Exhibit No.:	
Issues:	Fuel Adjustment Clause
Witness:	Lynn M. Barnes
Sponsoring Party:	Union Electric Co.
Type of Exhibit:	Direct Testimony
Case No.:	ER-2010-______
Date Testimony Prepared:	July 24, 2009

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2010-_____

DIRECT TESTIMONY

OF

LYNN M. BARNES

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a AmerenUE

St. Louis, Missouri
July, 2009

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DIRECT TESTIMONY

OF

LYNN M. BARNES

CASE NO. ER-2010-______

I. INTRODUCTION

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 AmerenUE ("AmerenUE" 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 AmerenUE 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 AmerenUE and in October 2007 I was promoted to Vice President, Business Planning and Controller for AmerenUE.

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

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 AmerenUE'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 AmerenUE's Chief Executive Officer and senior leadership concerning strategic initiatives, financial forecasts and reports. I also serve as liaison between AmerenUE'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 last electric rate case (Case No. ER-2008-0318) on miscellaneous cost of service issues.

II. PURPOSE AND SUMMARY OF TESTIMONY

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

A. The purpose of my testimony is to sponsor continuation of the Company's fuel adjustment clause ("FAC"). My testimony includes a schedule (Schedule LMB-E1) reflecting compliance with the minimum filing requirements prescribed by the Commission's FAC rules for continuing the Company's FAC, and also addresses updating the net base fuel costs ("NBFC") which form the base against which changes in the Company's net fuel costs (fuel and purchased power costs net of off-system sales) are tracked in the FAC. I will also propose minor changes in the true-up process and a minor refinement in the costs to be included in the FAC.

Q. Please summarize your testimony.

A. In summary, the conditions that were present when the FAC was initially awarded still exist today and the need for an FAC is just as important today as it was when the FAC was approved a few months ago. Continuing to track changes in net fuel costs, which continue to be volatile and beyond the Company's control, allows increases in those costs to be recovered on a more timely basis, which provides the Company with improved cash flows and a better opportunity to earn a fair return on equity, both of which will help the Company maintain its credit quality in the current economic climate.[1] As AmerenUE witness Lee R. Nickloy discusses in his direct testimony, these improved cash flows improve the Company's credit metrics and reduce borrowing costs, which is particularly important given the continued challenges that exist in the credit markets and

[1] While the FAC improves the Company's cash flows, the long recovery period and the use of historic, not projected net fuel cost changes as provided for in the Commission's FAC rules still create a significant lag between when net fuel costs change and when those changes are fully reflected in rates.

the higher interest rates that the Company must pay on its debt as compared to historical rates. Continuing the FAC in its current form also promotes regulatory consistency (both for AmerenUE and for Missouri utilities generally, three of whom have similar FACs), which is supportive of credit quality.[2] Maintaining the Company's credit quality, lowering borrowing costs and improving the opportunity to earn a fair return translates to a benefit for customers, by allowing AmerenUE to remain a financially stable utility company that can continue to keep its rates below the national average. And, if net fuel costs do decrease (as they did on the company's first accumulation period), the FAC is structured so that Customers will see a more immediate benefit from those decreases through downward FAC-related rate adjustments on their bills.

III. THE CONTINUATION OF THE FUEL ADJUSTMENT CLAUSE

Q. When was the Company's FAC approved?

A. The FAC was approved in late January of this year in Case No. ER-2008-0318, and became effective March 1, 2009. The first accumulation period, intended to cover the period February-May, was only a partial period due to the effective date of the FAC and was completed May 31, 2009. The first adjustment filing relating to this first accumulation period will be made by August 1, 2009, with the experienced change in net fuel costs (addressed below) to be reflected in customer bills during the period October 2009-September 2010. The Company is currently in the second accumulation period of June 2009-September 2009, which will result in another adjustment filing by December 1 of this year.

[2] Kansas City Power & Light Company is ineligible for an FAC at this time given agreements it made in connection with its 2004 Regulatory Plan.

Q. How are the changes in net fuel costs measured during an accumulation period?

A. The Company calculates its actual, historical net fuel costs for the months included in the accumulation period and compares those actual, historical costs to the base level of net fuel costs established in its last rate case (i.e., the "NBFC" referenced earlier) contained in the FAC tariff. The NBFC is expressed on a per kilowatt-hour ("kWh") basis, and is seasonally differentiated, as provided for in the FAC tariff. If these actual, historical net fuel costs for the accumulation period at issue are higher than the NBFC, an upward FAC adjustment will be made and it will then be reflected on customers' bills as a separate line item. If the actual net fuel costs are lower than the NBFC, the FAC adjustment will lower customers' bills, and this decrease in rates will also be shown as a separate line item on the bill. Schedule LMB-E2 illustrates the operation of the Company's FAC.

