in File No. ER-2007-0004,
2 which involved Aquila, Inc.'s request to first establish its FAC.²

3 **Q. Please explain.**

4 A. In that case, an industrial group, SIEUA³ and another industrial customer,
5 AG-P,⁴ claimed that the information submitted by Aquila did not constitute the "complete
6 explanation" required by the rules. In response to this contention, Aquila witness Dennis
7 Williams submitted rebuttal testimony that included a schedule (Schedule DRW-1)
8 consisting of a data request response Mr. Williams had provided. The data request response
9 reflected a roadmap as to where the information required by the FAC MFRs could be found
10 in Aquila's initial rate case filing. I have attached Mr. Williams' Schedule to my testimony
11 and labelled it Schedule LMB-R4. Mr. Williams' Schedule pointed to his direct testimony at
12 page 3, line 18, where Mr. Williams had listed the following information as a complete
13 explanation of all of the costs to be included in the FAC: "Actual cost of fuel and energy for
14 establishing the 'base cost' will be expenses recorded in FERC accounts 501, 509, 547 and
15 555." In ruling that this explanation, along with Aquila's FAC tariff, met the "complete
16 explanation" requirement of the rule, the Commission flatly rejected SIEUA's and AG-P's
17 contention that Aquila had not complied with (2)(H), stating that "Aquila's proposed fuel
18 adjustment clause tariff contains a very thorough explanation of all costs Aquila seeks
19 authority to flow through its proposed fuel adjustment clause . . . [and] [c]onsequently,
20 Aquila meets the filing requirements of 4 CSR 240.3.161[(2)](H)."⁵ I have attached Aquila's

21

² Aquila, Inc. is now KCP&L Greater Missouri Operations Company ("KCP&L-GMO").

³ Sedalia Industrial Energy Users Association.

⁴ Associated General Processing.

⁵ *Report and Order*, Case No. ER-2007-0004, at p.22.

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1 FAC tariff from that case as Schedule LMB-R5 to this testimony, and have highlighted the
2 information in it about the costs that would be included in Aquila's FAC. As the
3 Commission can see, the tariff, together with the above-quoted description in Mr. Williams'
4 direct testimony, describes the categories of costs (e.g., fuel and energy) and lists the FERC
5 accounts where the costs are recorded.

6 **Q. How does the detail provided in Ameren Missouri's filing compare to**
7 **what was found to be in compliance with the MFR rules in the Aquila case?**

8 A. Ameren Missouri has provided significantly more detail than found by the
9 Commission in the Aquila case to comply with the rule in this and in each of the other five
10 rate cases where Ameren Missouri has submitted the required MFR information. That this is
11 true is obvious from a review of my direct testimony Schedules LMB-1 (MFRs) and LMB-3
12 (FAC tariff). Not only do those schedules list fuel, purchased power, off-system sales and all
13 of the items that Ameren Missouri's FAC has in common with the initial Aquila FAC, and all
14 of the FERC accounts where costs and revenues are recorded, but the MFRs and the FAC
15 tariff contain far more detail than was provided by Aquila. It is simply not possible for
16 Aquila to have complied with the complete explanation requirements in (2)(H), as the
17 Commission *explicitly found*, but for Ameren Missouri to not be in compliance with the same
18 requirements found in (3)(H), as OPC alleges. This shows that OPC's interpretation of the
19 rules is at odds with the intent of the Commission and its rules, and that what OPC really
20 seeks is a re-write of the rules in this rate case.

21 **Q. Is there other direct evidence that contradicts OPC's argument on this**
22 **issue?**

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1 A. Yes, and it effectively comes from Ms. Mantle herself, given her position on
2 the Commission's Staff over the past several years until her retirement from the Staff at the
3 end of 2012. In its Cost of Service Report filed in the first case Ameren Missouri filed where
4 it sought to continue the FAC granted in the previous rate case, the Staff (via Staff witness
5 John Rogers) stated that "Staff has reviewed the minimum filing requirements documents
6 AmerenUE provided in Schedule LMB-E1-1 attached to the prefiled direct testimony of
7 AmerenUE witness Lynn M. Barnes and *believes that with these documents AmerenUE has*
8 *complied with the minimum filing requirements contained in 4 CSR 240-3.161(3) . . ."*
9 (emphasis added).⁶ The documents provided as the minimum filing requirements in that case
10 contained the same level of detail as those presented in this case. While Mr. Rogers was the
11 affiant sponsoring the referenced pages of the Staff Report, Ms. Mantle was the Staff's FAC
12 witness in that case and in each subsequent Ameren Missouri rate case, where the Company
13 presented similar information in its MFRs. In fact, Ms. Mantle has touted that she was one of
14 the "principle [sic] drafters"⁷ of the FAC rules, and *she was also Mr. Rogers' supervisor*
15 when he and the Staff confirmed that Ameren Missouri's submissions in fact do comply with
16 the FAC rules that OPC now claims are not being followed by Ameren Missouri.

17 Moreover, Ms. Mantle herself was *the* Staff witness in the next two rate cases where
18 the Company proposed to continue its FAC. Had the Company failed to comply with the
19 FAC MFR requirements, surely the head of the Staff department responsible for all of the
20 Commission's FAC oversight responsibilities – i.e., Ms. Mantle's department – would have

⁶ *Staff Cost of Service Report*, pp. 105-106 and Affidavit of John A. Rogers (Case No. ER-2010-0036).

⁷ Mantle Supp. Direct Testimony, File No. ER-2010-0036, p. 2.

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1 claimed that there were shortcomings in the Company's filings. However, no such claim was
2 ever made.

3 **Q. Is your contention that the Company has always done it this way so it**
4 **should be allowed to do it this way in the future, even if not in compliance with the FAC**
5 **filing requirements?**

6 A. No, not at all. My contention is that the Company has always complied with
7 the MFRs because the Company has always provided the complete explanation contemplated
8 by the rules. And I further contend that there is an overwhelming quantity of evidence that
9 shows this to be true. Aside from the one Aquila case discussed earlier, no witness for any
10 party, and certainly not the staff who is a party to every case involving a FAC, has ever
11 claimed any deficiency about the Company's MFR compliance, including respecting the
12 particular rule provisions OPC now raises, that is, until OPC decided to take a new position
13 in this case and Ms. Mantle, now that she has a new employer, decided to support her new
14 employer's position. The fact that in the entire roughly eight year administration of the FAC
15 rules the Commission has already ruled contrary to OPC's position, that there are affirmative
16 statements from Ms. Mantle's direct reports – under oath – that the level of detail contained
17 in the Company's MFRs comply with the rules, and that a principal drafter of the FAC rules
18 has testified on the FAC and has never claimed a deficiency in the Company's MFRs is
19 highly relevant to what the Commission intended when it adopted the rules.

20 **Q. It appears that Ms. Mantle's concerns are with the Commission's rules –**
21 **is this rate case the appropriate forum for Ms. Mantle's concerns to be addressed?**

22 A. No, it is not. Fairly evaluated, OPC's issue is not (or should not be) with the
23 Company's MFR filings. The Company has done what the Commission's rules require it to

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1 do. The substance of what OPC is really getting at is that utilities ought to be mandated to
2 provide more data, information and analyses as a part of the utilities' direct rate case filing. I
3 disagree that doing so is necessary, for the reasons discussed earlier, but if such requirements
4 were to exist they ought to arise from uniformly-applied rules. The Commission's FAC rules
5 called for a review of the effectiveness of the rules. The Commission initiated a docket in
6 2010 to comply with this review requirement, and asked for comments on the rules at that
7 time. Only Ameren Missouri, the Staff and the Missouri Industrial Energy Consumers
8 ("MIEC") provided comments – OPC was silent. None of those comments raised any of the
9 issues OPC now raises. Early last month, the Staff circulated a draft of very detailed
10 suggestions for changes to the FAC rules. The electric utilities then filed a request that the
11 Commission adopt a process of involving workshops to facilitate the Commission's review
12 of the rules. Under that process, a series of workshops would occur over the next
13 approximately seven months, followed by recommendations to the Commission, and, if the
14 Commission desires, a rulemaking to consider amendments to the FAC rules. If OPC doesn't
15 like the way FAC requests have been filed and processed, and doesn't like the Commission's
16 interpretation of requirements of the existing rules, then OPC has a forum to air those
17 concerns, which is not this rate case.

18 **B. Information Provided in Connection with the FAC.**

19 **Q. In Ms. Mantle's claim that the information provided by the Company is**
20 **not adequate to support continuation of the FAC, she justifies her argument about a**
21 **"complete explanation" by pointing to 4 CSR 240-20.090(2)(A), which lists some factors**
22 **the Commission looks at when considering costs to include in a FAC, claiming that**

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1 without a “complete explanation” the Commission doesn’t have a basis to decide what
2 costs to allow in the FAC.⁸ How do you respond?

3 A. I disagree that the Commission has no basis to decide what costs to allow in
4 the FAC. The Commission has made decisions about what costs to allow in FACs for years,
5 and the Staff (including Ms. Mantle) and others have evaluated five prior FAC requests from
6 the Company, verified the propriety and correctness of 17 prior FAC adjustment filings and
7 completed three prior prudence reviews based on the cost (and revenue) information supplied
8 by the Company. A fair reading of OPC’s *Request for Order* and related filings, together
9 with Ms. Mantle’s direct testimony, reveals that what OPC is really complaining about is that
10 the Company does not literally file, as part of its MFRs, all of the extremely detailed cost and
11 revenue information the Company provides through its periodic FAC adjustment filings, its
12 FAC monthly reports and otherwise in connection with every rate case the Company files.
13 Mr. Francis discusses this information in detail in his rebuttal testimony. The bottom line is
14 that the Commission (and the OPC) has long had the information it needs to understand the
15 costs and revenues in the FAC and to determine if the Company is complying with its
16 Commission-approved FAC tariff. It is simply not true that every detail that Ms. Mantle
17 claims has to be included in what she claims is the “complete explanation” called for by the
18 Commission’s rules must be in the MFRs themselves. As Mr. Francis’s rebuttal testimony
19 discusses, it seems that neither Ms. Mantle nor OPC generally has paid much attention to the
20 huge amount of data and information the Company has provided to them.

21 Q. Ms. Mantle posits an additional reason (on page 13 of her direct
22 testimony) where she says the “complete explanation” she claims has been lacking is

⁸ Mantle Direct, p. 10, l. 17-19.

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1 important; that is, she claims a "complete explanation" of the type she says must be in
2 the MFRs when a rate case is filed would "greatly enhance" the prudence review
3 process. Is she right?

4 A. No, she is not right. When prudence reviews are conducted, the Staff and any
5 other parties *have* all of the information that she lists in her testimony on this topic. They
6 have all of the information needed to identify in detail the costs, revenues, calculations, etc.
7 That information is found in the FAC adjustment filings, monthly reports, and rate case
8 workpapers that they would have been provided well in advance of when the prudence
9 review begins. Indeed, they have even more information. As I discuss below, for several
10 cases now the Staff has asked the Commission to impose on us additional
11 reporting/recordkeeping requirements that are not in the FAC rules and we have readily
12 agreed to do so.⁹ Not only is all of this information available well in advance of prudence
13 reviews, but it is available well before any party (OPC included) has to address a FAC in a
14 rate case. In terms of rate case reviews, OPC has FAC monthly reports and FAC adjustment
15 filings before the rate cases are filed (after all, we must give at least 60 days' notice before a
16 case can be filed), and has workpapers essentially concurrently with the rate case filing, and
17 then has about five months after the rate case is filed to review workpapers, additional reports
18 and discovery responses. OPC can then develop whatever direct testimony it wants, and
19 propose whatever it wants.

20 Q. Have there been material issues or disputes about FAC data and
21 information in prudence reviews?

⁹ See the Staff Report in this case, where Staff says that these additional requirements will aid them in their review of FAC filings and in prudence reviews.

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1 A. No. Ms. Mantle's attempt to tie her view of what "complete explanation"
2 means in the rate case MFR rules to prudence reviews is a solution in search of a problem.
3 Staff (and other parties) have had *all* of this information when Staff has conducted its three
4 prior prudence reviews. Staff has conducted additional discovery in those prudence reviews,
5 and I do not recall any disputes about that discovery. Staff has recommended just one
6 "prudence" disallowance, and that arose from a difference of opinion on whether revenues
7 under two wholesale contracts did or did not fit the definition of off-system sales. There was
8 complete transparency about the difference of opinion and ultimately the Commission
9 disagreed with us, but the Commission has been very clear – there was nothing inappropriate
10 about the Company's handling of its honest disagreement about the treatment of those two
11 contracts, and it has nothing to do with the propriety of the Company's utilization of its
12 FAC.¹⁰

13 **Q. As part of her discussion of "enhancing" the prudence review process,**
14 **Ms. Mantle again suggests that Ameren Missouri "decides" what costs and revenues go**
15 **in the FAC leading to after-the-fact fights. Please respond.**

16 A. Except for the one dispute about the two wholesale contracts I just mentioned,
17 there have been no such fights and we most certainly do not "decide" what costs and
18 revenues are included in the FAC. The FAC tariff defines what can and cannot be included.
19 If there were to be a dispute about this, then ultimately the Commission decides.

20 **Q. At page 10 of her direct testimony, Ms. Mantle makes an argument about**
21 **4 CSR 240-20.090(2)(A) (addressing factors such as magnitude, control, volatility, and**

¹⁰ *Report and Order*, File No. ER-2011-0028, p. 83. (The "decision in ER-2010-0255 does not support the argument that Ameren Missouri needs a large financial incentive within the fuel adjustment clause").

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1 other factors the Commission may choose to consider when evaluating an FAC
2 request), apparently suggesting that because of this rule significant data and analyses
3 about the factors mentioned in the rule have to be included in an initial rate case filing.
4 Do you agree?

