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Proposals
Witness: Lynn M. Barnes
Sponsoring Party: Union Electric Company
Type of Exhibit: Surrebuttal Testimony
Case No.: EO-2014-0095
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MISSOURI PUBLIC SERVICE COMMISSION

Case No. EO-2014-0095

SURREBUTTAL TESTIMONY

OF

LYNN M. BARNES

ON

BEHALF OF

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

**St. Louis, Missouri
April, 2014**

SURREBUTTAL TESTIMONY

OF

LYNN M. BARNES

CASE NO. EO-2014-0095

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 AmerenUE¹.

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 about \$1.7 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, and budget development and management. I also
14 coordinate the performance management reporting and the business planning process used
15 throughout the Company. I interact with Ameren Missouri's Chief Executive Officer and
16 senior leadership concerning strategic initiatives, financial forecasts and reports. I also serve
17 as liaison between Ameren Missouri's management and the Ameren Corporation controller
18 function.

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

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 three electric rate cases (Case Nos. ER-2010-0036, ER-2011-0028 and ER
4 2012-0166) on the Company's fuel adjustment clause. I have testified in two prudence
5 review cases regarding the Company's fuel adjustment clause (Case Nos. EO-2010-0255 and
6 EO-2012-0074) and in Case No. EU-2012-0027 regarding an accounting authority order
7 request. I also testified in Ameren Missouri's initial filing under the Missouri Energy
8 Efficiency Investment Act ("MEEIA"), addressing the financial impacts of the alternative
9 Demand-Side Investment Mechanisms ("DSIM") proposed in that case by other parties.

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

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

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

19 A. I am referring to the financial disincentive to make expenditures on energy
20 efficiency that exists in the traditional regulated utility business model. Generally, energy
21 efficiency (if successful) results in fewer sales of electricity to customers. In turn, this
22 reduces revenues to the utility. Since Missouri utilities, in general, collect the vast majority
23 of their fixed costs through a volumetric rate, any action that encourages fewer sales is

1 counterproductive to recovery of its fixed costs. That is referred to as the throughput
2 disincentive. This issue is discussed in the direct testimony of Kansas City Power & Light
3 Company ("KCPL") witnesses Tim Rush and Kevin Bryant².

4 **Q. Can you briefly describe Staff's alternative proposal to address KCPL's**
5 **throughput disincentive?**

6 A. Yes. In their rebuttal testimony, Staff witnesses John Rogers and Michael
7 Stahlman suggest that KCPL use the method set forth in the Commission's MEEIA rules.
8 This would mean that KCPL would record a regulatory asset equal to a percentage of the
9 expected net benefits resulting from KCPL's demand-side management ("DSM") programs,
10 with the intention to then allow that percentage of the net benefits to be recovered in a future
11 rate case after an evaluation, measurement, and valuation ("EMV") process for the entire 18-
12 month plan has occurred³. Implicit in this proposal is a rejection of the contemporaneous
13 recovery (once a rider is allowed) of the net benefits proposed in KCPL's filing, and a
14 rejection of the use of deemed values, used to determine the amount of the net benefits to be
15 shared. My discussion today relates only to the throughput disincentive and not to program
16 cost recovery or recovery of a performance incentive.

17 **Q. Would Staff's approach protect utility pre-MEEIA earnings levels?**

18 A. No, it would not.

19 **Q. Why Not?**

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

² Rush direct testimony, p. 8, l. 16-22 and Bryant direct testimony, p. 6, l. 20 through p. 7, l. 13.

³ Stahlman rebuttal, p 20, l2-17; Rogers rebuttal, p. 21, l. 3-6.

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

21 **Q. What are the consequences if a company does not meet these standards?**

22 A. The company would not obtain an unqualified opinion on its financial
23 statements. An unqualified opinion provides the independent auditor's judgment that the

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1 company's financial records and statements are fairly and appropriately presented in
2 accordance with GAAP. Without such an unqualified opinion, there are potential
3 consequences from the SEC, investors and others who rely on that company's financial
4 statements.

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

8 A. Yes. Under the Staff's proposal, to meet the first condition under ASC 980-
9 605-25, the order from the Commission allowing for the regulatory asset would have to allow
10 for automatic adjustment in future rates, such as is the case for a fuel adjustment clause,
11 where so long as the calculation is correct and the tariff is followed, the changes in fuel costs
12 are recovered automatically (subject only to true-up for units [kilowatt-hour sales] and
13 prudence reviews). Upon advice from counsel, I understand that the Commission is
14 precluded from entering an order that binds a future commission, and thus an order that only
15 approves a regulatory asset would not meet the automatic adjustment criteria. A rider, which
16 allows for the adjustment of rates between rate cases based upon a pre-approved formula,
17 would meet this condition. I understand KCPL may be prohibited from implementing a rider
18 until later this year but I am not familiar with all of the details. However, in general, it is my
19 opinion that a rider such as I described above would fulfill the first portion of the ASC
20 requirement.