Q. Have net fuel costs increased or decreased since the last rate case?

A. Because the FAC has only been in effect for approximately five months, we have only minimal history to rely upon. However, the net fuel costs tracked in the first accumulation period that ended May 31 were approximately 22% lower than the base amount (the NBFC referenced above), as established in the Company's last rate case. We will be filing the first adjustment to reflect this change by August 1, 2009, and the rate adjustment will take effect on October 1, 2009.

Q. Do you have an expectation for the level of net fuel costs likely to be experienced once new rates are set in this case?

A. Yes. We know we are facing substantial increases in coal and coal transportation costs and nuclear fuel costs in 2010, and as addressed in the direct testimony of AmerenUE witness Jaime Haro, normalized prices for energy, which determine the level of off-system sales included in the FAC, are expected to be lower than the energy price assumed when the current net fuel cost levels were set in the FAC in the Company's last rate case. This combination of higher fuel costs and lower off-systems sales suggest that net fuel costs will be higher on a going-forward basis.

Q. What are the rules for requesting or continuing an FAC?

A. Establishing and continuing an FAC is governed by Section 386.266, RSMo and Commission Rules codified at 4 CSR 240-20.090 and 4 CSR 240-3.161, in particular 3.161(3)(A) through (S), which prescribe the minimum filing requirements for continuation of an FAC. These minimum filing requirements are provided in the attached Schedule LMB-E1.

Q. Is the Company requesting to continue its FAC?

A. Yes. The conditions that resulted in the FAC being awarded in the 2008 rate case are still present, thus the FAC is still the most appropriate mechanism to address those issues.

Q: Can you elaborate on the specific reasons why the Company believes that continuing its FAC is still appropriate?

A. Certainly. There are multiple reasons why it makes sense to continue the FAC. First, in the Company's last rate case, where the FAC was established, the Commission found that AmerenUE did not have a sufficient opportunity to earn a fair return on equity without an FAC because regulatory lag prevented the Company from timely reflecting increasing fuel costs in rates. This is because an 11-month rate case process (in fact, as a practical matter, filing and completing a rate case takes longer than 11 months) does not provide a vehicle for timely inclusion of changes in fuel costs in rates. This consideration is unchanged. Missouri's 11-month rate case process is still inadequate to allow changes in fuel costs to be reflected in rates on a timely basis, and AmerenUE's FAC continues to be the appropriate mechanism to address that problem.

Second, the Commission approved AmerenUE's FAC in part based upon its conclusions about three other factors it typically considers when reviewing FAC requests, that is, that the cost or revenue changes must be:

1. Substantial enough to have a material impact upon revenue requirements and the financial performance of the business between rate cases;
2. beyond the control of management, where the utility has little influence over experienced revenue or cost levels; and
3. volatile in amount, causing significant swings in income and cash flows if not tracked.

The Company's fuel and purchased power costs are clearly substantial—they continue to represent the Company's largest single cost item, comprising over $841 million in the test year and 47% of the Company's total operations and maintenance expense reflected in the Company's revenue requirement (discussed in detail in the direct testimony of AmerenUE witness Gary S. Weiss). The main revenue tracked in the FAC – off-system sales – are also substantial (estimated to be $306 million based upon normalized energy prices and conditions). These costs and revenues also continue to be beyond the control of management. This is because coal and coal transportation costs, natural gas costs, nuclear fuel costs and power prices for off-system sales continue to be dictated by national and international markets. Finally, these costs and revenues continue to be quite volatile, because those same national and international markets continue to be volatile. For example, since the end of the true-up period in our last rate case (September, 2008), the annual average of wholesale power prices has already fallen approximately 25% as noted in Mr. Haro's testimony, and further declines are anticipated (see also Mr. Haro's Schedule JH-E2). In summary, these large fuel and purchased power costs and significant off-system sales revenues cannot be controlled by the Company, and can vary substantially from period to period because of the volatility inherent in the markets in which fuel and purchased power are acquired and in which off-system sales are made.