5 A. No, I disagree that all of the data and analyses about various factors are
6 required in every initial rate case filing. As my direct testimony indicates, we are requesting
7 to continue virtually the same FAC that was approved by the Commission about 18 months
8 before this case was filed. In fact, while the version of the FAC tariff approved in our last
9 case contains significantly more detail than earlier versions, in substance it covers almost the
10 same costs and revenues. What Ms. Mantle is apparently claiming is that even though the
11 Company is simply proposing to continue the status quo, the Company should have included
12 all sorts of data and analyses about various factors in its initial rate case filing. The FAC
13 proposed for continuation in this case contains no material change in any cost or revenue or
14 otherwise in the operation of the FAC. And since the last case, nothing material has changed
15 about our fuel, purchased power, or off-system sales practices, indeed not much has changed
16 since the case before that. The Commission has heard the very arguments Ms. Mantle is
17 making in this case (about volatility, magnitude, control and whether those support or don't
18 support a FAC), and those issues have been thoroughly debated several times in Ameren
19 Missouri rate cases before the Commission. OPC has several years of actual data for all of
20 the costs and revenues in the FAC. OPC can (and apparently has) analyze that data and Ms.
21 Mantle is presenting her views on what the data shows and on whether the data justifies
22 continuation of the FAC.

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1 **Q. Are you suggesting that the Company need not re-do all of the analyses**
2 **that may have been presented in prior cases and include them with its rate case filing**
3 **every time a new rate case is filed?**

4 **A. Yes, particularly when the rate cases are relatively close together and where**
5 **nothing material has changed, and particularly where, as here, the parties receive on an**
6 **ongoing basis significant data and information about the mechanism at issue. Recall my**
7 **earlier reference to the Company's three FAC adjustment filings each year, and its monthly**
8 **filing of extremely detailed reports. OPC receives those. Moreover, OPC is a party to every**
9 **FAC prudence review. Since our last rate case ended, we have submitted more than 20**
10 **monthly reports and have made six FAC adjustment filings, which include detailed**
11 **workpapers. The third prudence review of our FAC was also completed about 10 months**
12 **after our last rate case ended. OPC's position implies that when we come in for a rate case**
13 **seeking to continue a FAC that the Commission and the parties are operating in total**
14 **darkness, with no understanding of the FAC or the costs and revenues included in it. Any**
15 **such implication is simply not true.**

16 **Here, it is OPC that is proposing to change the status quo – continuation of a FAC for**
17 **Ameren Missouri that has now been in place for nearly six years, and that is materially the**
18 **same as it was when it was first established. There is nothing unfair (as OPC suggests) about**
19 **expecting OPC or any other party to use the vast amount of information it already had when**
20 **the rate case was filed or before, or additional information it can obtain in discovery, to**
21 **develop a position advocating a change in the status quo, if they claim a change is needed.**

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1 **Q. Are there examples of other instances in rate case filings where repeated**
2 **positions are not required to be explained in the level of detail proposed here for the**
3 **FAC?**

4 **A. Yes. The Commission has been processing rate cases for decades, including**
5 **several for Ameren Missouri and all of the other major utilities in the past several years.**
6 **There are many – perhaps dozens or several dozen – costs and revenues that other parties**
7 **may claim ought to be disallowed, normalized, or annualized. There are existing regulatory**
8 **mechanisms (e.g., the Pension/OPEB tracker the Company has employed for years; certain**
9 **tariffs that have been in place for years) about which testimony is typically not filed when the**
10 **rate case is filed. The Commission has never expected the Company to assume that it must**
11 **provide substantial evidence on each intricate detail of each item that might, or might not,**
12 **become a rate case issue. As currently structured, the Commission’s rate case process is that**
13 **other parties can affirmatively file direct testimony proposing any number of changes to the**
14 **utility’s filed case, with the utility then afforded an opportunity to provide rebuttal testimony**
15 **(e.g., to justify why a change should not be made) and the other parties getting the last word**
16 **in surrebuttal testimony. And the other parties’ direct case filings allow what is usually about**
17 **four and one-half to five months of time to conduct discovery needed to evaluate and take**
18 **whatever position they might want to take. As noted, in the case of the FAC, the parties have**
19 **a mountain of data and information before the rate case is even filed, with more being**
20 **provided concurrently with the rate case filing and continuing as the rate case progresses.**

21 **Q. Has the Commission required exhaustive analyses on the factors**
22 **mentioned in the cited rule in order for the Commission to consider those factors?**

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1 A. No, it has not. In its *Report and Order* issued in December 2012 in the
2 Company's last rate case, the Commission specifically found that "[n]othing has changed in
3 the years since the Commission established Ameren Missouri's fuel adjustment clause."¹¹
4 The Commission went on to discuss how substantial the costs (and revenues) were, why they
5 are outside management's control and why they are volatile.¹² While there were contested
6 FAC issues in that case (involving the sharing percentage and whether certain costs should be
7 tracked in the FAC), extensive data and analyses bearing on the three items focused on here
8 by OPC were not included. I testified then, as I have in this case, that all of the factors the
9 Commission has typically looked at (which include the three pointed to by OPC) support
10 continuing the FAC. Now that OPC is challenging those issues, I will address them in more
11 detail later in my testimony and, as noted, OPC will have an opportunity to respond when it
12 files surrebuttal testimony.

13 **Q. To be clear, did OPC have all of the data it needed to analyze magnitude**
14 **of the various costs and revenues in the FAC and how uncertain/volatile they are?**

15 A. Yes, it did, as Mr. Francis explains in more detail in his rebuttal testimony.

16 **Q. But Ms. Mantle complains that there is insufficient detail which "deprives**
17 **the parties and the Commission of a reasonable opportunity to review the [FAC]**
18 **submission . . ."** She goes on to make some strong allegations, such as claiming parties
19 are "deprived" of a reasonable opportunity to review the FAC submission; that they
20 are left at a "disadvantage with respect to providing recommendations to the
21 Commission"; and that they must "guess" as to what the proposal includes. She even

¹¹ *Report and Order*, File No. ER-2012-0166, p. 75.

¹² *Id.*

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1 **claims that “only Ameren Missouri knows which costs and revenues” are included.**¹³

2 **How do you respond to these charges?**

3 A. I disagree that there is insufficient detail available for the parties to review to
4 make a determination on whether to continue the FAC or to otherwise review FAC
5 submissions in rate cases or otherwise. Ms. Mantle is repeating one of OPC’s themes from
6 its *Request for Order*. As that request made clear, what OPC is really complaining about is
7 that there should be some kind of very detailed description of every single component (e.g.,
8 every MISO¹⁴ cost and revenue) in the MFRs themselves. As I discussed above, not only do
9 the rules not require that, but the information *is* already in OPC’s hands, regardless of what is
10 in the MFRs. Mr. Francis explains this in more detail in his rebuttal testimony.

11 **Q. Ms. Mantle links her earlier-cited statements about the claimed lack of**
12 **information in OPC’s possession in her testimony about transmission costs, starting at**
13 **line 7 on page 12 of her direct testimony and continuing through the end of that page.**
14 **Does her testimony accurately characterize the transmission cost issue?**

15 A. No, it does not, and in fact I find her testimony to be misleading. Let me
16 explain why. Ms. Mantle strongly implies that the Company hid the fact that certain
17 transmission charges had been included in the FAC. She made this argument in the
18 Company’s last rate case, and the Commission rejected it when it concluded that these
19 charges are transmission charges that have always been included in the Company’s FAC and
20 that it was appropriate for the Company to do so.¹⁵ In fact, it is beyond debate that the very

¹³ Mantle Direct, pp. 11-12.

¹⁴ Midcontinent Independent System Operator, Inc.

¹⁵ *Report and Order*, File No. ER-2012-0166, p. 85 (“Under the . . . Uniform System of Accounts, transmission charges . . . are to be recorded in account 565. Since the tariff specifically provides that costs of purchased power reflected in account 565 are to be flowed through the fuel adjustment clause, Ameren Missouri acted

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1 first set of MFRs submitted by the Company, and the very first FAC tariff submitted by the
2 Company – and all of the MFRs and FAC tariffs since then – expressly stated that
3 transmission charges recorded to FERC account 565 are included in the FAC. And in the
4 Company’s last rate case, the Commission took official notice of the fact that transmission
5 charges are recorded in account 565.¹⁶ During cross-examination in that case, Ms. Mantle
6 admitted that Ameren Missouri’s FAC has, from its inception in 2009, included charges in
7 account 565 (i.e., has included transmission charges).¹⁷ Moreover, the FAC reports we
8 submit to the Commission/Staff every month had called-out Schedule 26 transmission
9 charges (which are some of the charges she was complaining about) for several years. The
10 Company can’t be convicted of a “deficient” filing when in fact it has complied with the
11 Commission’s rules and provided the information it is supposed to provide, when, where and
12 how it is supposed to provide it.¹⁸

appropriately in doing so. Indeed, Staff agrees that account 565 costs were to be passed through the fuel adjustment clause . . .”).

¹⁶ *Order Granting Motion to Take Official Notice and Admitting Late-Filed Exhibit*, File No. ER-2012-0166.

¹⁷ File No. ER-2012-0166, Tr. p. 1243, l. 6-21 (Charges in account 565 have always been in the FAC; Staff hasn’t claimed they should not be; Ms. Mantle wasn’t claiming they should not be now). In fact, Ms. Mantle acknowledged that some of the charges she claimed should not be in the FAC, which led to the issue coming up late in the case, had been charged to Ameren Missouri since the inception of the FAC and thus had been properly included in the FAC as part of the account 565 charges. Tr., File No. ER-2012-0166, p. 1241, l. 15, to p. 1242, l. 20 and Exhs. 56, 57 and 58.

¹⁸ For example, the Staff asked a data request in the last rate case (Data Request No. 554) regarding where transmission costs are recorded. Ameren Missouri explained that the information is in the required monthly FAC reports, pointing out that there is a tab in those reports for Account 565 (transmission) costs, plus additional details later in the report that is referenced in the Account 565 tab. Had the Staff looked at the reports they would have known this. File No. ER-2012-0166, Tr. p. 1239, l. 5 – 18. In our last rate case, Ms. Mantle admitted that monthly FAC report calls out the Schedule 26 charges and that a data request response we provided explained in detail where to find the charges. Tr., File No. ER-2012-0166, p. 1213, l. 22 to p. 1214, l. 9 (Where Ms. Mantle, in response to Commissioner questions, admitted that the Staff’s review of the monthly reports is less thorough than when the Staff conducts prudence reviews, and that the Staff may “change that and start looking at them a little quicker”).

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1 **Q. Could Ms. Mantle have asked discovery questions to “fully develop”**
2 **positions on transmission charges and other costs for her direct testimony in the last**
3 **case?**

4 **A. She certainly could have. As I noted above and as Mr. Francis explains in**
5 **more detail, she had the data and information to identify and examine the costs and revenues**
6 **that had been included in the FAC and that were being proposed for inclusion (there was**
7 **little difference in the last case) in the FAC.**

8 **Q. Is it true, as Ms. Mantle alleges, that the only opportunity for her to**
9 **present positions on the transmission charges issue in the last case was in surrebuttal**
10 **testimony?**

11 **A. No, it is not true, for the same reasons. As I explained, Staff knew or should**
12 **have known for years the nature of the transmission charges that had been included in the**
13 **FAC from its inception. Ms. Mantle and her department apparently didn’t pay attention to**
14 **the monthly reports, and apparently didn’t pay attention to the charges from MISO that were**
15 **properly recorded to account 565, as the Commission found. Had the Staff paid attention to**
16 **these reports, and if Ms. Mantle had an issue with it, she could have not only have brought it**
17 **up when the Staff filed its direct testimony in our last rate case, but could have brought it up**
18 **in an earlier rate case or FAC prudence proceeding.**

19 **Q. Please explain.**

20 **A. After Ms. Mantle (and MIEC witness Dauphinais) filed surrebuttal testimony**
21 **on the issue, the Company believed that evidence and issues should have been raised earlier**
22 **but if the Commission was going to allow the issue to come up at that point the Company**
23 **argued that this warranted affording the Company an opportunity to respond. The**

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1 Commission decided the issues could be included in the surrebuttal testimony, but agreed
2 that additional testimony was appropriate. In its order, the Commission gave Ameren
3 Missouri six days to file such testimony and ruled that the issues relating to it were not to be
4 heard until at least seven days later. Thereafter, MIEC moved to strike Ameren Missouri's
5 additional testimony, and Staff concurred in the motion. The Commission declined to strike
6 the testimony, and rejected Ms. Mantle's contention that the Company's testimony was
7 improper, concluding it was "appropriate responsive testimony."¹⁹ Moreover, the
8 Commission afforded Staff and MIEC yet another opportunity to respond.²⁰ Ms. Mantle
9 makes no mention of any of these facts²¹ or of the information that was available to her
10 before the case was even filed and at its inception, painting instead an inaccurate picture
11 suggesting that the Company unilaterally forced her to file surrebuttal and that this was
12 somehow unfair.

13 The Commission never agreed that anything about Ameren Missouri's FAC filing in
14 the last case (or any other case for that matter) was "deficient," and, in fact, the
15 Commission's orders suggest otherwise by concluding that Ameren Missouri had
16 appropriately included transmission charges in the FAC and should be allowed to file
17 additional responsive testimony.

