Exhibit No.:	
Issues:	Fuel Adjustment Clause
Witness:	Lynn M. Barnes
Sponsoring Party:	Union Electric Company
Type of Exhibit:	Direct Testimony
Case No.:	EO-2010-0255
Date Testimony Prepared:	October 20, 2010

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. EO-2010-0255

DIRECT TESTIMONY

OF

LYNN M. BARNES

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a Ameren Missouri

St. Louis, Missouri
October, 2010

DIRECT TESTIMONY

OF

LYNN M. BARNES

CASE NO. EO-2010-0255

Q. Please state your name and business address.

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

Q. Please describe your educational background and qualifications.

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

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

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

Q. Please describe your employment history.

A. After 11 years in public accounting with Deloitte & Touche as an auditor and 16 months with the Boeing Company (formerly McDonnell Douglas Corporation), as Manager of Financial Reporting, I joined Ameren Missouri in 1997 as General Supervisor of Financial Communications. I was promoted to Manager of Financial Communications in 1999, and my responsibilities included managing the financial reporting department, the regulatory accounting department, and investor relations during the period of transition from a single utility to a public utility holding company with multiple operating companies. I directed financial management functions including preparation and analysis of monthly/quarterly financial statements and external reports for all Ameren Corporation entities. In 2002, I transferred to Ameren Services Company's Energy Delivery Department as Controller, and in 2005 I was promoted to Director of Energy Delivery Business Services. In July 2007 I was promoted to Controller for Ameren Missouri and in October 2007 I was promoted to Vice President, Business Planning and Controller for Ameren Missouri.

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

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

Q. Have you previously testified in a proceeding before the Missouri Public Service Commission ("MPSC" or "Commission")?

A. Yes. I previously testified before the MPSC in the Company's 2008 electric rate case (Case No. ER-2008-0318) on miscellaneous cost of service issues, in the Company's last rate electric rate case (Case No. ER-2010-0036) on the Company's fuel adjustment clause ("FAC"), and I filed direct testimony in the Company's currently pending rate case (Case No. ER-2011-0028), also concerning the Company's FAC.

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

A. The purpose of my testimony is to outline the circumstances that led the Company to enter into long-term partial requirements contracts with the American Electric Power Operating Companies ("AEP") and Wabash Valley Power Association, Inc. ("Wabash") in the wake of the January 28, 2009 ice storm in Southeast Missouri, which caused a significant and sustained reduction in load for Noranda Aluminum, Inc. ("Noranda"), Ameren Missouri's largest customer. In its *Prudence Report and Recommendation*, filed in this case on August 31, 2010 (the "Staff Report"), the Staff argues that these contracts should have been treated as off-system sales (defined by Factor OSSR in the applicable FAC tariff). Ameren Missouri disagrees. In addition to my direct testimony, Ameren Missouri witness Jaime Haro is providing direct testimony which explains why prudent management of the Company's generation portfolio supported the Company's business decision to enter into these contracts.

Q. What are the circumstances that led to Ameren Missouri to enter into these contracts?

A. In Ameren Missouri's 2008 rate case, Case No. ER-2008-0318, the Company requested authority to implement an FAC, and ultimately the Commission granted the Company that authority in that case. However, there was considerable opposition to the Company's proposed FAC at that time. Some parties argued that the FAC should be rejected in its entirety; other parties argued that various sharing percentages should be included in any FAC that was approved. To facilitate the Commission's decision-making process, the parties entered into a Stipulation and

Agreement that set out the exact tariff language that should be used if the Commission decided to approve an FAC for Ameren Missouri. Although the sharing percentage was left blank, every other detail of the FAC mechanism – and the precise terms of the FAC tariff that would be implemented if the Commission approved an FAC -- was agreed-upon by the parties to that Stipulation.[1].

Q. Pursuant to the stipulated tariff, how were sales of power to parties other than Missouri retail customers to be addressed?

A. The tariff addressed two types of power sales to parties other than Ameren Missouri's retail customers; one was to be tracked in the FAC and the other was not. One type was power sales under long-term full and partial requirements contracts. These sales were explicitly *excluded* from the definition of off-system sales (Factor OSSR) and consequently were not to be tracked in the FAC, as explicitly provided for in the detailed formula contained in the tariff. Instead, the costs associated with a normalized level of these sales were allocated to these customers and not to Ameren Missouri's retail customers. Consequently, like all other non-FAC utility costs and revenues, if the costs increased (or the revenues decreased), the Company would bear the higher costs between rate cases, and if the costs decreased (or the revenues increased) the Company would benefit between rate cases.