21 With regard to the second condition regarding objectively determining the amount
22 and probability of recovery, Staff's recommendation would require evaluation, measurement
23 and valuation ("EM&V") to be finalized before collection of the throughput disincentive.

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1 Mr. Stahlman points to the language of the Commission rules as explicitly requiring that
2 delay, pointing out that the rules retrospectively recover revenues that are lost by customer
3 participation in MEEIA programs⁴. This means that the savings attributable to any particular
4 energy efficiency program will not be known until after the program is implemented and
5 EM&V is complete. Without deemed values (determining ahead of time how much savings
6 each energy efficiency measure will produce), any presumed value can be retroactively
7 changed, leaving it impossible for an objectively determinable amount to be calculated.

8 Finally, the third condition requires that the revenues will be collected within 24
9 months following the end of the annual period in which they are recognized. Staff's proposal
10 doesn't allow for collection until sometime after the 18-month program period is completed.
11 While it might be theoretically possible to collect the revenues within 24 months, it is
12 unlikely as a practical matter that the Commission-approved EM&V could be completed in
13 time to actually collect the revenues from customers within this 24 month window.

14 In summary, Staff's proposal would not correct energy efficiency program's negative
15 impact on earnings because it would not allow the utility to record revenue to offset the
16 negative impact to earnings of the throughput disincentive at the time the throughput
17 disincentive is experienced.

18 **Q. On what do you base the foregoing discussion of the negative impact to**
19 **the utility earnings of Staff's proposal?**

20 A. In addition to the specific terms of the applicable accounting standards, and
21 my interpretation of them as a CPA, I also base my discussion on the position of Ameren
22 Missouri's external auditors, PricewaterhouseCoopers, LLC ("PWC"). The SEC requires

⁴ Stahlman rebuttal, p. 6, l. 17-20.

1 that a publicly-traded company's financial statements be audited by a national public
2 accounting firm, such as PWC, and part of my job is to both understand and apply those
3 standards to our accounting practices at Ameren Missouri.

4 **Q. Does Staff's testimony directly address the earnings issue you discuss**
5 **above?**

6 A. Not directly. However, Staff witness Zephania Marevangepo makes the
7 following statement about the requested performance incentive:

8 Depending on the level of energy and demand savings achieved,
9 a performance incentive provides KCPL with surplus cash inflow
10 (over what is needed to be revenue neutral) that would in turn
11 create an earnings buffer, create a surplus earnings base for
12 distribution to shareholders, improve KCPL's key credit metrics
13 and reduce business risk⁵.

14
15 This statement, at best, is only relevant to the performance incentive and is not all applicable
16 to the throughput disincentive and the issue of whether that revenue can be recognized as
17 earnings. Staff's testimony also ignores the magnitude of the throughput disincentive as
18 compared to the performance incentive. The throughput disincentive, which under the Staff
19 proposal would result in a reduction to earnings, is not somehow offset by the performance
20 incentive. The performance incentive is of a smaller magnitude and is not recovered (even
21 under Ameren Missouri's DSIM) until the end of the MEEIA cycle. Staff misses the real
22 earnings issue with its proposal.

23 **Q. Does the Stipulation and Agreement reached in Ameren Missouri's**
24 **MEEIA filing and approved by the Commission satisfy the conditions in ASC 980-605-**
25 **25?**

⁵ Marevangepo rebuttal, p. 11, l. 1-6.

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1 A. Yes. First, under the settlement, initially the recovery occurred automatically
2 each month because the recovery was part of the base rates charged to customers as the
3 program proceeded. Earlier this year, Ameren Missouri implemented a MEEIA rider which
4 also allows those throughput disincentive revenues, and changes to those revenues, to be
5 automatically collected.

6 Second, the amount is objectively quantifiable because the deemed savings values in
7 the approved Technical Resource Manual (which deems savings values for each energy
8 efficiency measure) drives the calculation – only a true-up for the number of "widgets" (i.e.,
9 the actual measures installed, e.g., the number of light bulbs) occurs later.

10 Third, because of the contemporaneous recovery of the rider, allowing for recovery of
11 the throughput disincentive at the same time as when it occurs, the recovery within 24-
12 months requirement in the standard is also satisfied.