18 **Q. You earlier explained why the Company's initial filing did not go into**
19 **detail about the magnitude of the costs and revenues included in the FAC, or about**
20 **their volatility or how controllable they are. Ms. Mantle addresses those factors in**
21 **some detail in her direct testimony. Please respond to Ms. Mantle's contentions.**

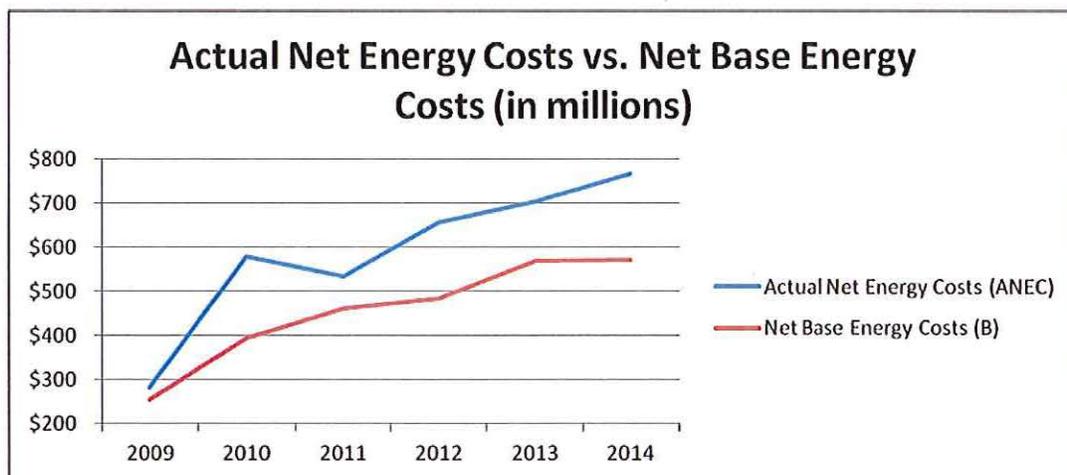
¹⁹ *Order Denying Motion to Strike But Offering Opportunity to Respond*, File No. ER-2012-0166, p. 2.

²⁰ *Id.*

²¹ She also did not take advantage of the further opportunity to file testimony the Commission gave her.

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1 A. I will first address the magnitude of the costs and revenues in the FAC. As
2 our initial rate case filing reflects, the Company's fuel and purchased power costs, including
3 transportation (reflected in Factors FC and P in the FAC tariff) are still the Company's
4 largest operating and maintenance ("O&M") expense, representing approximately 51% of its
5 total O&M costs. In addition, the Company's net energy costs (the sum of Factors FC, P and
6 E less OSSR in the FAC tariff) have risen substantially from the normalized level established
7 in the Company's last rate case (\$566 million per year at that time) to approximately \$696
8 million—an approximately 23% increase.²² This demonstrates that the magnitude of the
9 FAC costs and revenues continue to show the appropriateness of the FAC. The rise in our
10 actual net energy costs is depicted in the chart below:



11 **Q. Can the Company control these costs and revenues?**

²² These figures are based upon the Staff's December 5, 2014 filing and the Company's July 3, 2014 filing. The final net fuel cost figure will be determined as part of the true-up, but net energy costs will undoubtedly be substantially higher than the \$566 million of net energy costs established in the Company's last rate case.

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1 A. Not significantly, and nothing has changed with respect to the question of
2 control over the past four rate cases (with this being the fifth) where the Commission
3 approved the FAC and its continuation. The Company still lacks control over the national
4 and international fuel and power markets which dictate what its net energy costs will be.²³ I
5 would note that Ms. Mantle has been making these same arguments for years, and the
6 Commission has consistently rejected them. For example, she has argued before that
7 hedging equates to “control” but the Commission has recognized that this is not true. Why?
8 Because as noted the Company doesn’t control the national and international markets in
9 which Ameren Missouri must buy fuel and sell power. If it did, Ameren Missouri’s fuel costs
10 would not have gone up, and prices realized for off-system sales would not have gone down
11 over the past few years. In fact, consider that delivered coal costs increased by
12 approximately \$39.8 million in 2013 as compared to 2012, and \$25.3 million in 2014 as
13 compared to 2013. Off-system sales were also down substantially in 2013 as compared to
14 2012 and in 2014 as compared to 2013. In addition, delivered coal price increases effective
15 January 1, 2015, are also expected to increase 2015 coal costs by approximately \$18.9
16 million over 2014 levels. Further, increases in delivered coal costs, driven by price alone,
17 will occur in 2016 and 2017 by **[REDACTED]** million and **[REDACTED]** million, respectively, over
18 the prior year’s level. In terms of future off-system sales, as Mr. Haro testifies in his rebuttal
19 testimony, it is very difficult to predict what prices will be and therefore what off-system

²³ The Commission has recognized this for years: “[M]ost of the costs that comprise [Ameren Missouri’s] fuel costs, the costs that would be tracked in a fuel adjustment clause, are dictated by national and international markets, including competing purchases by China and India, far beyond the control of [Ameren Missouri].” *Report and Order*, Case No. ER-2008-0318, p. 63. The Commission went on to also recognize that Ameren Missouri can’t control the price of power. *Id.* The Commission essentially repeated these findings in its *Report and Order* in Case No. ER-2012-0166 (at page 75). The facts recognized by the Commission hold today.

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1 sales revenues will be because we simply do not control those prices, which are set by the
2 market.

3 **Q. How do you respond to Ms. Mantle's contention that volatility is lacking**
4 **due to the Company's hedging of, primarily, its coal costs.**

5 A. My response is that even with our hedging program, we still face volatility
6 and uncertainty in our net energy costs and the main components of them, including our fuel.
7 This can be observed in the charts shown below and in Mr. Haro's testimony. With respect
8 to coal costs, even though we made the prudent decision in 2012 to enter into five-year coal
9 and coal transportation contracts (which run through 2017), and therefore price-hedged our
10 expected coal needs, as noted above we still face significant increases in those costs, which
11 itself makes them volatile, and other uncertainty due to variation in coal burn and exposure to
12 fuel surcharges contained in the transportation contracts. Mr. Haro and Ameren Missouri
13 witness Jeffrey S. Jones discuss these issues in more detail in their rebuttal testimony.

14 Not only are we exposed to significant increases in coal commodity costs, but there is
15 a significant potential variation (up or down) in what the total delivered coal costs will be.
16 As Mr. Jones testifies, recent history suggests that there could be a more than **[REDACTED]**
17 million change from year-to-year in delivered coal costs caused solely by volumetrically-
18 driven variations in coal commodity costs, volumetrically-driven variations in coal
19 transportation costs and volumetrically-driven variations in rail fuel surcharge costs. This
20 potential variability exists despite our robust hedging practices, and even if the variability
21 were only one-half or one-third of that sum, it still would amount to tens of millions of
22 dollars.

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1 As Mr. Haro also points out, we face significant volatility in transmission charges as
2 well due to the uncertainty of what those charges will ultimately turn out to be, and due to the
3 expected (though uncertain) significant increases in those charges over the next several years.

4 In summary, our net energy costs (in general terms, fuel and purchased power costs,
5 including transportation, less off-system sales revenues) continue to be very large, beyond
6 our control and volatile, a fact with which the Commission's Staff agrees.²⁴

7 **Q. Does volatility and uncertainty continue to exist?**

8 A. Yes, and nothing has changed over the years regarding the continuing
9 volatility of the Company's net energy costs, as is clearly shown by the substantial change in
10 the Company's net fuel costs in the last year and for several years. As the chart above shows,
11 the trend in actual net energy costs has been upward, which itself shows volatility and
12 uncertainty, but the actual net energy costs have gone down as well as up (e.g., from 2010 to
13 2011). Moreover, the national and international markets that set the prices for fuel and
14 power also continue to be volatile. The volatility we see in the FAC could result in higher
15 charges to customers, but it could result in lower charges to customers as well, depending on
16 volumes of fuel burned, prices for power, etc. As the Commission knows, 95% of any such
17 reduction as compared to the net base energy costs established in this case will be passed-
18 through to customers.

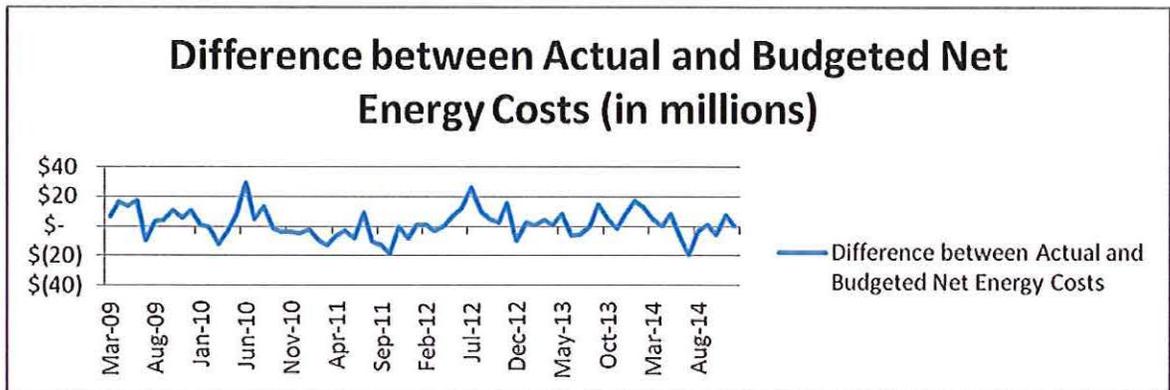
19 **Q. Are there other indicia of volatility and uncertainty?**

20

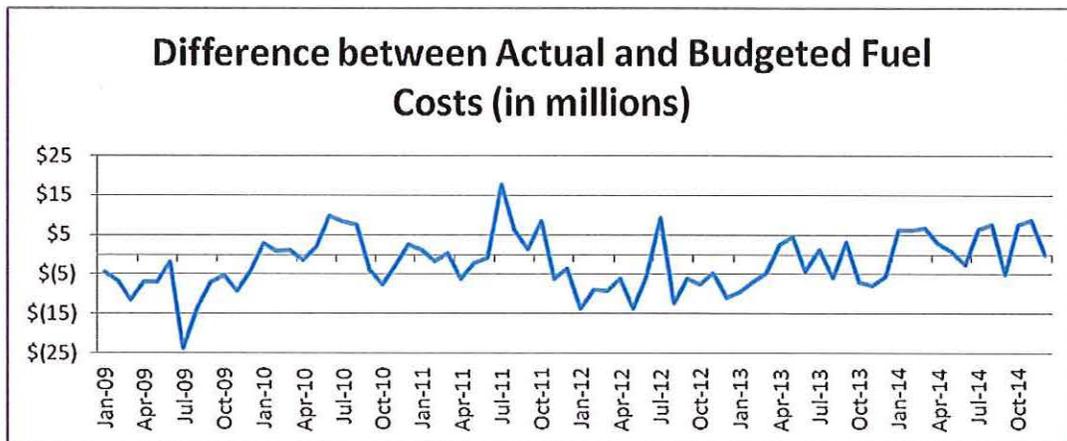
²⁴ Staff Report, p. 169.

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1 A. Yes. The charts below show the variance between what we expected our
2 actual net energy costs to be (per our budget) and what they actually were since the inception
3 of our FAC.



4 The second chart below shows the same thing just for our fuel costs:



5 One can readily see the uncertainty – both up and down. As noted, overall our net energy
6 costs have increased over this period, as have our fuel costs.

7 In summary, the large fuel and purchased power costs and significant off-system
8 sales revenues that we track in the FAC cannot be controlled by the Company, and are
9 volatile and uncertain.

1 **Q. As you point out, the actual net energy costs, including delivered fuel**
2 **costs, have been rising. Ms. Mantle contends rising costs are a poor reason to allow a**
3 **utility to have a FAC. Do you agree?**

4 A. No, I do not and, for several years, neither has the Commission. Ms. Mantle
5 bases her argument on a 2007 statement in the Commission's *Report and Order* in Ameren
6 Missouri's 2006-2007 rate case, when the Commission decided, on the facts of that case, not
7 to approve a FAC for Ameren Missouri at that time. The Commission did indicate that rising
8 but known fuel costs are the "worst reason" to allow a FAC, relying on State of Missouri
9 witness Brosch's statement to the same effect in that case. However, in the Company's next
10 rate case, the Commission stated that the passage from the earlier order that Ms. Mantle
11 relies upon is "simply, wrong,"²⁵ recognizing, as it has in every case since then, that rising
12 fuel costs (and as has been the case for several years, falling off-system sales revenues)
13 would create, without a FAC, significant regulatory lag that would deprive the Company of a
14 reasonable opportunity to earn a fair return. In our last rate case, the Commission also
15 concluded that transmission charges should remain in the FAC based upon a record that
16 showed that they were expected to increase (and only increase) approximately 24% per year,
17 noting that the transmission charges were "volatile in that they are not only rapidly rising, but
18 are also uncertain in amount."²⁶ The same thing is true of coal-related costs.

²⁵ *Report and Order*, File No. ER-2008-0318, p. 67.

²⁶ *Report and Order*, File No. ER-2012-0166, p. 87-89.

1 **Q. Could the Company time its rate cases to prevent the financial harm**
2 **caused by increases in fuel costs or net energy costs as a whole?**

3 A. I've addressed this very issue before, and the answer is "no." Focusing solely
4 on coal costs, contracted-for coal and coal transportation cost increases that occurred on
5 January 1, 2015 and that will occur on January 1, 2016 and 2017 would not be recovered
6 without an FAC between the date of increase (January 1) and the date new rates would take
7 effect (in June of this year, for the January 1, 2015 increases [also Jan. 1 2014 increases], and
8 in June of 2016 for the January 1, 2016 increases and the same for the next year's increases,
9 even if one assumed hypothetically that Ameren Missouri would file another rate case on
10 July 1 of every year starting with this one).²⁷ For coal costs alone, the unrecovered costs
11 would have totaled approximately ****[REDACTED]**** million in 2015 had the current FAC not been
12 in place, and would total approximately ****[REDACTED]**** million in 2016 and ****[REDACTED]**** million in
13 2017, without an FAC. This would simply reflect an under-recovery of approximately
14 ****[REDACTED]**** million of *prudently incurred* coal and coal transportation costs. In summary, the
15 evidence now is essentially the same as the evidence in prior cases: timing rate cases simply
16 cannot be counted on to recover these contracted-for fuel cost increases.