The second category of non-retail power sales was comprised of all other non-retail power sales that were associated with (1) Ameren Missouri jurisdictional generating units, (2) power purchases made to serve Missouri retail loads, and (3) any related transmission. These sales were expressly *included* in Factor OSSR and

[1] The Staff, the Missouri Industrial Energy Consumers, the Office of the Public Counsel, Noranda and the Company were all signatories to the Stipulation. No other party to the rate case opposed the Stipulation, and it was treated as a unanimous stipulation and approved by the Commission in accordance with the Commission's rules.

consequently were tracked dollar-for-dollar in the FAC. Consequently, customers would benefit from 95% of any increase in the net revenues associated with this category of sales, or bear 95% of any net decrease, through the FAC.

Q. Did Ameren Missouri have any long-term requirements contracts at the time the tariff was approved?

A. Yes. For many years Ameren Missouri has served requirements customers. An appropriate portion of Ameren Missouri's costs have been allocated to these customers in rate cases.

Q. In Case No. ER-2008-0318, did the revenue requirement established by the Commission impute revenues from Noranda in setting the Company's base rates?

A. Absolutely. Noranda is Ameren Missouri's single largest customer. Ameren Missouri's rates were set based on the normalized level of revenues from Noranda that Ameren Missouri would be expected to recover through rates, $139 million annually. Or, another way of putting it is that approximately $139 million of Ameren Missouri's costs were to be recovered from Noranda each year through rates.

Q. Did Ameren Missouri actually collect the level of revenues from Noranda that were assumed in developing its rates in Case No. ER-2008-0318?

A. No. As the Commission may recall on January 28, 2009, just before rates set in Case No. ER-2008-0318 took effect, an extremely devastating ice storm struck Southeastern Missouri. The ice storm was so severe that approximately 95% of Ameren Missouri's customers in six counties (approximately 36,500 customers) lost service. Ameren Missouri lost 3,800 poles in the ice storm, the most it has ever lost in a single storm. Governor Nixon declared a state of emergency for this area of Missouri, and although Ameren Missouri's restoration efforts were lauded by the Commission Staff and the utility industry, it was many days before service was restored to all of the Company's customers.

Q. Was Noranda's aluminum smelter in New Madrid impacted by this ice storm?

A. Yes. Noranda's smelter was shut down in mid-cycle by the storm. This resulted in molten aluminum freezing in the plant, which eventually had to be jack-hammered out to restore the plant to full service. Two-thirds of Noranda's capacity was lost for the long-term. At the time it was unclear whether Noranda would ever be able to restore its smelter to full service.

Q. How did the loss of the aluminum smelter affect Ameren Missouri?

A. When the smelter went off-line, Ameren Missouri immediately lost approximately 2/3 of the revenue from Noranda that had gone into developing its rates. Therefore, on an annual basis Ameren Missouri would lose approximately $90 million as a result of the impact of the ice storm on Noranda. It was a devastating financial blow to Ameren Missouri, and as Mr. Haro addresses in his direct testimony, it upset the balance in Ameren Missouri's generation portfolio between off-system sales and sales to load (i.e., Missouri retail customers and counterparties with load-serving obligations, such as requirements customers).

Q. What steps did Ameren Missouri take in response to this disaster?

A. Since the rates in Case No. ER-2008-0318 were not yet final, Ameren Missouri first filed a Request for Rehearing asking that the Commission alter the terms of the fuel adjustment clause tariff to exclude revenues from all incremental off-system sales resulting from the loss of the Noranda load from being credited to customers under the fuel adjustment clause. This would have kept both customers and Ameren Missouri in precisely the same position that they would have been in had the ice storm and the consequent loss of Noranda's load not occurred. However, other parties opposed making this adjustment to the FAC. Generally, these parties argued that Ameren Missouri got exactly what it wanted in the FAC, and it should be held to the bargain it had struck with the other parties regarding the operation of the FAC. Some parties also argued that it was too late in the process for the Commission to adjust the FAC without taking any additional evidence. Ultimately, in an order dated February 19, 2009 the Commission denied Ameren Missouri's request stating: "If the Commission were to grant AmerenUE's application for rehearing it would have to set aside the approved stipulation and agreement regarding the fuel adjustment clause, reopen the record to take evidence on the appropriateness of the proposed change, and make a decision before the March 1, 2009 operation of law date. Such action is obviously impossible."