13 **Q. Do you have concerns regarding other aspects of the Staff's proposal?**

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

1 **Q. What incentive do utilities have to invest in energy efficiency?**

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

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

13 A. If the DSIM is properly designed, then as we evaluate investment and expense
14 demands or desires that invariably exceed the dollars we have available to spend in a given
15 year, the utility will value energy efficiency expenditures equally with investing in power
16 plants or other infrastructure. This is because; first, it can recover the costs of running the
17 programs; second, it is not going to lose money because it induced customers to buy less of
18 what it sells; and third, the utility has a chance to earn something if it does a good job. But
19 the same is not true with the Staff's alternative. Under the Staff's alternative, the utility can
20 recover its program costs, but for the reasons discussed earlier, it is virtually guaranteeing
21 that it will recover less of its legitimate cost of equity – i.e., earnings will suffer. And
22 earnings will suffer even if the utility is not later second-guessed on whether the reasonable
23 estimates of the savings energy efficiency measures would be produced; i.e., even if the

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1 utility can use deemed values. Under the Staff's proposal, the utility is forced to take on yet
2 more risk of harming earnings because under their proposal, a utility is subject to second-
3 guessing, regardless of whether the estimates were reasonable at the time. The point is that
4 under KCPL's proposal (and in how Ameren Missouri's MEEIA DSIM operates), incentives
5 are aligned as MEEIA contemplates, but under the Staff's proposal they are not. Under the
6 latter, the incentive is not to spend on energy efficiency because the utility will incur losses.
7 Under the former, the incentive is to spend on energy efficiency (which matches up perfectly
8 with helping customers use energy more efficiently) because the utility won't incur losses and
9 has an earnings opportunity.

10 **Q. Do your comments regarding the misalignment of incentives inherent in**
11 **the Staff's proposal apply to OPC witness Barbara Meisenheimer's proposal?**

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

16 **Q. Please summarize your testimony.**

17 A. Staff is mistaken in recommending recovery of the throughput disincentive
18 through the current rules on lost revenue as it fails to address the earnings impact of
19 successful energy efficiency programs. This is not a hypothetical scenario; the applicable
20 accounting standards dictate the outcome. The Commission should approve a proposal that
21 meets the applicable accounting standards and protects the utility's earnings from the impact
22 of the throughput disincentive. This reflects an alignment of utility financial interests in
23 helping its customers use energy more efficiently, as MEEIA requires.

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- 1 **Q. Does this conclude your surrebuttal testimony?**
- 2 A. Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Kansas City Power &)
Light Company's Application for)
Approval of Demand-Side Programs and)
for Authority to Establish A Demand-Side)
Programs Investment Mechanism

Case No. EO-2014-0095

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

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Union Electric Company d/b/a Ameren Missouri consisting of 12 pages, and Schedules LMB-1, 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 14th day of April, 2014.

Julie Irby

Notary Public

My commission expires:

Julie Irby - Notary Public
Notary Seal, State of
Missouri - St. Louis County
Commission #13753418
My Commission Expires 1/15/2017

980-605-25 Recognition

> Alternative Revenue Programs

25-1 Traditionally, regulated utilities whose rates are determined based on cost of service invoice their customers by applying approved base rates (designed to recover the utility's [allowable costs](#) including a return on shareholders' investment) to usage. Some regulators of utilities have also authorized the use of additional, alternative revenue programs. The major alternative revenue programs currently used can generally be segregated into two categories, Type A and Type B.

25-2 Type A programs adjust billings for the effects of weather abnormalities or broad external factors or to compensate the utility for demand-side management initiatives (for example, no-growth plans and similar conservation efforts). Type B programs provide for additional billings (incentive awards) if the utility achieves certain objectives, such as reducing costs, reaching specified milestones, or demonstratively improving customer service.

25-3 Both types of programs enable the utility to adjust rates in the future (usually as a surcharge applied to future billings) in response to past activities or completed events.

25-4 Once the specific events permitting billing of the additional revenues under Type A and Type B programs have been completed, the regulated utility shall recognize the additional revenues if all of the following conditions are met:

1. a. The program is established by an order from the utility's regulatory commission that allows for automatic adjustment of future rates. Verification of the adjustment to future rates by the regulator would not preclude the adjustment from being considered automatic.
2. b. The amount of additional revenues for the period is objectively determinable and is probable of recovery.
3. c. The additional revenues will be collected within 24 months following the end of the annual period in which they are recognized.