17 **Q. Putting aside the three factors (magnitude/control/volatility-uncertainty)**
18 **discussed above, are there other important reasons why continuation of the Company's**
19 **FAC is appropriate and necessary?**

20 A. Yes, there are. Ameren Missouri's FAC remains critical to maintaining the
21 Company's credit quality and keeping the Company's risk profile (with regard to this issue)

²⁷ Note that another filing on July 1, 2015 is simply illustrative, and this would reflect the minimal amount of lag relating to a subsequent rate case. Thus, the losses for 2015 if a FAC were not in place could be higher if a rate case were filed later than July 1.

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1 essentially on par with the 98% of integrated electric utilities across the country that operate
2 with an FAC (including the two other electric utilities in Missouri who are eligible to have
3 FACs). The Commission has previously recognized that “[i]ncreased financial risk results in
4 an increase in a company’s cost of borrowing, ultimately increasing costs that will be passed
5 on to ratepayers.”²⁸ In addition, both debt and equity investors value consistency in
6 regulation. Ameren Missouri witness Gary P. Rygh, on whose testimony the Commission
7 has relied in the past, discusses the critical importance of continuing the Company's FAC in
8 its current form.

9 C. FAC Changes.

10 Q. Does Ms. Mantle’s testimony at page 13 relate to statements earlier in her
11 testimony (primarily on pages 7 and 8) to the effect that the Company has
12 “significantly” changed costs and revenues included in the FAC?

13 A. I believe it does.

14 Q. Does Ms. Mantle fairly characterize the history of Ameren Missouri’s
15 FAC?

16 A. In my opinion, she does not.

17 Q. Why not?

18 A. I have been involved in the FAC for the Company from early-on in the FAC’s
19 history, and have been the Company’s primary FAC witness in its last four rate cases, plus
20 this one. Fundamentally, the FAC has always included the same costs and revenues, that is,
21 fuel and purchased power costs, including transportation, offset by off-system sales revenues.
22 There have always been certain exclusions that would otherwise fall into the FERC accounts

²⁸ *Report and Order*, File No. ER-2010-0036, p. 78.

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1 where the costs and revenues mentioned in the prior sentence are recorded – specified MISO
2 administrative costs arising under specified MISO administrative cost schedules, and
3 generating capacity charges if associated with capacity of more than one year. From the
4 inception of the FAC, there have only been two arguably material changes to the costs and
5 revenues included in the FAC: the addition of consumable costs related to air quality control
6 systems and the inclusion of transmission revenues. With respect to the latter item, I would
7 note that early-on in the FAC’s history, the transmission revenues varied very little and were
8 credited through base rates instead of through the FAC. The transmission revenues lower
9 actual net energy costs tracked in the FAC, and that the consumable costs for air quality
10 control systems are a minor component of the FAC, totaling less than one-half of one percent
11 of the actual net energy costs.

12 **Q. How did these two additions to the FAC occur?**

13 A. We specifically proposed to include them in a rate case and the Commission
14 approved FAC tariff revisions so that they could be included; i.e., the Commission expressly
15 approved their inclusion and in fact no party, including Staff/Ms. Mantle, opposed their
16 inclusion. In the case of the consumables for air quality control systems, the Commission
17 had earlier approved essentially the same language in The Empire District Electric
18 Company’s FAC tariff, and thereafter we asked for an amendment to our FAC tariff. In the
19 case of the transmission revenues, parties in our last rate case had previously said that if
20 transmission costs were to be included in the FAC, then revenues should be included as well,
21 so we proposed to include them.

22 **Q. The current FAC tariff, approved in the Company’s last rate case, seems**
23 **to have far more items than prior tariffs. Are those new costs and revenues?**

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1 A. No, they are not. As Ms. Mantle indicated in our last rate case, the parties
2 were “still working out the fuel adjustment clause in Missouri.”²⁹ I agree. While we are
3 starting to develop several years of history with FACs in Missouri, we are only just now
4 approaching the end of the first decade after FACs were authorized by statute, and Ameren
5 Missouri’s FAC is only in its sixth year. In regulatory terms, that is not a very long period of
6 time when one considers that the Company has been regulated by the Commission for more
7 than 100 years. Consistent with “still working through” the FAC, it is true that the current
8 FAC tariff contains significantly more details than it did when it started six years ago. And
9 that detail is detail that the Company *agreed* to include in the last case. Ms. Mantle seems to
10 imply that if other parties raise a concern about the level of detail in a tariff or a report and
11 then the Company actually agrees to enhance the details that this shows some kind of
12 untoward behavior on the Company’s part. To the contrary, what it shows is that the
13 Company is willing to try to work with other parties when legitimate questions or concerns
14 are raised. As Mr. Francis indicates in his rebuttal testimony, keep in mind that from the
15 Company’s perspective others receive tremendous details about costs and revenues in each
16 and every FAC monthly report. Those, together with FAC filings and rate case workpapers,
17 from the Company’s perspective, allowed others to determine costs and revenues in the FAC,
18 verify calculations, etc. Nonetheless, at various times over the past few years the Staff has
19 wanted additional reporting and more tariff detail, and in virtually every case the Company

²⁹ Mantle Deposition, File No. ER-2012-0166, p. 17, l. 23-24.

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1 has agreed. I was not directly involved, but I would direct your attention to Mr. Francis's
2 discussion of the request by the Staff, OPC and MIEC for a significant redesign of the
3 monthly FAC reports which the Company agreed to undertake in connection with its 2010-
4 2011 rate case. The claim by Staff and others was not that the Company's FAC reports prior
5 to the redesign did not comply with the Commission's rules, but rather, that it would be
6 helpful to the Staff and others for the Company to provide more and different information.
7 We have done so. That does not mean we have "decided" what costs and revenues can be
8 included in the FAC without proper Commission oversight, or that we have "significantly
9 changed" the FAC. It means we have been willing to "continue to work through" the FAC as
10 appropriate.

11 **Q. Ms. Mantle suggests otherwise, claiming that Ameren Missouri is allowed**
12 **to "add new costs or revenues" under certain circumstances (Mantle Direct, p. 8, l. 16-**
13 **21). Is she correct?**

14 **A.** Not entirely, and reading of her testimony reflects only part of the story.
15 Ameren Missouri, with the Commission's repeated permission, is a participant in MISO and
16 therefore sells and buys its power to/from the MISO market. There are a myriad of costs and
17 revenues that relate to the power it buys from the market or the off-system sales it makes in
18 the market, all of which arise from the MISO tariffs that the Company is required by law to
19 follow when it makes those sales and purchases. If those costs and revenues are recorded in
20 the FERC accounts specified in the FAC tariff (unless they are excluded by the tariff), then
21 they have always been included in the FAC. There has never been a claim that this has been
22 handled improperly by Ameren Missouri, and as noted earlier, the costs/revenues have
23 basically not changed during the entire time the Company has had a FAC. As I noted above,

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1 in our last case, Staff and others wanted to include in the tariff itself very significant details
2 about these costs and revenues and under the new tariff's terms if the cost or revenue did not
3 literally fit exactly what was listed, the cost (which customers would pay) or revenue (which
4 customers would get) had to be excluded. This would be true even if MISO moved the cost
5 and revenue to a different category and even if a new cost or revenue arose that was very
6 much of the same nature as other purchased power or off-system sales-related costs or
7 revenues that the literal descriptions in the tariff covered. To address this problem, all parties
8 to the Stipulation and Agreement resolving the FAC issues in that case *agreed* that it was
9 appropriate to include the language Ms. Mantle refers to at line 17 on page 8 of her direct
10 testimony.

11 **Q. How does this language work?**

12 A. The language is rather simple. If MISO institutes a new charge type (which,
13 despite its label ("charge type") could also cover a revenue, not a cost) involving moving a
14 cost or revenue already being included in the FAC to a new type, or if MISO starts
15 charging/providing a new cost/revenue under a new charge type that is very much in the
16 nature of an existing cost or revenue already being included in the FAC, the Company can
17 include the cost or revenue in its FAC. However, before it can do so the Company must
18 *specifically call it out and explain it* in its monthly FAC report (at least 60 days in advance).
19 Moreover, there is a specific process prescribed in the FAC tariff that allows a party to
20 challenge the inclusion of the new charge type, or the exclusion of the new charge type
21 (presumably if it involves revenues). If such a challenge is made, the *Company bears the*
22 *burden of proof* to justify the inclusion/exclusion. If a party challenges the
23 inclusion/exclusion of a new charge type, and if in the Commission's view the Company fails

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1 to carry the burden of proof, the Company must refund charges/provide revenues (as the case
2 may be) with interest. This is hardly a case, as Ms. Mantle's testimony implies, of a utility
3 pushing costs (or excluding revenues) that properly belong in the FAC into the FAC in the
4 dark of night, without Commission oversight.

5 **Q. What about her allegation that "Ameren Missouri, alone – as is its**
6 **current practice – [can] decide what costs and revenues go into its FAC, not the**
7 **Commission.”³⁰ Is that true?**

8 **A.** No, it is absolutely not true, as I explained above. We have followed the tariff
9 to the letter. Under the process explained above, MISO has added five new charge types
10 since the current version of the FAC tariff took effect. Two of them provide revenues that
11 are credited to customers in the FAC. The Company has reported all five of them as the FAC
12 tariff requires. No party, including OPC, expressed any concerns with them and in fact,
13 while Ms. Mantle complains about the process the Commission approved and everyone
14 agreed to (including the Staff and indirectly I would think Ms. Mantle, who was Staff's FAC
15 witness), OPC even today isn't suggesting there is anything wrong with including the charges
16 and revenues under these new charge/revenue types.

17 **Q. You indicated that no one had complained about those five charge types.**
18 **Please address the motion OPC filed on December 23, 2014.**

19 **A.** In addition to the five charge types (again, two of which actually pertain to
20 revenues that would lower actual net energy costs), the Company also notified those who
21 receive the FAC monthly reports that the Southwest Power Pool ("SPP") was going to start
22

³⁰ Mantle Direct, p. 13, l. 13-14.

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1 market operations (the noticed was first included in the Company's February 2014 monthly
2 report). This notice was not required, because there were no new charge types, but the
3 Company felt it appropriate to let parties know that at some point charges (or revenues) from
4 SPP could arise if the Company transacted in the SPP market.

5 **Q. What does this have to do with OPC's motion?**

6 A. As explained in our January 5, 2015 response to the motion, OPC filed a
7 motion that accused the Company of improperly including new SPP charge type costs in its
8 FAC during the four-month accumulation period underlying our most recent FAC adjustment
9 filing without having followed the process outlined in the tariff, which I described earlier. In
10 fact, we have included no such SPP charges in the FAC and will not do so unless and until
11 we provide the at least 60 days of notice called for by the tariff.³¹

12 **Q. What about the transmission revenues Ms. Mantle mentions on page 7?**

13 A. As earlier noted, when the FAC was first approved, transmission revenues
14 were not included in the FAC. No party suggested that they should be. As I understand it, at
15 that time and for several years thereafter, transmission revenues were basically flat, and they
16 were simply included in base rates as an offset to the total revenue requirement. As the
17 MISO's transmission cost allocation and charge processes evolved, there were certain
18 transmission charges (in that case, under MISO Schedule 26) that arose from projects that
19 provided a mix of local and regional benefits, and starting in June 2011 some new
20 transmission revenues started to be received because of projects constructed by Ameren
21 Missouri and the regional benefits those projects provided. The sum of these new revenues

22

³¹ OPC withdrew its request on January 12, 2015.

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1 grew in 2012, and, as noted earlier, the Company agreed to include them in the FAC in its
2 rate case decided in 2012. Ms. Mantle's point is apparently that the \$9.2 million of revenues
3 received in the test year of the prior rate case were retained by the Company and not flowed
4 through the FAC, and that is true.³² It is also true that the Commission determined, based on
5 a true-up through July 31, 2012, that the Company's rates in that case were too low by
6 approximately \$260 million annually (or more than \$20 million per month) as far back as
7 from July 2011 to June 2012, continuing until new rates took effect on January 2, 2013. At
8 best, that \$9.2 million helped offset other cost increases or revenue decreases between rate
9 cases that had caused Ameren Missouri's then-existing rates to be too low. As the
10 Commission knows, sometimes utilities can gain increased revenues between rate cases
11 above the level assumed when rates were set (e.g., from abnormally hot weather, a large new
12 customer, and here, new transmission revenues), and sometimes revenues drop (from
13 abnormally cool weather, load losses), or costs may increase between rate cases. As other
14 parties have pointed out to us many times, traditional ratemaking is not "perfect." As the
15 Commission itself has recognized, utilities sometimes earn more and sometimes less than
16 their "authorized return."

17 **Q. Has the Company included new revenues in the FAC that were not**
18 **included when the FAC was last approved?**

19 **A.** Yes, it has. It has included revenues under the two new MISO charge types
20 (dealing with revenues), as I explained earlier. As I also explained earlier, Ms. Mantle's

³² As a point of clarification, one cannot compare the \$22.8 million of transmission charges and the \$9.2 million of transmission revenues to determine the impact of transmission charges/revenues in the FAC. For the test year, transmission revenues in total exceeded transmission charges in total by about \$3.6 million (\$36.9 million of charges versus \$33.3 million of revenues).

1 claim that the Company has added six new charge types (implying they are all costs) is
2 incorrect – there are five new “charge types,” two of which actually deal with revenues.³³

3 **D. OPC’s Fallback Position – More Sharing.**

4 **Q. OPC also has what might be properly characterized as a “fallback”**
5 **position premised on continuation of the FAC. What is your understanding of its**
6 **fallback position?**

7 A. It has three aspects. First, Ms. Mantle includes a very vague recommendation
8 that only costs and revenues falling within what OPC characterizes as a “Commission-
9 approved description” be included in the FAC. Second, Ms. Mantle recycles the
10 recommendation she made in the last rate case, that is, that the sharing percentage should be
11 changed, except this time she chose to recommend a change from 95%/5% to 90%/10%,
12 whereas in the last case her recommendation was 85%/15%. Finally, Ms. Mantle suggests
13 that if the FAC is continued, the “Adjustment For Reduction of Service Classification 12 (M)
14 Billing Determinants” (N Factor) be removed.

