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Witness: Lynn M. Barnes
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. EU-2012-0027

DIRECT TESTIMONY

OF

LYNN M. BARNES

ON

BEHALF OF

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

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

**DIRECT TESTIMONY
OF
LYNN M. BARNES**

CASE NO. EU-2012-0027

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

20 A. Yes it does.

In the Matter of the Application of)
Union Electric Company d/b/a Ameren)
Missouri for the Issuance of an) Case No. EU-2012-0027
Accounting Authority Order Relating to)
its Electrical Operations.)

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

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 and Controller.

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

Subscribed and sworn to before me this 20th day of October, 2011.

My commission expires:

