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Proposals
Witness: Lynn M. Barnes
Sponsoring Party: Union Electric Company
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MISSOURI PUBLIC SERVICE COMMISSION

Case No. EO-2012-0142

SURREBUTTAL TESTIMONY

OF

LYNN M. BARNES

ON

BEHALF OF

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

**St. Louis, Missouri
May, 2012**

SURREBUTTAL TESTIMONY

OF

LYNN M. BARNES

CASE NO. EO-2012-0142

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

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

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

5 A. I am employed by Union Electric Company d/b/a Ameren Missouri as Vice
6 President Business Planning and Controller.

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

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

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

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

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

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

9 A. In my current position as Vice President, Business Planning and Controller, I
10 supervise the Company's financial affairs, including nearly \$1.5 billion of annual operations
11 and maintenance ("O&M") expenses and capital expenditures. I direct Ameren Missouri's
12 financial management functions including analysis of monthly and quarterly financial
13 statements, financial forecasting, budget development and management, and management of
14 the customer accounts department. I also coordinate the performance management reporting
15 and the business planning process used throughout the Company. I interact with Ameren
16 Missouri's Chief Executive Officer and senior leadership concerning strategic initiatives,
17 financial forecasts and reports. I also serve as liaison between Ameren Missouri's
18 management and the Ameren Corporation controller function.

19 **Q. Have you previously testified in proceedings before the Missouri Public**
20 **Service Commission ("MPSC" or "Commission")?**

21

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

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1 A. Yes. I previously testified before the MPSC in the Company's 2008 electric
2 rate case (Case No. ER-2008-0318) on miscellaneous cost of service issues, and in the
3 Company's last two electric rate cases (Case Nos. ER-2010-0036 and ER-2011-0028) on the
4 Company's fuel adjustment clause. I have also testified in two prudence review cases
5 regarding the Company's fuel adjustment clause (Case Nos. EO-2010-0255 and EO-2012-
6 0074) and in Case No. EU-2012-0027 regarding an accounting authority order request.

7 **Q. What is the purpose of your surrebuttal testimony?**

8 A. The purpose of my surrebuttal testimony is to respond to certain aspects of
9 Staff witness Mark Oligschlaeger's rebuttal testimony relating to the proposed accounting
10 treatment for the throughput disincentive,² and the impact of the Staff's proposal on the
11 Company's earnings and on the alignment of the Company's financial incentives with helping
12 customers use energy more efficiently. I also comment on Office of the Public Counsel's
13 ("OPC") proposal, and its impact on those same issues.

14 **Q. To what are you referring when you refer to the "throughput
15 disincentive"?**

16 A. I am referring to the financial disincentive to make expenditures on energy
17 efficiency that exists in the traditional regulated utility business model. Section 2.2 of the
18 Company's *2013 – 2015 Energy Efficiency Plan* (MEEIA Report) filed by the Company in
19 this docket on January 20, 2012, discusses the throughput disincentive in detail. Mr.
20 Oligschlaeger also accurately describes the throughput disincentive at lines 1 through 13 on
21 page 7 of his rebuttal testimony.

² Under the Company's proposed demand-side investment mechanism ("DSIM"), the throughput disincentive is addressed through the recovery of a 15.4% share of the net benefits of the energy efficiency programs proposed in the MEEIA filing.

1 **Q. Can you briefly describe Mr. Oligschlaeger's alternative proposal to the**
2 **Company's solution to the significant impediment to making expenditures on energy**
3 **efficiency given the throughput disincentive?**

4 A. Yes. In his testimony, Mr. Oligschlaeger suggests that the Company record a
5 regulatory asset equal to 15.4% of the expected net benefits resulting from the Company's
6 demand-side management ("DSM") programs, with the intention to then allow the 15.4% of
7 the net benefits to be recovered in a future rate case after an evaluation, measurement, and
8 valuation ("EMV") process for the entire 3-year plan has occurred. Mr. Oligschlaeger claims
9 that his alternative approach can be employed to "help maintain . . . [the Company's] pre-
10 DSM programs' earnings levels . . ." Oligschlaeger Rebuttal, p. 9, ll. 7-8. Implicit in Mr.
11 Oligschlaeger's proposal is a rejection of the contemporaneous recovery of the net benefits
12 proposed in the Company's filing, and a rejection of the use of a technical resource manual
13 ("TRM") from which deemed energy savings would be used to determine the amount of the
14 net benefits to be shared. Mr. Oligschlaeger takes no issue with the recovery of the costs of
15 running the energy efficiency programs, so my discussion here relates only to the 15.4% (the
16 throughput disincentive).

17 **Q. Is Mr. Oligschlaeger correct that his approach would protect Ameren**
18 **Missouri's pre-DSM earnings levels?**

19 A. No, he is not.

20 **Q. Why Not?**

21 A. Because the accounting rules that the Company must adhere to in determining
22 and reporting its earnings do not allow the Company to record a regulatory asset under the
23 Staff's approach.

1 **Q. To what accounting standards do you refer?**

2 A. The Securities and Exchange Commission ("SEC") requires all publicly
3 traded companies (like Ameren Corporation, or "Ameren") and their subsidiaries to adhere to
4 Generally Accepted Accounting Principles ("GAAP") to insure the comparability and
5 consistency of financial information that is relied on by investors and creditors. Accounting
6 Standards Codifications ("ASC") are the highest form of guidance in the GAAP hierarchy
7 that must be followed. ASC 980-605-25, "Alternative Revenue Programs," addresses the
8 recognition of revenues from alternative revenue programs including specifically programs
9 designed to adjust billings to compensate the utility for demand-side management initiatives,
10 and it dictates the accounting for a mechanism such as the Company's proposed DSIM.³
11 Under that standard, in order to recognize additional revenues (via a regulatory asset, even if
12 one were possible, or otherwise) to be billed in the future *all* of the following conditions must
13 be satisfied: 1) The DSM program is established by an order from the utility's regulatory
14 commission that allows for automatic adjustment of future rates. (Verification of the
15 adjustment to future rates by the regulator would not preclude the adjustment from being
16 considered automatic); 2) The amount of additional revenues for the period is objectively
17 determinable and is probable of recovery; and 3) The additional revenues will be collected
18 within 24 months following the end of the annual period in which they are recognized.

19 **Q. Can you go through each of these conditions precedent to the ability to**
20 **recognize the throughput disincentive as earnings and explain why recording a**
21 **regulatory asset like the Staff proposes fails to satisfy those conditions?**

³ The standard is attached as a schedule to the surrebuttal testimony of Mr. Ditman, which I discuss below.

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1 A. Yes. Under Mr. Oligschlaeger's proposal, to meet the first condition under
2 ASC 980-605-25, the order from the Commission allowing for the regulatory asset would
3 have to allow for automatic adjustment in future rates, such as is the case for a fuel
4 adjustment clause, where so long as the calculation is correct and the tariff is followed, the
5 changes in fuel costs are recovered automatically (subject only to true-up for units (kilowatt-
6 hour sales) and prudence reviews). Upon advice from counsel, I understand that the
7 Commission is precluded from entering an order that binds a future commission, and thus an
8 order that only approves a regulatory asset would not meet the automatic adjustment criteria.
9 Moreover, the Company does not believe it is prudent to attempt to rely on a "rider," which if
10 practically available might address this condition of the ASC standard.⁴

11 With regard to the second condition regarding objectively determining the amount
12 and probability of recovery, Mr. Oligschlaeger refers to the benefit being an "estimate" that is
13 contingent upon completion of EMV making it impossible to calculate an objectively
14 determinable amount. In other words, without a TRM and deemed values that will not be
15 retroactively changed, an objectively determinable amount cannot be calculated.

16 Finally, the third condition requires that the revenues will be collected within 24
17 months; Mr. Oligschlaeger's proposal doesn't allow for collection until sometime after the
18 three-year program period is completed. This too would preclude recording any earnings.

19 In summary, Mr. Oligschlaeger is mistaken when he contends that his approach
20 protects the Company's earnings.

⁴ When I refer to a rider I mean a mechanism that allows for the adjustment of rates between rate cases based upon a pre-approved formula. The Company does not believe a rider is practically available at this time because whether a rider can be used at all is currently the subject of court challenges, which may not be fully resolved for a year or two. If a rider were used and then found to be invalid, the consequences are very unclear, making the use of a rider at this time imprudent and risky.

1 **Q. On what do you base the foregoing discussion of the negative impact to**
2 **the Company's earnings of Mr. Oligschlaeger's proposal?**

3 A. In addition to the specific terms of the applicable accounting standards, and
4 my interpretation of them as a CPA, I also base my discussion on the position of the
5 Company's external auditors, PricewaterhouseCoopers, LLC "(PWC)", as discussed in the
6 surrebuttal testimony of Ameren Missouri witness and PWC partner Stephen M. Ditman.
7 The SEC requires that the Company's financial statements be audited by a national public
8 accounting firm, such as PWC. As Mr. Ditman testifies, under Staff's proposal, the
9 throughput disincentive will reduce the Company's earnings in 2013 through 2015 because in
10 accordance with GAAP, revenues could not be recognized in those periods.

11 **Q. Does the Company's MEEIA filing and in particular its proposed DSIM**
12 **satisfy the conditions in ASC 980-605-25?**

13 A. Yes. First, under the Company's proposal, the recovery occurs automatically
14 each month because the recovery is part of the base rates being charged to customers each
15 month as the program proceeds (and contemporaneously with when the throughput
16 disincentive is occurring). Second, the amount is objectively quantifiable because the
17 deemed savings values in the TRM drive the calculation – only a true-up for "widgets" (i.e.,
18 the actual measures installed, e.g., the number of light bulbs) occurs later. Third, because of
19 the contemporaneous recovery, the recovery within 24-months requirement in the standard is
20 also satisfied.

21 **Q. In his testimony, Mr. Oligschlaeger also suggests that the decline in sales**
22 **attributed to DSM programs by the Company would not prevent it from recovering its**
23 **expenses and thus not cause financial harm. Do you agree?**

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1 A. No. Simply recovering expenses does not mean that the Company suffers no
2 financial harm, as Mr. Oligschlaeger implies. As the Commission is well aware, the
3 revenues derived from rates are not simply to cover operations and maintenance costs,
4 depreciation, taxes, and interest on debt, but are also to cover another key utility cost—its
5 legitimate cost of equity (which is sometimes also referred to as giving the Company an
6 opportunity to earn a reasonable return, as determined by the Commission). Simply looking
7 to see whether or not revenues are greater than expenses on the income statement is a gross
8 understatement of the financial support that customer revenues are supposed to provide a
9 utility. Under Mr. Oligschlaeger's theory, a utility "recovers" its cost of equity if its revenues
10 are \$1 or even one cent more than the sum of operations and maintenance costs, depreciation,
11 taxes, and interest on debt. His theory is false.

12 **Q. In addition to the fact that Mr. Oligschlaeger is simply wrong when he**
13 **contends that his proposal will not harm the Company's earnings, do you have concerns**
14 **regarding other aspects of the Staff's proposal?**

15 A. Yes. As utility executives in an investor-owned utility, my colleagues and I
16 are responsible for making decisions that discharge our obligations to our customers while
17 protecting the interests of our shareholders. As a result, several factors must be considered.
18 The financial results of Ameren Missouri have a direct impact on Ameren Missouri's
19 shareholder, Ameren, and on Ameren's shareholders; however, Ameren Missouri cannot rely
20 on its parent company for subsidies or support when regulatory policy prevents it from
21 having a reasonable opportunity to earn a fair return. Instead, we must make tough decisions
22 about where to best deploy the limited capital to which we have access. We can't borrow too
23 much, without ultimately raising costs for customers and taking on too much leverage and we

1 can't expect equity investment if we don't have the reasonable opportunity to earn a
2 reasonable return, which I spoke of earlier.