15 **Q. Please address her first fallback recommendation.**

16 A. I’m confused by this recommendation as the costs and revenues in the FAC
17 *are identifiable* in the information OPC has been receiving for years, and that it has received
18 in this case. This recommendation obviously stems from OPC’s flawed contention, which I
19 addressed earlier and which Mr. Francis addresses in more detail, to the effect that parties
20 like OPC and the Staff cannot tell what costs and revenues are included in the FAC. The
21 costs and revenues are substantially the same as they have always been and their magnitude,

³³ Ms. Mantle’s reference to six additions is incorrect. There were only five, three new charge types involving costs and two involving revenues. The sixth notation in the reports simply advised parties that the SPP market was starting, as I addressed earlier.

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1 volatility and the ability to control them is essentially the same as it has always been. In
2 addition, the costs and revenues fall within the categories that OPC itself says are those the
3 FAC was designed to address: “Fuel commodity costs, the costs of transporting the fuel
4 commodity, purchased power costs and revenues from off-system sales.”³⁴ I would note that
5 Ms. Mantle’s list quoted above leaves out transportation of power, which the Commission
6 has already determined is specifically contemplated for inclusion in FACs by Section
7 386.266, RSMo. OPC apparently thinks that exhaustive analyses and debate must occur with
8 respect to every line item in the FAC tariff. Notably, OPC makes no specific
9 recommendations here at all, its position obviously being dependent upon its earlier
10 argument that the Company did not comply with the MFRs.

11 **Q. You indicated that the costs and revenues fall within the categories OPC**
12 **lists as quoted in your prior answer. Please elaborate.**

13 A. The costs/revenues described below have always been included in the FAC,
14 but this level of detail was not always included in the tariff itself. These details could be
15 found in the FAC monthly reports and workpapers discussed earlier and discussed in more
16 detail in Mr. Francis’ rebuttal testimony. The categories OPC identifies are essentially
17 reflected by four variables in the FAC tariff, Factors FC, PP, E and OSSR. Those factors
18 appear on proposed tariff sheet 73.1, which is included as Schedule LMB-3 to my direct
19 testimony. You can see from Schedule LMB-3 that we are proposing virtually no changes to
20 the FAC tariff the Commission approved in December 2012. The only changes are to
21 include gas for the Maryland Heights landfill gas plant (as suggested by the Staff) and to

³⁴ Mantle Direct, p. 18, l. 16-18.

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1 update the FAC rates (to reflect rebased net base energy costs), plus very minor
2 housekeeping changes.

3 Factor FC is essentially fuel and fuel transportation. All of the items comprising
4 Factor FC are properly recordable in FERC accounts 501, 502, 547 and 518, all of which are
5 called out in the FAC tariff.

6 Factor PP reflects purchased power costs/revenues and transportation costs, except
7 those that from the beginning of the FAC have been explicitly excluded (notably, MISO
8 administrative costs). These are properly recorded in FERC accounts 555 and 565, also
9 called out in the tariff.³⁵ Because of Ameren Missouri's participation in the MISO market
10 (and some transactions Ameren Missouri engages in when it makes sense to do so in other
11 markets, like PJM), and the nature of how costs and revenues are handled under the
12 applicable FERC-approved RTO tariffs, there are a significant number of categories of RTO
13 costs and revenues which comprise purchased power costs, including transportation. The
14 FAC tariff has not always detailed those categories, but as noted earlier, that detail was
15 included in the current FAC tariff in effect since January 2, 2013, by agreement of the
16 Company, Staff, OPC and others. And, because RTOs can change or add charge/revenue
17 types, the process for accommodating those changes/additions was also included in the FAC
18 tariff, as earlier explained. The Commission approved these significant details and that
19 process which is being followed.

20 **Q. Please address the other FAC tariff factors.**

³⁵ The FAC tariff also lists FERC account 575 as an account where purchased power costs could be recorded. This account has been listed since the inception of the FAC. However, no account 575 costs have ever been included in the FAC and, upon further review, I believe the inclusion of account 575 was a mistake initially made when the FAC was first proposed and carried forward to this day. The FAC tariff implemented in this case should only reference account 555 in connection with Factor PP.

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1 A. Factor E reflects costs and revenues for emission allowances, properly
2 recorded in FERC accounts 411.8, 411.9 and 509. All of the major parties to Ameren
3 Missouri's 2009 rate case (Case No. ER-2010-0036) agreed via Stipulation that emission
4 allowance costs and revenues should be included as part of fuel expenses in the FAC. The
5 Commission approved the Stipulation and the FAC tariff sheet that was a part of the
6 Stipulation during that rate case. Consequently, the emission allowance costs and revenues
7 have been included in the FAC since June 21, 2010.³⁶

8 Factor OSSR is the umbrella term for a number of costs and revenues properly
9 recorded in FERC account 447. For reasons similar to those that exist for Factor PP, when
10 dealing with RTO markets these off-system sales consist of several components, which again
11 have now been detailed in the FAC tariff, also by agreement between the Company, Staff,
12 OPC and others.

13 **Q. You have now addressed how the costs and revenues in the FAC fall**
14 **within the Factors specified in the FAC tariff and have explained that parties have**
15 **information in their possession to identify them. Please address Ms. Mantle's**
16 **comments that suggest the FAC tariff should include specific "minor accounts" and**
17 **"activity codes."**

18 A. Mr. Francis addresses this issue in more detail, but I will address it briefly
19 here. In OPC's *Request for Order*, OPC incorrectly claimed that the MFRs required a listing
20 of "minors." As explained in the Company's response to OPC's *Request*, an "account" (the
21 identification of which is required by the MFR rules) is a FERC account. There are no
22 "minors" in the FERC accounts. As I explained in my Affidavit which was an exhibit to the

³⁶ The Company has incurred no costs for emission allowances since that time, but has realized revenues.

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1 Company's Reply to OPC's Reply Suggestions filed relating to OPC's *Request for Order*,³⁷
2 each utility is free to create minor accounts (which are sometimes called subaccounts) for
3 whatever managerial reporting purposes it wants, but utilities do not have to do so and
4 utilities do not create or use them consistently. These subaccounts may also change or be
5 eliminated, depending on managerial accounting needs. With regard to the activity codes the
6 Company used, they, too, are internal codes developed by accountants to facilitate their
7 ability to make sure that costs and revenues are recorded in the right FERC accounts. We
8 include the subaccount and activity code references in our monthly FAC reports. There is,
9 however, no need to list these discretionary subaccounts and activity codes in the FAC tariff
10 because their inclusion in the monthly reports allow parties to confirm what costs and
11 revenues are in the FAC.

12 **Q. Please address Ms. Mantle's next fallback position, that there should be a**
13 **different sharing of changes in actual net energy costs in the FAC.**

14 A. Ms. Mantle is recommending that the current sharing mechanism, which
15 allocates 95% of the increases or decreases in net energy costs to customers and 5% of such
16 increases or decreases to the Company, be modified to allocate 90% to customers and 10% to
17 the Company.

18 **Q. Please describe what is meant by the 95%/5% sharing mechanism and**
19 **the potential impact of moving to a 90%/10% sharing mechanism.**

20 A. The 95%/5% sharing mechanism simply means that if the cost of fuel and
21 purchased power, net of off-system sales (i.e., net fuel costs), increases above or decreases
22 below the net base energy costs against which changes in net energy costs are tracked, then

³⁷ My Affidavit is also attached hereto as Schedule LMB-R6.

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1 the Company will recover 95% of the increase or refund 95% of the decrease over an eight-
2 month period beginning four months after the end of the accumulation period. That means
3 the Company does not recover or refund 5% of these costs, even where the costs are
4 prudently incurred. Moving this sharing mechanism to 90%/10% would result in the
5 Company having to absorb 10% of prudently-incurred cost increases or would retain 10% of
6 the cost decreases, rather than 5%.

7 **Q. What are Ms. Mantle's reasons for recommending a change to the**
8 **sharing mechanism?**

9 **A.** She lists her reasons on page 20 of her direct testimony. I will address reasons
10 two to four first, and then come back to her first reason.

11 **Q. Per Ms. Mantle's contention underlying her second reason, is it true that**
12 **Ameren Missouri has shown that it is "eager" to include costs in the FAC and reluctant**
13 **to include revenues?**

14 **A.** No, it is not, as I addressed earlier when Ms. Mantle made similar comments
15 in connection with her argument about the Commission's MFRs. We were not at all
16 reluctant to include transmission revenues in the FAC. As discussed earlier, we have added
17 "charge types" that reflect revenues and we have included other revenues, like emission
18 allowances revenues. It is simply not true that we "regularly" are adding new costs to the
19 FAC. Three charge types that include costs have been added in the past two years, all in
20 strict accordance with the FAC tariff provisions everyone agreed to and the Commission
21 approved.

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1 **Q. In supporting her third asserted reason for changing the sharing**
2 **percentage, does she properly reflect how the sharing mechanism in the FAC currently**
3 **works?**

4 A. No, she does not. At lines 6 to 7 on page 23 of Ms. Mantle's direct testimony,
5 she falsely claims that the Company is guaranteed to recover 95% of costs in the FAC. An
6 FAC only allows a utility to recover *prudently* incurred costs and it only allows recovery of
7 those prudently incurred costs if they are included in the FAC. Consequently, if, as a result
8 of a prudence review, the Commission determines costs were imprudently incurred then a
9 disallowance must be made. This is no guaranty of recovery. To the contrary, it allows
10 recovery of costs we properly managed and that the Commission properly determined ought
11 to be included in the FAC

12 **Q. Please address Ms. Mantle's third reason cited by her as support for her**
13 **contention that the sharing percentage should be changed; that is, her contention that**
14 **Ameren Missouri does not have sufficient incentive to properly manage the costs and**
15 **revenues in its FAC.**

16 A. I disagree with Ms. Mantle's contention that Ameren Missouri isn't
17 sufficiently incented to manage costs and revenues. There has been no evidence that the
18 Company has mismanaged the costs and revenues in the FAC under the current sharing
19 percentage. Ms. Mantle is making the same arguments she has made before about incentives,
20 but unlike in prior cases, where she tried to come up with instances that she claimed showed
21 a lack of proper incentive, she essentially comes up with no such instances here. Rather, she
22 makes all of the (false) claims already discussed to the effect that Ameren Missouri gets to
23 decide what costs to include without Commission oversight, tries to keep revenues out, etc.

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1 **Q. You indicated Ms. Mantle is rearguing the same points. Please explain.**

2 A. Two rate cases ago, Ms. Mantle argued that the sharing percentages should be
3 85%/15%, and she argued that again in the last rate case. Two cases ago, she gave several
4 reasons to try to justify the sharing percentage change, which the Commission itself
5 summarized as follows:

6 Staff offered four reasons why the sharing percentage should be changed.
7 First, Staff initially gave Ameren Missouri credit for asking that its net base
8 fuel costs be rebased in this rate case. Staff explained that the request to
9 rebase those costs showed that Ameren Missouri has a proper incentive to
10 avoid forfeiting the 5 percent share it would lose under the fuel adjustment
11 clause if its net base fuel costs were not rebased. However, later in the case,
12 Staff turned that positive factor into a negative by claiming that Ameren
13 Missouri's willingness to agree to a level of off-system sales revenue that the
14 company indicated was likely to be too low, showed that the company did not
15 have a proper incentive to get it right. Second, Staff claims that the results of a
16 recent prudence audit of Ameren Missouri's fuel adjustment clause in File No.
17 EO-2010-0255 justify imposing a larger sharing percentage on Ameren
18 Missouri. Third, Staff asserts that a larger sharing percentage might have
19 provided Ameren Missouri a greater incentive to avoid the miscalculation of
20 an input into its FAC rate that it identified in the true-up of the first recovery
21 period of its fuel adjustment clause. Fourth, and finally, Staff claims that
22 because Ameren Missouri's off-system sales are down since it implemented a
23 fuel adjustment clause, perhaps it does not have sufficient incentive to
24 maximize off-system sales.³⁸

25 The Commission rejected each of Ms. Mantle's arguments and retained the 95%/5%
26 sharing. The Commission specifically rejected Ms. Mantle's first argument, finding that the
27 Company's willingness to agree to a level of off-system sales based upon use of historical
28 prices that the Commission had always relied upon (and that Ms. Mantle herself insists must
29 be relied upon) indicated no lack of incentive on the Company's part.

³⁸ *Report and Order*, File No. ER-2011-0028.

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1 The Commission also rejected the notion that just because the Company believed the
2 revenues from two contracts fell outside the definition of off-system sales also provided no
3 support for Ms. Mantle's contention that a greater incentive is needed.

4 Ms. Mantle's third and fourth arguments in that case relating to incentives were also
5 rejected. The third argument was based on a *mutual mistake* by both the Company and the
6 Staff about a calculation early-on after the FAC was implemented. Based on a stipulated set
7 of facts, the Commission ruled that both parties were mistaken about some facts that under-
8 lay the calculation and ordered it corrected. Ms. Mantle argued that had there been a greater
9 sharing percentage the Company might have had more incentive to discover this mistake.
10 The Commission easily saw through the fallacy of that argument, concluding that the
11 evidence did not show that had the sharing percentage been greater the mistake would have
12 been less likely to occur.

13 Ms. Mantle's fourth argument was that the mere fact that off-system sales had
14 dropped from earlier periods meant there needed to be more incentive, but as the
15 Commission pointed out, retail sales were higher, meaning those megawatt-hours were not
16 available for off-system sales.