It is also obvious that significant swings in the Company's financial performance and earnings can occur unless net fuel costs are tracked in the FAC, which can negatively impact cash flows (requiring greater, higher cost borrowings) and affect the Company's ability to earn a fair return on equity. In the current economic climate, it is more important than ever for the Company to stabilize its cash flows and strengthen its credit quality, which ultimately benefits the customer by keeping borrowing costs lower. As a result, the Company is requesting to continue its FAC on essentially the same terms already approved by the Commission in the last rate case, with minor revisions as discussed in more detail below, as it is still the most appropriate mechanism to address the recovery of the Company's fuel costs and to more appropriately match net fuel costs incurred by the Company with the net fuel cost-related portion of the rates paid by customers.

Q. Does the FAC fully address the lag between the incurrence of costs and the recovery of those costs?

A. Not entirely. As illustrated by Schedule LMB-E2, it will take at least 16 months between the time when changes in net fuel costs occur and when those changes are fully recovered (in the case of an increase) from customers. This is because unlike in many states, the FAC rules adopted by the Commission required the use of historic, not projected costs, and this is also because of the extended 12-month recovery period included in AmerenUE's FAC.

Q. Has the Company updated the NBFC included in the FAC tariff to reflect the current level of NBFC?

A. Yes. When rates are re-set in a rate case, the Commission essentially updates all of the costs and revenues that comprise the revenue requirement to reflect more current conditions. Net fuel costs are one of the elements of the cost of service that must be updated. Consequently, as with every other cost in a rate case, the base level of net fuel costs has been updated to reflect the current levels of fuel and purchased power expense and off-system sales.

In the prior rate case, the Commission set the NBFC at 1.001 cents per kWh for the Summer and at 0.69 cents per kWh for the Winter. The NBFC included in the Company's revenue requirement in this case, allocated between the Summer and the Winter as before, is 1.102 cents per kWh for the Summer and 1.494 cents per kWh for the Winter. The calculation of the NBFC is addressed in detail in the direct testimony of Mr. Weiss.

Q. It appears that NBFC have increased. Please discuss the reasons for that increase.

A. As discussed in the last case, the Company has in place long-term contracts for coal and coal transportation. Those costs will increase substantially on

January 1, 2010, in accordance with those contracts. Moreover, the cost to refuel the Callaway Plant's reactor (which occurs every 18 months) has increased.[3] Consequently, two key cost components tracked in the FAC have increased substantially. There are some costs tracked in the FAC that have decreased, including purchased power costs and capacity purchase costs (due to the expiration of the Company's long-term purchased power contract with the former Arkansas Power & Light Company).

However, as addressed in more detail in the direct testimony of Mr. Haro, normalized energy prices have declined substantially, which in turn has substantially reduced off-system sales revenues. Combining all of these factors has resulted in the increase in net fuel costs we see in the updated NBFC numbers listed above.

Q. Is the Company proposing any changes to the FAC?

A. Yes. The Company is proposing two minor changes, as follows: 1) a refinement of the true-up process to allow each true-up to occur after the completion of a full recovery period; and 2) the inclusion of the sulfur quality adjustment component of coal contracts in the FAC (rather than in the SO_2 tracker established two rate cases ago) since the Company is also filing a request for an Environmental Cost Recovery Mechanism ("ECRM") in this case. Given the Company's request for an ECRM, the Company is also proposing the elimination of the SO_2 tracker on a prospective basis, as explained in the direct testimony of AmerenUE witness Mark C. Birk. A specimen of the slightly modified FAC tariff, with changes tracked against the FAC tariff that is currently in effect, is attached to my direct testimony as Schedule LMB-E3.

Q. Please explain the change you are proposing to the true-up process.

[3] The next Callaway refueling will occur next Spring.

A. The minor change I am proposing to the true-up process would improve the FAC process by greatly simplifying the auditing requirements, and it would also match the true-up process for AmerenUE to the true-up process that is in place in the FAC of the Greater Missouri Operations division of Kansas City Power & Light Company. In AmerenUE's existing FAC tariff, a true-up filing is required on May 1 of each year after completion of the true-up year, which would end February 28, 2010 (one year after the March 1, 2009 commencement of the FAC). The purpose of the true-up is to compare the amount calculated for each accumulation period to the amounts actually collected from customers during the recovery period. The amounts collected will vary from the actual net fuel cost change occurring in a given accumulation period because the estimated customer usage during the subject recovery period will always vary to some extent from the actual customer usage experienced during that recovery period. It would seem logical, then, that the true-up period should follow the completion of each recovery period (which in this case would occur after September 2010 for the first accumulation period) rather than following the one-year anniversary of the initial implementation date of the FAC, which falls in the middle of a recovery period. The result of this change could actually increase the number of true-up filings occurring in a twelve-month calendar year based on the completion dates of each recovery period, but it would greatly simplify the process of auditing those filings. Schedule LMB-E2 illustrates the operation of the Company's FAC, as slightly modified by this proposed change to the true-up process.