3 **Q. What incentive does the Company have to invest in energy efficiency?**

4 A. That depends on the regulatory treatment given those investments. While I'm
5 not a lawyer, as a utility executive it appears quite clear to me that MEEIA recognizes that
6 absent the Commission taking certain affirmative steps to implement the regulatory treatment
7 contemplated by MEEIA, utilities have an understandable disincentive to encourage their
8 customers to use less energy. We wouldn't expect other businesses to encourage their
9 customers to buy less of what they sell. But energy efficiency does just that, unless steps are
10 taken to remove that disincentive. That, to me, is what the provision in MEEIA that requires
11 the Commission to align the utility's financial incentives with helping customers use energy
12 more efficiently is all about.

13 **Q. How does this issue of disincentives and aligning incentives relate to the**
14 **design and mechanics of a DSIM?**

15 A. If the DSIM, such as the one proposed by the Company is adopted, then as we
16 evaluate investment and expense demands or desires that invariably exceed the dollars we
17 have available to spend in a given year, the Company will value energy efficiency
18 expenditures equally with investing in power plants or other infrastructure. This is because,
19 first, it can recover the costs of running the programs; second, it is not going to lose money
20 because it induced customers to buy less of what it sells; and third, the Company has a
21 chance to earn something if it does a good job. But the same is not true with the Staff's
22 alternative. Under the Staff's alternative, the Company can recover its program costs, but for
23 the reasons discussed earlier, it is virtually guaranteeing that it will recover less of its

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1 legitimate cost of equity – i.e., earnings will suffer. And earnings will suffer even if the
2 Company is not later second-guessed on whether the reasonable estimates of the savings
3 energy efficiency measures would be produced; i.e., even if we can use a TRM. But under
4 the Staff's proposal, the Company is taking on yet more risk of harming earnings because
5 under their proposal, it is subject to such second-guessing, regardless of whether the
6 estimates were reasonable at the time. The point is that under the Company's proposal, its
7 incentives are aligned as MEEIA contemplates, but under the Staff's proposal they are not.
8 Under the latter, the incentive is not to spend on energy efficiency because the Company will
9 incur losses. Under the former, the incentive is to spend on energy efficiency (which
10 matches-up perfectly with helping customers use energy more efficiently) because the
11 Company won't incur losses and has an earnings opportunity.

12 **Q. Do your comments regarding the misalignment of incentives inherent in**
13 **the Staff's proposal apply to OPC witness Ryan Kind's proposal?**

14 A. Yes, they do. OPC also rejects contemporaneous recovery of the throughput
15 disincentive and rejects use of the TRM. Consequently, OPC's approach will reduce the
16 Company's earnings and for all of the reasons discussed above fails to align the Company's
17 financial incentives with helping its customers use energy more efficiently.

18 **Q. Please summarize your testimony.**

19 A. Mr. Oligschlaeger is mistaken in contending that the Staff's proposal will
20 protect the Company's earnings from the consequences of the throughput disincentive. The
21 applicable accounting standards dictate otherwise. The Company's proposal meets the
22 applicable accounting standards and does protect the Company's earnings from the impact of
23 the throughput disincentive. This reflects an alignment of the Company's financial interests

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1 in helping its customers use energy more efficiently, as MEEIA requires. And as discussed
2 in more detail in Ameren Missouri witness Warren Wood's surrebuttal testimony, the
3 Company's proposal simply keeps the Company whole, and its adoption will enable the
4 Company to deliver hundreds of millions of dollars of benefits to customers.

5 **Q. Does this conclude your surrebuttal testimony?**

6 **A. Yes, it does.**