17 **Q. Has Ms. Mantle recycled any of these justifications for imposing a greater**
18 **sharing percentage in this case?**

19 A. Yes, she has. She once again ties Ameren Missouri's honest disagreement
20 about whether the revenues from two wholesale contracts entered into in 2009 (see Mantle
21 Direct, p. 22, l. 12-15) into a claim that Ameren Missouri lacks sufficient incentives under
22 the current FAC. I repeat: The Commission already rejected this argument. It is no more
23 valid now than it was before.

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1 **Q.** After all of her justifications for changing the sharing percentage two
2 rate cases ago were rejected, did Ms. Mantle advance other justifications in the
3 Company's last rate case?

4 A. Yes, she did, even though all of the conditions are the same now as they were
5 when she previously advanced these arguments. She first pointed out the obvious – if the
6 sharing percentage were greater and if net base energy costs go up – Ameren Missouri will
7 experience greater financial detriment. In that case, based on the historical period Ms.
8 Mantle examined,³⁹ that additional detriment would have totaled \$30 million. The
9 Commission rejected Ms. Mantle's argument, noting that \$30 million is not de minimis and
10 that in fact it represents "prudently incurred net fuel costs the company would never be able
11 to recover."⁴⁰ The same thing is true in this case, where she makes the same proposal, only
12 with a different percentage. That \$30 million total which the Commission recognized
13 reflected "prudently incurred net fuel costs the company would never be able to recover"⁴¹
14 has now grown to \$38 million based on 5% sharing. If, as the Commission recognized, \$30
15 million is not de minimis then certainly \$38 million isn't, and it is still true that parties
16 expend much time and energy on issues worth far less than that in rate cases.⁴² Ms. Mantle
17 proposes a sharing percentage that had it been in place would have doubled those under-
18 recoveries, to \$76 million.

19 **Q.** What other arguments has Ms. Mantle made?
20

³⁹ The period was from the inception of the FAC.

⁴⁰ *Report and Order*, File No. ER-2012-0166, p. 78.

⁴¹ *Id.*

⁴² *Id.*, p. 78.

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1 A. Ms. Mantle next argued that off-system sales revenues were more volatile
2 than fuel costs and suggested that an increased sharing percentage would allow Ameren
3 Missouri to keep more off-system sales margins. As I will discuss further below, the
4 Commission found no support for changing the sharing percentage based on volatile off-
5 system sales, instead concluding that the “volatility of off-system sales is an argument for
6 *keeping* the sharing mechanism at 95%/5%, not changing it.”⁴³ The Commission was right
7 then, and that principle holds today.

8 Ms. Mantle’s third argument in our last case was that more sharing would provide a
9 greater incentive to minimize fuel costs/maximize off-system sales. This argument has been
10 made in every rate case where an FAC has been considered. The Commission rejected that
11 argument as well, finding that in general, Ameren Missouri’s fuel costs are dictated by
12 national and international markets that are beyond Ameren Missouri’s control and that
13 Ameren Missouri already sells all of its in-the money generation to the MISO market so that
14 the opportunity for more off-system sales is limited.⁴⁴ Moreover, the Commission said there
15 was no allegation of imprudence.⁴⁵ The same things remain true in this case.

16 Ms. Mantle’s fourth argument was that more sharing on the Company’s part would
17 give the Company a greater incentive to accurately estimate net base energy costs when they
18 are rebased. The Commission pointed out that the Staff knew of no better predictors than
19 those being used by the Company (and other parties). Ms. Mantle suggests no better
20 predictors now, and, as noted earlier, she has consistently insisted that using historical
21 averages is the only approach she would support. Lastly, Ms. Mantle, now for the third time,

⁴³ *Id.*, p. 79.

⁴⁴ *Id.*

⁴⁵ *Id.*, p. 80.

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1 attempts to claim that the treatment of the two wholesale contracts from 2009 suggested a
2 lack of proper incentive. The Commission said: “Ameren Missouri has not misused the
3 FAC process and Staff’s argument is without merit.”⁴⁶

4 **Q. Doesn’t Ms. Mantle suggest that there is a new reason to change the**
5 **sharing percentage?**

6 A. Yes, she does come up with one new reason, claiming that if the Commission
7 does not “limit the number of items” in the FAC, then prudence reviews will be hindered,
8 which I assume she is suggesting means that the prudence reviews will really not create an
9 effective incentive for Ameren Missouri to properly manage the items in the FAC. She cites
10 to a 2007 Commission decision discussing prudence reviews and incentives as support for
11 her argument.

12 **Q. Before addressing her attempt to tie OPC's complaints about information**
13 **to the "incentives" issue, please address the incentives the Company has to properly**
14 **manage its net energy costs.**

15 A. We have repeatedly stated and the Commission has repeatedly acknowledged
16 that having a FAC is a privilege, and not a right, and that this provides a powerful incentive
17 for utilities to properly manage their net fuel costs. Missouri is unique in that we have a
18 statute that mandates we come in and file a rate case and ask to continue our FAC at least
19 every four years. The statute also mandates regular prudence reviews – we are in the middle
20 of our fourth such review since March 2009, when the FAC started. The bottom line is that
21 we have plenty of incentives to properly manage the components in the FAC. We could lose
22 the FAC entirely, we could suffer prudence disallowances, plus we have already failed to

⁴⁶ *Id.*

1 recover \$30 million of prudently incurred changes in net energy costs and have a significant
2 incentive to minimize the extent to which that number will grow.

3 **Q. But is Ms. Mantle right when she suggests the Commission found that**
4 **some additional incentive via sharing was warranted?**

5 A. While it is true that when the Commission approved the first FAC (since the
6 2005 statute authorizing them) in Missouri, the Commission found that prudence reviews
7 alone were not sufficient to assure that the utility will act prudently (in that case, the utility
8 was Aquila).⁴⁷ It is also true that the Commission decided then, and has consistently
9 concluded since then, that the 5% sharing mechanism in all the Missouri FACs is sufficient.

10 **Q. You noted that the Commission has discussed the incentives utilities have**
11 **and the sufficiency of the 5% sharing mechanism the Commission utilizes. Please**
12 **elaborate.**

13 A. When the Company's FAC was first approved, the Commission rejected
14 various sharing percentages proposed by others, stating that the 95% pass through "provides
15 Ameren Missouri sufficient incentive to operate at optimal efficiency" because of several
16 incentives it had in place to minimize net fuel (now called net energy) costs.⁴⁸ With one
17 exception,⁴⁹ all of those incentives still exist. One of the incentives specifically called out by
18 the Commission was the existence of the prudence review process. I have included the

⁴⁷ I disagree with that conclusion, but the Company has respected it and for five cases in a row has proposed essentially the same FAC, with 95%/5% sharing, even though we do not believe there should be a sharing percentage at all (as is the case with more than 80% of the FACs utilized by the other 91 utilities with FACs).

⁴⁸ *Report and Order*, File No. ER-2008-0318, p. 73.

⁴⁹ Ameren Missouri no longer operates as part of a coal pool, nor could it since it no longer has an unregulated generation affiliate.

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1 Commission's discussion of all of the incentives discussed by the Commission in that case
2 as Schedule LMB-R7 to my testimony.

3 **Q. You mentioned that Ms. Mantle herself has acknowledged that**
4 **there are powerful incentives for Ameren Missouri to properly manage its net**
5 **fuel costs. Please explain.**

6 A. In her sworn deposition in Case No. ER-2011-0028, she testified as follows:

7 *Q Okay. Do you agree if there is imprudence the Commission has the*
8 *power and the obligation to disallow any costs related to the imprudence?*

9
10 *A Yes.*

11
12 *Q And would you agree that that is a powerful incentive for a utility to*
13 *avoid imprudent behavior?*

14
15 *A Yes.*

16
17 *Q Would you agree with me that the use of a fuel adjustment clause in*
18 *Missouri is a privilege and not a right for utilities?*

19
20 *A That is correct.*

21
22 *Q And isn't it true that the Commission can take away a utilities [sic] fuel*
23 *adjustment clause if it believes the utility is misusing it?*

24
25 *A Yes.*

26
27 *Q And doesn't that also provide a powerful incentive for utilities to act*
28 *reasonably and prudently with respect to their FACs?*

29
30 *A Yes.⁵⁰*

31 I agree with her statements and they demonstrate that there is no need to double the
32 potential loss of prudently incurred net energy costs as she is advocating in this case.

⁵⁰ Lena Mantle Deposition, File No. ER-2011-0028, April 13, 2011, p. 44, l. 7 – p. 45, l. 18.

1 **Q. Given these incentives, please comment on Ms. Mantle's attempt to tie**
2 **prudence reviews to the sharing mechanism.**

3 A. Her attempt to tie the two together fails for the same reason as does her claim
4 that the MFR requirements are different than they actually are and her claim that parties do
5 not have the information needed to identify the costs and revenues in the FAC; that is,
6 because those claims are not true. The costs and revenues are "adequately defined," Ameren
7 Missouri does not have "discretion" as to what to include (or exclude) and it most certainly is
8 possible for prudence reviews to be properly conducted. Staff's testimony in this or in any
9 other Ameren Missouri rate case has never claimed an inability to conduct a proper prudence
10 review. This argument and its tie to incentives is a red herring.

11 **Q. Ms. Mantle makes a couple of additional points in the middle of page 23**
12 **of her testimony about the current 95%/5% sharing mechanism. Do you understand**
13 **those points?**

14 A. I'm not sure that I do, but I believe her first point is that our prudent hedging
15 processes should disqualify us from utilizing an FAC. As I explained earlier, despite our
16 prudent hedging programs, we still face substantial variability in our delivered fuel costs and
17 the other components in our FAC.

18 **Q. Is she making other points?**

19 A. I don't know what the ability to hedge some exposure or to buy power from
20 the MISO market has to do with incentives. For the reasons discussed earlier, we have the
21 proper incentive to properly manage all of the components of our net base energy costs, and
22 that is without any sharing at all. The 5% share of changes ensures that we will under-
23 recover prudently incurred net energy costs if they rise (and ensures customers will not

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1 receive the benefit of all decreases in net base energy costs when they decline), and some
2 contend the 5% adds to our incentive. Ms. Mantle seems to think that more and more sharing
3 is needed, but she provides no proof. Her 90%/10% proposal is, like her last 85%/15%
4 proposal, nothing more than an experiment – an experiment for which no need has been
5 shown – and an experiment that had it been in place previously would have cost the
6 Company \$76 million in lost, prudently incurred net energy costs.

7 **Q. How would an even greater sharing percentage for Ameren Missouri**
8 **compare to FACs of the other 91 utilities operating in non-restructured states?**

9 A. As noted, it would put Ameren Missouri in a very small minority of utilities
10 that have sharing at all (only about 18%), and an even smaller minority of utilities that have
11 FACs that track changes versus *historical* costs.

12 **Q. What is the significance of sharing based on a comparison to historical**
13 **costs?**

14 A. More than half of all FACs track changes against projected costs. While
15 projections are of course not perfect, in general, one can be expected to have smaller changes
16 versus the base established for comparison in the FAC if projected costs are used to establish
17 the base. This means that the impact of any sharing mechanism will be less. Put another
18 way, since historical costs are used to establish the base in Missouri, a 5% share in Missouri
19 is likely greater than a 5% share in a state where projected costs are used. Of the 41 utilities
20 in other states (omitting Ameren Missouri, Empire and KCPL-GMO) where FACs use
21 historical costs to establish the base, only about 32% have any sharing at all.

22 **Q. Are there any other reasons that the sharing mechanism should not be**
23 **changed?**

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1 A. Yes. Regardless of other considerations, the sharing mechanism should not be
2 changed because inconsistent regulatory policy has the effect of eroding investor confidence
3 in utilities and casts a shadow on the state regulatory process. Ameren Missouri witness
4 Gary Rygh's rebuttal testimony describes how uncertainty relating to the components of the
5 FAC in every rate case would erode investor confidence in the regulatory process. Reduced
6 credit quality would make it more costly and potentially more difficult for Ameren Missouri
7 to access the capital needed to fund necessary investments in the system. As Mr. Rygh
8 discusses in detail, this would be particularly true where, as here, there has been absolutely
9 no evidence that the Company has acted imprudently regarding its net fuel cost management.

10 **Q. Bottom line: Is the implication that the Company needs more sharing**
11 **and greater incentive to properly manage its net fuel costs true?**

12 A. No, it is not. We are continually mindful that the FAC is a privilege granted
13 by the Commission which can be revoked, and that fuel and purchased power costs and OSS
14 margins are subject to prudence reviews, and those considerations provide the Company with
15 powerful incentives to keep our net energy costs as low as possible. The Company's rigorous
16 policies and processes for procuring fuel and purchased power and for making off-system
17 sales did not change when the FAC was initiated nor have they changed in the five and one-
18 half years since then. Increases in fuel and purchased power costs occur because we operate
19 in fuel and power markets we cannot control. Off-system sales margins are impacted by
20 several factors, including market power prices and the amount of excess generation available
21 after our retail load needs are met, which are often impacted by uncontrollable factors such as
22 weather.

1 **Q. You have now addressed Ms. Mantle’s reasons two through four in**
2 **support of her fallback position regarding the sharing percentages. Please address her**
3 **first reason, which relates to recent surveillance reports.**

4 **A. As was just debated in great detail in File No. EC-2014-0223, earnings results**
5 **reported in monthly surveillance reports fall far short of telling an accurate story about**
6 **whether the Company’s current or past rates have become unjust or unreasonable. During**
7 **our last rate case, surveillance reports showed earnings in excess of our then-authorized**
8 **return. The Commission, based upon proper cost of service studies and its resolution of**
9 **disputed issues, nevertheless concluded our rates were too low and needed to be raised based**
10 **on a revenue requirement increase of approximately \$260 million. In File No. EC-2014-**
11 **0223, an over-simplified reliance on surveillance reporting would have led one to the**
12 **erroneous conclusion that the Company’s rates were too high; the same would be true of the**
13 **latest surveillance report results submitted since that case was over. The Staff in this case,**
14 **after conducting what it believes is a comprehensive cost of service study, is recommending**
15 **a rate increase. The Commission explained why decisions like the one OPC wants the**
16 **Commission to make regarding the sharing percentage in the FAC should not be made based**
17 **upon past surveillance reports:**

18 However, it is important to understand that the earnings levels reported in the
19 surveillance reports are actual per book earnings of the utility and cannot be
20 compared directly to an authorized return on equity to determine whether a
21 utility is overearning. Actual per book earnings are often computed differently
22 than earnings used for the purpose of establishing rates. When setting rates,
23 the Commission looks at “normal” levels of ongoing revenues and expenses,
24 while book earnings can be affected by abnormal, non-recurring and
25 extraordinary events. A good example of this is the weather. The Commission
26 sets a utility’s rates on the assumption that weather will be normal. But, of
27 course, we all know that Missouri weather is seldom normal. If the summer is
28 very hot and people use their air conditioners more than average, Ameren

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1 Missouri will sell more than the usual amount of electricity and its revenues
2 will be higher than expected. That means its actual per book earnings will be
3 higher than anticipated when rates were set. However, the next summer
4 temperatures may be cooler than normal, meaning air conditioners are not
5 turned on and Ameren Missouri's actual per book earnings will fall below
6 expectations. As a result, a single year of data needs to be normalized to
7 remove the effect of abnormal weather before it can be used to set rates.
8 Weather is only one of many items that must be adjusted or normalized when
9 setting rates.⁵¹

10 Sharing percentage changes should not be based upon past surveillance report results,
11 both because those surveillance results do not accurately tell the Commission whether past
12 rates were too low, too high or just right, and because if one accepts the premise behind why
13 the Commission imposed 95%/5% sharing in the first place (and why Ms. Mantle wants to
14 change the percentages) – that is, to provide an incentive to manage net fuel costs properly –
15 what the earnings have been in the past has nothing to do with that premise.⁵²

16 **Q. Ms. Mantle raises one more issue as part of her fallback position,**
17 **appearing at page 26 of her direct testimony. Can you please describe this issue?**

18 **A. Yes. Ms. Mantle expresses concern over the feature of the FAC tariff that**
19 **would allow the Company to utilize off-system sales margins to replace retail margins from**
20 **Noranda Aluminum Inc. (Ameren Missouri's largest customer) in the event that Noranda**
21 **experiences a significant load reduction.**

22

⁵¹ *Report and Order*, File No. EC-2014-0223, pp. 8-9 (footnotes omitted). As the Commission also explained there, the surveillance data shows that the Company has experienced a much longer period of earning substantially less (even farther below) than its authorized return, than the length of the period during which it has experienced surveillance results above its authorized return.

⁵² I question the relevance of surveillance reporting to the FAC at all insofar as surveillance reporting results are reporting a utility's overall earnings on a per book basis. There are a myriad of costs and revenues unrelated to FAC components that affect financial results. Surveillance reporting may be warranted so the Commission can observe trends over time, but it is not a FAC-related issue.

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1 **Q. Does Ms. Mantle correctly characterize the operation of this provision of**
2 **the tariff?**

3 A. No, she does not. Ms. Mantle claims that the Company would retain all of the
4 incremental off-system sales revenue associated with the volume reduction from Noranda,
5 but would also avoid significant variable costs, thereby over-collecting the fixed costs that
6 should have been recovered from Noranda. That is simply a misreading of the tariff and is
7 factually incorrect.

8 **Q. Why is it misleading and incorrect?**

9 A. The fuel costs incurred to serve Noranda would also still be incurred to serve
10 the incremental off-system sales made in Noranda's absence. Because the Company's
11 generating units will be dispatched even if not needed to meet retail demand, the total
12 generation output would in all probability be materially the same with or without Noranda,
13 and the fuel burned would also be the same. There are no variable cost savings. However,
14 despite that fact, there would still be a basis for Ms. Mantle's concern if the Company had
15 not explicitly addressed it already in the way that the tariff mechanism operates.

16 **Q. Does the FAC tariff already address this issue and, if so, please explain?**

17 A. Yes, it does. The relevant formula from the FAC tariff is the calculation of
18 the Fuel Adjustment Rate ("FAR").

19
$$FAR_{RP} = [(ANEC - B) \times 95\% + I \pm P \pm T] / SRP$$

20 To explain as simply as possible the relevant portions of this formula, I'll focus on the
21 term ANEC-B that appears in parentheses. This term is designed to compare the actual net
22 energy costs incurred by the Company to the net energy costs that have been billed to
23 customers to determine the extent to which actual net energy costs have been recovered. The

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1 difference (over- or under-recovery) is the basis of the forward looking adjustment to the rate
2 charged to customers. One component of the actual net energy costs (“ANEC”) is a credit
3 against the total fuel and purchased power expense for the total off-system sales revenue
4 earned by the Company. If Noranda’s load were reduced to the threshold that triggered this
5 feature of the tariff, the off-system sales revenues made possible due to the excess generation
6 that would have otherwise served Noranda would be removed from the term ANEC. Said
7 another way, instead of that revenue being a credit to customers to reduce their future FAC
8 charges, it is retained by the Company to recover costs that would otherwise have been
9 recovered from Noranda.

10 The key to resolving Ms. Mantle’s concern, however, is in the factor “B” in the term
11 (ANEC-B). Factor B is further defined in the tariff to be the fuel rate embedded in retail
12 rates times the volume of retail sales, hence it describes the fuel costs already billed to and
13 recovered from customers. Later in the tariff it is clearly spelled out that if Noranda’s load is
14 reduced, the volume of off-system sales whose revenues are reclaimed by the Company are
15 also added into the load in the calculation of factor B. What this means is that while
16 customers lose the revenues associated with the off-system sales, they get a credit for the
17 variable cost contribution of those revenues. So in essence, the tariff already operates as Ms.
18 Mantle proposes. The recovery mechanism is limited to fixed costs recovery from the off-
19 system sales made to make up for the Noranda sales reduction.

20 **Q. Can you please provide a numerical example to demonstrate how this**
21 **phenomenon works?**

22 **A. Yes.** The example below assumes a 40,000 MWh load decline and further
23 assumes that the off-system price realized for the 40,000 MWh of load is \$30/MWh. It

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1 demonstrates that, while the Company initially is credited with \$1.2 million in off-system
2 sales revenue, \$600,000 of that is returned to customers as a contribution to variable cost
3 recovery while the remaining \$600,000 would be retained by the Company to recover fixed
4 costs.

Tariff Terms:

$$FAR_{RP} = [(ANEC - B) \times 95\% + I \pm P \pm T] / S_{RP}$$

$$ANEC = FC + PP + E - OSSR$$

$$B = BF \times S_{AP}$$

Hypothetical Noranda load reduction (MWh)	40,000	
Hypothetical Off-System Sales Rate (\$/MWh)	\$30.00	
Decrease to OSSR (increase to ANEC)	\$1,200,000	← OSS Revenue Retained by Company to Replace Noranda Revenues
Increase to S_{AP} due to Noranda Reduction	40,000	
BF (Summer Base Factor in current FAC tariff)	\$14.96	
Increase to B	\$598,400	← Variable Component of OSS Revenue Credited Back to Customers to Contribute to Fuel Cost Recovery
ANEC-B impact of Noranda reduction	601,600	← Fixed Cost Contribution of Off-System Sales Retained by Company

5 **Q. Do you have any other comments on the operation of this tariff?**

6 **A.** Yes. The design of the tariff ensures that the Company will never over-collect
7 the fixed costs that would have been provided by Noranda, but leaves significant risk to the
8 Company of under-collecting those fixed costs. There are multiple reasons for this. First,
9 this adjustment does not apply until the load reduction at Noranda is 40,000 MWh in a
10 month. As is evident from the example above, at this threshold level the Company is already
11 losing over a half million dollars a month before even one dollar of revenue from off-system
12 sales is retained to address the issue. The second way the Company still bears risk is that the
13 tariff provides that the Company can only retain the lesser of the actual market revenues or
14 the level of retail revenues that would have been received from Noranda. Said another way,
15 if the market price realized for off-system sales is below Noranda's retail rate, the Company

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1 bears the shortfall in fixed cost recovery, but in no circumstance if the market price exceeds
2 Noranda's retail rate will the Company keep any excess revenues beyond those required to be
3 made whole to the level that Noranda would have provided. These two features ensure that
4 the Company still bears risk of lost fixed cost recovery if Noranda's load declines, but other
5 customers can be no worse off than if Noranda was still operating normally.

6 **E. Staff's Recommendations.**

7 **Q. Please address Staff's recommendations in the Staff Report and also in**
8 **the Staff's rate design report filed on December 19, 2014.**

9 A. The Staff recommends continuation of the Company's FAC as we proposed
10 and as reflected in the exemplar FAC tariff included with my direct testimony. The only
11 exception is that the Staff "disagrees" with the rebased FAC rates included in that tariff on
12 the grounds that the rebased rates were based on pro forma estimates through December 31,
13 2014. We agree that the final FAC rates (for both summer and winter) will be based on the
14 actual net base energy costs determined in this case using actual data through the end of the
15 true-up period (and the contracted-for increases in delivered coal costs as of January 1,
16 2015). Consequently, we do not believe we have any substantive disagreement with the Staff
17 regarding the FAC.⁵³

18 Staff's only other recommendation is that we provide some additional monthly
19 reporting (see pages 170-71 of the Staff Report). This reporting is not "additional" in the
20 sense that these are the same recommendations the Staff has previously made to which the
21 Company has previously agreed. We remain in agreement with these recommendations.

⁵³ The Staff's Report also indicated that the FAC tariff should clarify that fuel costs related to our Maryland Heights landfill gas facility are excluded from the FAC. Our proposed tariff already included this clarification,

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1 operations at the smelter were substantially curtailed for approximately 14 months. As an
2 additional consequence, Ameren Missouri was unable to recover almost \$36 million of fixed
3 costs that the Commission had allocated to Noranda in a final rate case order issued just days
4 before the ice storm struck, and which would have been recovered from Noranda in the
5 absence of the ice storm.

6 Ameren Missouri initially believed it could recoup these unrecovered fixed costs by
7 re-selling the power that Noranda was unable to take under sales contracts to AEP and
8 Wabash that would be exempt from the Company's FAC. However, in 2011 the
9 Commission ruled revenues received under those contracts were subject to the FAC and
10 should be reflected in the FAC as off-system sales, which credits 95% of incremental
11 margins earned on off-system sales to customers. In other words, only 5% of the margins
12 from those sales could be used to offset the Company's lost fixed costs. Upon receiving that
13 decision, in July 2011 Ameren Missouri promptly filed its application for an AAO to allow
14 the Company to defer its unrecovered fixed costs and to permit it to seek recovery of those
15 costs in its next rate case. The AAO application was docketed as File No. EU-2012-0027.

16 **Q. Were other parties supportive of Ameren Missouri's application for an**
17 **AAO?**

18 **A.** No, they were not. The Commission Staff, the OPC, and the MIEC, in
19 particular, opposed Ameren Missouri's application. Among other things, they argued that
20 the application for the AAO was untimely, that it inappropriately sought recovery of un-
21 generated revenues (rather than unrecovered fixed costs), and that it did not result in a loss to
22 Ameren Missouri, since the Company had positive (albeit reduced) earnings during the 14-
23 month period of the curtailment.

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1 In a fully litigated case that took over two years to complete, Ameren Missouri
2 vigorously defended its AAO application. With regard to the argument the application was
3 untimely, the Company pointed out it had filed the application as soon as it could have—just
4 weeks after the Commission ruled it could not recoup its lost fixed costs through sales of the
5 power to AEP and Wabash. With regard to the argument the AAO sought to defer un-
6 generated revenues, Ameren Missouri pointed out the total un-generated revenues resulting
7 from Noranda's curtailment were much higher than the unrecovered fixed costs the
8 Commission assigned to Noranda's rate class and which the Company sought to defer.
9 Moreover, even if the loss were characterized as lost revenues, Ameren Missouri pointed out
10 lost revenues could be deferred in an appropriate circumstance under the Uniform System of
11 Accounts and consistent with prior Commission cases. Finally, with regard to the argument
12 that the Company had not suffered a loss so long as it had any amount of positive earnings –
13 even \$1 – during the period of Noranda's outage, the Company pointed out that "any positive
14 net earnings" has never been the standard the Commission has employed in authorizing
15 AAOs or approving recovery of amounts deferred through an AAO. If that were the
16 standard, no utility would ever have been able to recover extraordinary costs through the use
17 of an AAO. Moreover, it is simply not true a utility with even one dollar of earnings has
18 covered all of its costs.

19 **Q. What was the Commission's ruling in File No. EU-2012-0027?**

20 A. In its *Report and Order* issued on November 26, 2013, the Commission
21 granted Ameren Missouri's application. The Commission rejected the other parties'
22 argument the Company's application was untimely, finding "they [the other parties] made no
23 persuasive argument supporting a calculation of the deadline for filing an application for an

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1 AAO.” The Commission also found items eligible for deferral through an AAO include an
2 “‘extraordinary item,’ an item that pertains to an event that is extraordinary, unusual and
3 infrequent, and not recurring.” The Commission also specifically found revenue not collected
4 by a utility to recover its fixed costs could be an item eligible for deferral, and cited
5 analogous cases where it had allowed deferral of such uncollected revenues in the context of
6 energy efficiency programs and the Cold Weather Rule. Finally the Commission found the
7 loss of the almost \$36 million in fixed costs, which constitutes 8.5% of Ameren Missouri’s
8 net income, is extraordinary and material, and can be deferred under the Uniform System of
9 Accounts. The Commission noted that deferral preserves an item for consideration when
10 setting just and reasonable rates in a future rate case, but it does not guarantee recovery in
11 that case; recovery may be granted in whole, partially, or not at all. A copy of the
12 Commission’s *Report and Order* in File No. EU-2012-0027 is attached to this testimony as
13 Schedule LMB-R8.