Q. At that point what were Ameren Missouri's options?

A. In the short run, Ameren Missouri's only option was to sell the power Noranda was no longer using into the off-system market, which, as of March 1, 2009—the effective date of the FAC—had the effect of crediting customers with the revenues from those sales. The result of this situation was that customers began receiving an enormous windfall occasioned by an Act of God, and Ameren Missouri began experiencing an equally enormous under-collection of its costs, based on the rate case that had just been completed. In addition, as I alluded to earlier and as described by Mr. Haro, substituting short-term off-system sales for Noranda's load-based usage unbalanced Ameren Missouri's load portfolio, subjecting a higher percentage of its sales to the vagaries of the marketplace, including the potential for declining power prices and increasing credit risk attendant to off-system counterparties, particularly banks and other financial institutions in the middle of the financial crisis, the effects of which are still impacting the economy to some extent.

Q. How did Ameren Missouri respond to these challenges?

A. The Company solicited contracts for long-term requirements contracts to replace the lost Noranda sales. The use of long-term requirements contracts would re-balance Ameren Missouri's sales, keeping load-related sales near the historic percentage. Even more importantly, the allocation of megawatt-hours ("MWh") associated with lost Noranda load to long-term requirements contracts would keep all parties close to financially whole in accordance with the terms of the FAC tariff that the Commission had already approved. Because revenues from long-term requirements contracts were not flowed through the FAC under the tariff, customers would not continue to receive a windfall from the ice storm; instead they would be in the same position that they would have been in if the ice storm had not occurred. And Ameren Missouri would be able to recover its costs similar to the way that it would have recovered them from Noranda had the ice storm not occurred.

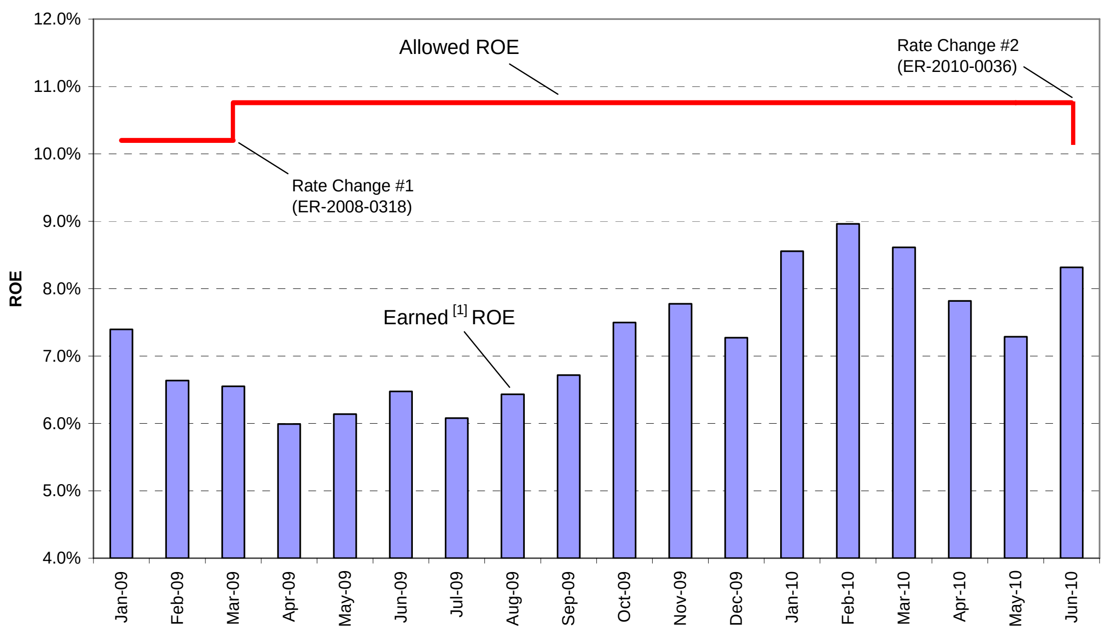
Q. Was Ameren Missouri able to enter into long-term requirements contracts?