Q. You also mentioned that you were proposing to include the sulfur quality adjustment component of coal costs in the FAC in light of the Company's request for an ECRM. How is the FAC impacted by the ECRM request?

A. The ECRM request results in the prospective elimination of the SO_2 tracker currently in place, which also results in a slight change to the FAC. As background, two rate cases ago, in Case No. ER-2007-0002, the Staff and the Company recommended the establishment of an SO_2 tracking mechanism, and that recommendation was approved by the Commission. The SO_2 tracking mechanism tracks SO_2 allowance costs and revenues, and also tracks adjustments in the price AmerenUE pays for coal included in the AmerenUE's coal contracts due to the variability of the sulfur content in the coal AmerenUE buys. The net of these amounts is tracked against a $5 million base level, with the overage or underage to be reflected in the Company's revenue requirement in subsequent rate cases. This tracker was rebased in the Company's last rate case (Case No. ER-2008-0318) and because this tracker existed, AmerenUE did not propose to include this quality adjustment component of coal costs in the FAC.

Absent this tracking mechanism, it would have been logical for the quality adjustment component of the Company's coal costs to be included in coal costs in the FAC because that quality adjustment is essentially a component of the price paid for the coal. The ECRM mechanism described in AmerenUE witness Mark C. Birk's direct testimony includes the costs or revenues relating to SO_2 emission allowances in the ECRM (since emission allowances are an environmental compliance mechanism). Consequently, there is no need for an SO_2 tracker for the emission allowances, and because it makes sense for the quality adjustment component to be handled as a fuel cost, AmerenUE is proposing to include that quality adjustment in its FAC. The benefit of making this change is a more transparent view of costs within the Company's rate adjustment mechanisms.

Q. Is the Taum Sauk Plant (Factor TS) still included in the FAC?

A. Yes. While we anticipate that the Taum Sauk Plant will return to service before rates take effect from this case, since the plant is not in service at this time, it is appropriate to continue Factor TS to treat the Company's net fuel costs as if the Taum Sauk Plant were operating. Upon the plant's return to service, Factor TS, by its terms, will become zero and the effect on the Company's net fuel costs due to the actual operation of the Taum Sauk Plant will be reflected in the FAC. Mr. Haro's direct testimony explains the calculation of the energy and capacity value that is included in Factor TS. This proposal insures continuance of the Company's commitment to hold ratepayers harmless that has been made by the Company until the plant returns to service.

IV. SUMMARY AND CONCLUSIONS

Q. Please summarize your conclusions.

A. As the Commission concluded in the Company's last rate case, AmerenUE's fuel and purchased power costs and its net fuel costs overall are substantial, largely beyond the control of the Company's management, and volatile in amount. Furthermore, the commission found that the FAC was necessary to provide sufficient opportunity for the Company to earn a fair return on equity and to compete for capital with other utilities with fuel adjustment mechanisms. All of these considerations still apply and support continuation of the FAC. With the FAC in place, the Company is able to strengthen its financial position by improving its cash flow thus reducing the need to incur additional debt (at historically high costs) to fund operations and capital investments. In the current economic climate, keeping credit metrics within investment grade is critical; both the cash flows and the rider mechanism itself are positive steps to maintaining current credit ratings. Continuing the FAC in its current form also promotes regulatory consistency (both for AmerenUE and for Missouri utilities generally, three of whom have similar FACs), which is also supportive of credit quality. Long term, customers will benefit from lower interest costs in the Company's revenue requirement and the lower rates enabled by AmerenUE's ability to remain a financially stable company; shareholders also benefit from the FAC because it provides a better opportunity to earn a fair return, as contemplated by Senate Bill 179. The FAC is still the most appropriate mechanism to allow for the timely recovery of changes in net fuel costs to meet these goals.

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 Union Electric Company d/b/a AmerenUE for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in the Company's Missouri Service Area.	)))))	Case No. ER-2010-

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 AmerenUE as Vice President, Business Planning and Controller.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Union Electric Company d/b/a AmerenUE consisting of 14 pages, Schedules LMB-E1 through LMB-E3, 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 24th day of July, 2009.

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