14 **Q. Have there been further proceedings regarding the Commission’s**
15 **decision in File No. EU-2012-0027?**

16 A. OPC and MIEC appealed the Commission’s decision to the Missouri Court of
17 Appeals. On Tuesday of this week (January 13, 2015), the Court of Appeals ruled against
18 OPC and MIEC on their appeal and affirmed the Commission’s decision. A copy of the
19 Court of Appeals’ Memorandum is attached to this testimony as Schedule LMB-R9.

20 **Q. What is Ameren Missouri’s proposed treatment in this case of the**
21 **amounts deferred in File No. EU-2012-0027?**

22 A. The Company proposes to amortize the deferred amounts over five years. We
23 believe this is an appropriate deferral period because it mitigates the impact of this item on

1 customer rates, and it is consistent with the amortization the Commission has employed for
2 other extraordinary storm-related costs.

3 **Q. Have witnesses for the Staff, OPC and MIEC presented persuasive**
4 **arguments against this amortization?**

5 A. In my opinion, no. In general, these witnesses are simply attempting to re-
6 litigate issues that were specifically decided by the Commission in File No. EU-2012-0027,
7 as affirmed by the Court of Appeals. For example, they are re-arguing that Ameren Missouri
8 did not act in a timely fashion, that it is inappropriate to defer unrecovered revenues, and that
9 so long as Ameren Missouri had any earnings at all – even \$1 – it should not be allowed to
10 recover this deferral. These arguments lack merit and they have already been explicitly
11 rejected by the Commission. The Court of Appeals found no error on the Commission’s part.
12 I will, however, nonetheless address the specific arguments contained in each witness’
13 testimony below.

14 **Q. In his direct testimony, Staff witness John Cassidy states “it is**
15 **inappropriate to attempt to recover lost revenues from a period approximately five**
16 **years ago, and subsequent to the conclusion of three prior general rate cases.” Do you**
17 **agree?**

18 A. No. The Company is requesting recovery in this case because it is the first
19 opportunity following the Commission’s November 2013 *Report and Order* granting the
20 AAO. It would not have been possible for the Company to request recovery in any of the
21 previous general rate cases cited by Mr. Cassidy without a Commission Order granting the
22 AAO, and the Commission already has explicitly determined that the Company did not miss
23 any claimed deadline for seeking the AAO.

1 **Q. Both Mr. Cassidy and OPC witness Ted Robertson claim it is generally**
2 **not appropriate to utilize an AAO to recover lost revenues. Do you agree?**

3 A. No, and neither does the Commission or the Court of Appeals. In its *Report*
4 *and Order* in Case No. EU-2012-0027, the Commission stated “[r]evenue not collected by a
5 utility to recover its fixed costs, under some circumstances, is an 'item' that may be deferred
6 and considered for later rate making.” The Commission goes on to state “[t]his is consistent
7 with Commission regulations regarding certain energy conservation programs which specify
8 that lost revenue may constitute an item for recording.” The Court of Appeals stated that it
9 was logical and reasonable to compare the sums deferred pursuant to the Commission’s
10 decision in File No. EU-2012-0027 to deferrals of lost revenues previously sanctioned by the
11 Court of Appeals (revenues lost under the Commission’s Emergency Cold Weather Rule).⁵⁴

12 **Q. Mr. Robertson suggests the examples cited by the Commission in its**
13 **Report and Order, where uncollected revenues have been deferred, are different from**
14 **the circumstances in this case because those other examples have a basis in law and**
15 **revenues that cannot be collected due to an extraordinary storm do not. Further, he**
16 **cites a Missouri Gas Energy (“MGE”) case (File No. GU-2011-0392) as support for his**
17 **position that recovery should be denied. Do you agree?**

18 A. No. The Commission denied MGE’s request to recover unrecovered fixed
19 costs in File No. GU-2011-0392 because the Commission concluded MGE’s overall revenues
20 did not decrease despite the devastation of the storm event that gave rise to MGE’s AAO
21 request. But that is not the case here. Even when including the revenues recorded from the
22

⁵⁴ Schedule LMB-R9, Court of Appeals’ Memorandum, at p. 10.

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1 AEP and Wabash contracts the Commission subsequently ordered to be flowed through the
2 Company's FAC, Ameren Missouri's 2009 revenues decreased by \$56 million compared to
3 2008. The majority of those revenue losses were attributable to the loss of the Noranda load.

4 In addition, Mr. Robertson's argument ignores the fact in granting the Company's
5 AAO the Commission fully considered its order in File No. GU-2011-0392 and whether that
6 case barred the relief Ameren Missouri was seeking. The Commission concluded it did not.

7 **Q. Mr. Robertson goes on to suggest Ameren Missouri's proposed**
8 **amortization of the regulatory asset the Commission approved through the AAO**
9 **constitutes retroactive ratemaking. Do you agree?**

10 A. No. Mr. Robertson's argument is essentially that recovery of any amount
11 deferred through an AAO in a subsequent period constitutes retroactive ratemaking.
12 Although I am not a lawyer, I know that the Commission has a long history of utilizing
13 AAOs to amortize the cost of extraordinary, non-recurring events for rate recovery in future
14 periods. If this is retroactive ratemaking, then the Commission has been issuing unlawful
15 AAO orders for decades. The Company's attorneys will further address the lawfulness of
16 AAOs in their briefs, including, I am sure, the Court of Appeals' reiteration in its
17 Memorandum that granting AAOs is not retroactive ratemaking.⁵⁵

18 From an accounting perspective the very nature of an AAO request results in both the
19 deferral and subsequent amortization during a period different from the period when the
20 event occurred. If recovery of an AAO (for revenues or expenses) constituted retroactive
21

⁵⁵ *Id.*

1 rate making, there would also be no reason for AAOs to exist at all in the Uniform System of
2 Accounts. Mr. Robertson's position on this issue is therefore illogical and also inconsistent
3 with common regulatory accounting practice.

4 **Q. MIEC witness Greg Meyer suggests Ameren Missouri hasn't provided**
5 **any testimony regarding the proper recovery of the deferred amount. Is there direct**
6 **testimony that addresses recovery of these costs?**

7 A. Yes. As Mr. Meyer notes in his testimony, Ameren Missouri witness Laura
8 Moore includes testimony recommending amortization of the deferred amount over five
9 years. These were costs properly recorded on Ameren Missouri's books per the *Report and*
10 *Order* issued by the Commission in File No. EU-2012-0027. As a result, no further
11 explanation was required.

12 **Q. But, hasn't the Company had positive earnings during the period the loss**
13 **occurred and in subsequent periods since?**

14 A. Yes, but the fact that the Company had positive earnings is irrelevant. As I
15 previously mentioned, if this were the standard for recovery of amounts deferred through an
16 AAO, no utility would ever be able to obtain an AAO or recover any deferred amounts.
17 Ameren Missouri witness John Reed also addresses this issue in his rebuttal testimony.

18 **Q. Mr. Meyer also asserts these costs should not be amortized because they**
19 **have already been included in the determination of Ameren Missouri's revenue**
20 **requirement in a past Ameren Missouri rate case. How do you respond?**

21 A. Mr. Meyer is missing the point. The fact that these costs were included in the
22 Company's revenue requirement in a prior rate case merely serves to underscore the
23 legitimacy of the AAO and the Company's request to recover the deferred amount. The

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1 relevant consideration, as the Commission recognized when it granted the AAO, is that
2 Ameren Missouri was unable to recover these costs due to the extraordinary impact of the
3 2009 ice storm.

4 **Q. Are you suggesting that by granting the AAO the Commission**
5 **guaranteed the Company would be able to recover these costs in rates in this case?**

6 A. No. As the Commission recognized in its *Report and Order* in File No. EU-
7 2012-0027, an AAO only provides the Company the opportunity to seek recovery of deferred
8 costs in a subsequent rate case. It provides no guarantee those costs will actually be
9 recovered. For example, parties could properly oppose recovery of deferred costs in this case
10 on a variety of grounds. They could present evidence some or all of the deferred costs were
11 imprudently incurred, or that the failure to recover fixed costs from Noranda was attributable
12 to the Company's imprudent actions. They could also challenge the calculation of the costs,
13 or the amount of revenues lost during the Noranda curtailment that would otherwise have
14 paid those costs. However, in this case, the parties have not presented any evidence that the
15 costs (or lost revenues) were improperly calculated or the loss was attributable to any
16 improper actions by the Company. Instead, they have simply argued the AAO never should
17 have been issued in the first place (the Court of Appeals disagreed), and are thus just
18 rehashing arguments the Commission already rejected in its prior *Report and Order*. These
19 arguments do not provide a basis for disallowing a reasonable amortization of costs that have
20 been already been properly deferred per the Commission's order.

21 **Q. Is the five-year amortization proposed by the Company necessary?**

22 A. No. The amortization period proposed by the Company is somewhat
23 arbitrary, but it is the same period the Commission has used in the past to amortize

1 extraordinary storm costs in other circumstances. The impact of this amortization on
2 customer rates can be reduced by extending the amortization period, and the Company would
3 not oppose a reasonable extension of the amortization period if the Commission thought that
4 was necessary or appropriate in this case.

5 **IV. BOARD OF DIRECTORS' FEES**

6 **Q. Mr. Kunst opposes recovery of the portion of Ameren Corporation's**
7 **Board of Directors fees and related expenses that are allocated to Ameren Missouri,**
8 **claiming these represent parent company ownership costs that shouldn't be included in**
9 **customer rates. Do you agree?**

10 A. No, I do not. Ameren Missouri customers benefit from the service that
11 Ameren Corporation's independent board of directors provide and thus a prudently allocated
12 cost should be included in customer rates. In fact, the only reason that Ameren Missouri
13 doesn't incur these expenses itself is because it is a subsidiary of a holding company, an
14 arrangement approved by the Commission when Union Electric Company and Central
15 Illinois Public Service Company were merged in 1997. The costs did not go away after the
16 merger, but rather, are now simply incurred by our parent. We are, and should be, allocated
17 an appropriate share of these expenses.

18 **Q. Doesn't Ameren Missouri have a board of directors?**

19 A. Yes, Ameren Missouri has a board of directors completely comprised of
20 officers of Ameren Missouri, but it performs only a small portion of the functions that an
21 independent board of a publicly traded utility holding company performs. As I discuss
22 further below, the Ameren Missouri board of directors used to perform all of those functions
23 before the merger and, as noted, those functions did not simply disappear.

1 **Q. What is the significance of Ameren Corporation's board of directors**
2 **being independent?**

3 A. First of all, as a publicly-traded company traded on the New York Stock
4 Exchange, Ameren Corporation is required under Section 303A of the NYSE Listing Manual
5 to have a majority of its board be comprised of independent directors. In addition, Section
6 303A requires that certain board committees, including the audit committee, the
7 compensation committee, and the nominating committee, be comprised entirely of
8 independent directors. Ameren Corporation's board meets these criteria as the only non-
9 independent member of the board is Ameren's Chairman and Chief Executive Officer, who
10 does not serve on any of the Board committees. In addition, the Ameren Corporation Board
11 has the following committees, comprised entirely of independent directors: the Nuclear
12 Oversight and Environmental Committee and the Finance Committee. Both shareholders
13 and customers benefit from the independent directors on the Board.

14 **Q. If Ameren Corporation did not exist, would Ameren Missouri have to**
15 **have a board of directors with a majority of independent directors?**

16 A. As I noted earlier, if Ameren Missouri were a publicly traded company on the
17 New York Stock Exchange (as it was prior to the creation of Ameren Corporation) the same
18 requirements would apply to it. However, instead of paying an allocated share of the cost of
19 Ameren Corporation's Board of Directors, Ameren Missouri would have to pay 100% of the
20 cost of its own board of directors.

21 **Q. How do Ameren Missouri customers benefit from Ameren Corporation's**
22 **independent board of directors?**

Rebuttal Testimony of
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1 A. Ameren Corporation's board of directors provides management oversight in
2 numerous areas. For example, the Ameren Corporation board oversees the Company's risk
3 management processes and business strategy, approves management decisions around
4 compensation, assumptions made regarding pension and benefit plans, monitors the
5 relationship with external auditors and provides oversight of the Callaway Energy Center,
6 among other things. In all of these cases, the customer benefits from the oversight that the
7 independent directors provide.

8 **Q. Couldn't those same oversight tasks be done by a non-independent**
9 **board?**

10 A. Yes they could. However, the independence of the directors adds value to this
11 oversight role by bringing a diverse set of skills, expertise and perspective to the Company
12 and by avoiding any conflicts of interest that could arise from a non-independent board.

13 **Q. How are Ameren Corporation's board fees and expenses allocated to**
14 **Ameren Missouri?**

15 A. Board of director fees and expenses are allocated to the Ameren subsidiaries
16 using an allocation factor that is based on capital structure. This method results in
17 approximately 42% of these expenses being allocated to Ameren Missouri.

18 **Q. In Mr. Kunst's testimony, he suggests that many of the allocated costs**
19 **were duplicative since Ameren Missouri has its own board. Is that true?**

20 A. No, it is not. Since the Ameren Missouri directors are comprised of
21 employees of the Company who receive no additional compensation for their service as
22 directors, there are no additional costs relating to their duties as board members.

Rebuttal Testimony of
Lynn M. Barnes

1 not generally face the level of safety risks faced by employees working in generation or
2 energy delivery, safety is nevertheless important for them. As an officer I am expected to
3 lead on all important Company initiatives, including relating to safety. I do this by
4 discussing potential safety hazards and pointing out emergency exits in meetings I lead in our
5 general office building (often with participants who do not routinely work in the building).
6 In addition, I prepare an annual safety letter that is distributed to all Ameren Missouri
7 employees. Both types of activities reinforce a safety culture and awareness among our
8 coworkers and contribute to a safety attitude.

9 **Q. Does this conclude your rebuttal testimony?**

10 **A. Yes, it does.**