A. Yes. As explained by Mr. Haro, Ameren Missouri was able to enter into two long-term power requirements contracts with AEP and Wabash.

Q. Did revenues from these contracts allow Ameren Missouri to earn in excess of its Commission-authorized rate of return?

A. No. These contracts simply allowed Ameren Missouri to recover costs that had previously been allocated to Noranda sales. During this entire time period, Ameren Missouri never earned its authorized return. As shown in the chart below, reflecting a 12-month rolling average, the Company's earned return on equity was never even close to its authorized return on equity from the time the Noranda load was lost in the ice storm, until rates were set in Ameren Missouri's next rate case, Case No. ER-2010-0036. Clearly, if Ameren Missouri had not entered into long-term requirements contracts, its financial performance would have been much worse.

Comparison of AmerenUE Earned[1] ROEs and Allowed ROEs
(With Two Rate Changes)



[1]: ROE adjusted to account for company's absorption of the impact of Taum Sauk.

Q. Are long-term requirements contracts still excluded from factor OSSR in Ameren Missouri's FAC?

A. No. In Case No. ER-2010-0036, the FAC was adjusted to (a) provide an "N factor" to protect Ameren Missouri against a catastrophic loss of Noranda's load, and (b) revise Factor OSSR to include long-term requirements contracts. If this tariff had been in effect in January, 2009, Ameren Missouri would have been fully protected from the adverse financial consequences of the loss of the Noranda load, and customers would not have received an undue windfall from an event like an ice storm.

Q. Is Staff's "prudence" disallowance supported?

A. No. Ameren Missouri's actions fully complied with the letter of the tariff that the parties had agreed to and the Commission approved. In addition, its actions complied with the spirit of the tariff in that it kept all parties whole from the consequences of the ice storm, and allowed Ameren Missouri to re-balance its load portfolio in the wake of the loss of the Noranda load. The Staff Report states that "in evaluating prudence, the Staff reviews whether a reasonable person making the same decision would find both the information the decision-maker relied on and the process the decision-maker employed was reasonable based on the circumstances at the time the decision was made." Ameren Missouri's actions were reflective of sound, prudent and common-sense decision-making. That is, Ameren Missouri was faced with a catastrophic financial loss occasioned through no fault of its own, was exposed to greater risk due to the imbalance in its sales portfolio, and made the business decision to mitigate the financial harm and that risk in a manner expressly allowed by its FAC tariff and that was dictated by the sound management of the Company. Consequently, the Staff's adjustment is not only unwarranted, but counsel advises that it is unlawful given that these sales simply do not fall within the costs and revenues tracked in the FAC. Between rate cases those costs and revenues that are not tracked in the FAC may go up or they may go down. The utility may benefit, or the utility may suffer a detriment, depending on factors beyond the utility's control or on decisions the utility makes.

In this instance, the Company was faced with a difficult circumstance and made a prudent business decision to mitigate the detrimental effects of that circumstance, as it was the Company's right (and obligation to its shareholders) to do. That the Staff may desire customers to gain a windfall from the ice storm to the Company's detriment does not change the fact that these sales are not covered by the FAC tariff, and cannot be used to justify a so-called prudence disallowance. And the end result of Ameren Missouri's actions was that customers were in the same position as if the ice storm hadn't occurred, no better and no worse.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the First Prudence Review of Costs Subject to the Commission-Approved Fuel Adjustment Clause of Union Electric Company, d/b/a AmerenUE.	))))	Case No. EO-2010-0255

AFFIDAVIT OF LYNN M. BARNES

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

Lynn M. Barnes, being first duly sworn on her oath, states:

1. My name is Lynn M. Barnes. I work in the City of St. Louis, Missouri, and I am employed by Union Electric Company d/b/a Ameren Missouri as Vice President Business Planning & Controller.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Ameren Missouri consisting of 11 pages, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

Lynn M Barnes
Lynn M. Barnes

Subscribed and sworn to before me this 20th day of October, 2010.

Amanda Tesdall
Notary Public

My commission expires:

Amanda Tesdall - Notary Public
Notary Seal, State of
Missouri - St. Louis County
Commission #07158967
My Commission Expires 7/29/2011