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Issue(s): Fuel Adjustment Clause, Severance Costs, Plant-in-Service Accounting; Storm Costs; Rate Case Expense; Vegetation Management/Infrastructure Inspection Tracker
Witness: Lynn M. Barnes
Sponsoring Party: Union Electric Company
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2012-0166

REBUTTAL TESTIMONY

OF

LYNN M. BARNES

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a Ameren Missouri

St. Louis, Missouri
August, 2012

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REBUTTAL TESTIMONY

OF

LYNN M. BARNES

CASE NO. ER-2012-0166

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 63103.

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. Are you the same Lynn M. Barnes who filed direct testimony in this case?

A. Yes, I am.

II. PURPOSE AND SUMMARY OF TESTIMONY

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

A. The purpose of my testimony is to address several issues presented in the direct testimonies of witnesses representing the Missouri Public Service Commission Staff ("Staff"), the Office of Public Counsel ("OPC"), and the Missouri Industrial Energy Consumers ("MIEC"). The general topics I will address are their testimonies regarding the Fuel Adjustment Clause ("FAC"), severance costs, Plant-in-Service Accounting, storm cost recovery, rate case expense, PSC assessment and the vegetation management and infrastructure inspection cost trackers.

Q. Please briefly summarize your response on each of those topics.

A. a) Regarding the FAC, the Staff has recommended modification of the FAC which would change the current sharing mechanism from 95%/5% to 85%/15%. For the reasons discussed below, the Staff's proposed change, rejected by the Commission just over one year ago in the Company's prior rate case, is unwarranted.

b) The Staff and MIEC witnesses have taken the position that the Company should not be allowed to amortize the cost of severance paid to induce employees to accept an early retirement package stating that the Company has already "recovered" these costs via savings achieved from the early retirements. This position is inconsistent with good regulatory policy—specifically how regulatory lag is meant to work -- as I will outline in my testimony.

c) The Staff, OPC and MIEC witnesses are all recommending that the Commission reject the Company's proposal for Plant-in-Service Accounting for various reasons. I will respond to those reasons in my testimony.

d) Staff opposes the Company's request for deferment of the increase in the PSC assessment since the last rate case. Staff indicates it has properly annualized this assessment and the Company accepts Staff's position.

e) Regarding storm recovery costs, MIEC has recommended a reduction in the amount of normalized storm costs to be included in the determination of the revenue requirement. The Company believes that if a normalization calculation is proper to derive an appropriate level of storm costs for use in setting rates, it should be calculated consistently and not over longer or shorter periods with each rate case, as the MIEC witness suggests.

f) The Staff and OPC are recommending a reduction in the amount of rate case expense to be included in the Company's cost of service. These recommendations are unsupported and should be rejected. I will address why, and will present support for a normalized level of rate case expense.

g) MIEC witness Greg Meyer is recommending elimination of the vegetation management and infrastructure inspection cost trackers. I will explain why his recommendation is unsupported and should be rejected.

III. FUEL ADJUSTMENT CLAUSE

Q. What is the Staff's position regarding the sharing mechanism in the FAC?

A. The Staff is recommending that the current sharing mechanism, which allocates 95% of the increases or decreases in net fuel costs to customers and 5% of such increases or decreases to the Company, be modified to allocate 85% to customers and 15% to the Company. This is described in the Staff Report—Revenue Requirement Cost of Service ("Staff Report"), on pages 163 through 167.

Q. Please describe what is meant by the 95%/5% sharing mechanism and the potential impact of moving to an 85%/15% sharing mechanism.

A. The 95%/5% sharing mechanism simply means that if the cost of fuel and purchased power, net of off-system sales (i.e., net fuel costs), increases above or decreases below the net base fuel costs against which changes in net fuel costs are tracked, then the Company will recover 95% of the increase or refund 95% of the decrease over an eight-month period beginning four months after the end of the accumulation period. That means the Company does not recover or refund 5% of these costs. Moving this sharing mechanism to 85%/15% would result in the Company having to absorb 15% of the cost increases or retaining 15% of the cost decreases, rather than 5%.

Q. What are Staff witness Lena Mantle's reasons for recommending a change to the sharing mechanism?

A. Ms. Mantle attempts to justify her recommendation based on five observations that she asserts somehow suggest that the 95%/5% mechanism doesn't provide a sufficient incentive for Ameren Missouri to "improve the efficiency and cost-effectiveness of its fuel and purchased power procurement activities."[1] The five observations are as follows: 1) the very obvious point that the amount that the Company didn't collect from customers under the 95%/5% sharing was less than it would have been with an 85%/15% sharing; 2) that the variability in off-system sales ("OSS") margins was greater than the variability in fuel and purchased power costs; 3) that a sharing percentage of 85%/15% would provide the Company more incentive to reduce its fuel and purchase power costs and increase its OSS; 4) that an 85%/15% sharing mechanism would provide the Company with more incentive to accurately estimate the net base energy cost factors in general rate cases; and 5) that there was what she calls regulatory lag created by the Company with respect to the Staff's second prudence review of the Company's FAC.

[1] Staff Report, p. 166.

Q. Can you comment on these observations?

A. Yes. In Ms. Mantle's testimony, she discusses the historical results since the FAC was initially approved and attempts to suggest that somehow the sharing percentage influenced the decisions made by the Company during that period. She also implies that the accuracy of the net base fuel costs ("NBFC")[2] would have been improved had the Company's portion of the sharing percentage been greater. Finally, she suggests that the Company has purposefully benefitted from regulatory lag based on a Commission decision that hasn't even been made yet. I would note that several of these contentions are similar to contentions she made in the Company's last rate case where she also recommended that the sharing percentage be changed to 85%/15%. In the Company's last rate case, the Commission summarized Ms. Mantle's arguments as follows:

> Staff offered four reasons why the sharing percentage should be changed. First, Staff initially gave Ameren Missouri credit for asking that its net base fuel costs be rebased in this rate case. Staff explained that the request to rebase those costs showed that Ameren Missouri has a proper incentive to avoid forfeiting the 5 percent share it would lose under the fuel adjustment clause if its net base fuel costs were not rebased. However, later in the case, Staff turned that positive factor into a negative by claiming that Ameren Missouri's willingness to agree to a level of off-system sales revenue that the company indicated was likely to be too low, showed that the company did not have a proper incentive to get it right. Second, Staff claims that the results of a recent prudence audit of Ameren Missouri's fuel adjustment clause in File No. EO-2010-0255 justify imposing a larger sharing percentage on Ameren Missouri. Third, Staff asserts that a larger sharing percentage might have provided Ameren Missouri a greater incentive to avoid the miscalculation of an input into its FAC rate that it identified in the true-up of the first recovery period of its fuel adjustment clause. Fourth, and finally, Staff claims that because Ameren Missouri's off-system sales are down since it implemented a fuel

[2] I use the term "NBFC" in my testimony because that is the term used in the Company's current FAC tariff. I would note that the Staff proposes that this term become "Net Base Energy Costs" ("NBEC") in the FAC tariff to be implemented as part of the resolution of this case. The Company has no objection to the prospective use of the term NBEC.

> adjustment clause, perhaps it does not have sufficient incentive to maximize off-system sales.[3]

The Commission rejected each of Ms. Mantle's arguments and retained the 95%/5% sharing.

Q. Starting with the first reason cited by Ms. Mantle in this case, do the amounts absorbed by the Company change if the sharing mechanism changes from the current 95%/5% to her proposed 85%/15%?

A. Yes, of course they do. As Ms. Mantle indicates in her testimony, if there was a 15% sharing the amount that the Company would have absorbed (and thus not recovered) would have been 3 times greater, since 15% is 3 times greater than 5%. However, Ms. Mantle does not explain how increasing this sharing percentage would improve the efficiency or cost-effectiveness of the Company's fuel procurement activities, which is the objective the sharing mechanism is intended to achieve. Moreover, given that the Company has only very sporadically been able to earn its allowed return when it was not recovering 5% of its net fuel costs, there is no justification for exacerbating that problem by making it even more difficult for the Company to earn its allowed return. The Commission reached the same conclusion in our last rate case:

> Most significantly, a change in the sharing mechanism to require Ameren Missouri to absorb 15 percent of net fuel cost changes instead of the current 5 percent would impose a significant financial burden on the company. If the proposed 85/15 sharing mechanism had been in place since the fuel adjustment clause was put into effect instead of the actual 95/5 sharing mechanism, Ameren Missouri would have been required to absorb an additional $22 million in net fuel costs. That would be a heavy burden on a company that is already having difficulty earning its allowed rate of return.

[3] Report and Order, Case No. ER-2011-0028, pp. 79-80. Effectively, Ms. Mantle is making two of those four claims again in this case.

Q. Would a heavy burden be imposed on the Company by Ms. Mantle's proposal as the Commission found in the Company's last rate case?

A. Yes. Had Ms. Mantle's 85%/15% proposal been in place since the FAC was implemented, we would have absorbed an additional approximately $29 million of net fuel costs – $7 million more than the $22 million that the Commission concluded would have been a "heavy burden" in the last case. And as Ameren Missouri witness Robert K. Neff indicates in his rebuttal testimony, and focusing on coal costs alone, it is clear that increasing the sharing percentage from 5% to 15% would cause the Company to under-recover an *additional* approximately **[redacted]** million *per year* over the next **[redacted]** years in delivered, prudently incurred coal costs.

Q. Moving to the second reason Ms. Mantle cited, is it true that OSS margins have been more volatile than fuel and purchased power costs?

A. Yes, it is true that OSS margins have been more volatile. This is not a new fact, as this was true when the FAC was first approved and it has been true each time the FAC was continued. As discussed in Ameren Missouri witness Jaime Haro's rebuttal testimony, while OSS margins have exhibited volatility, they have also in general been steadily declining because of the declining market prices we have seen since the financial crisis began in late 2008-early 2009. The effect of those declining prices has been to decrease OSS margins and thus increase net fuel costs between rate cases, as Chart 4 in Ms. Mantle's portion of the Staff Report shows. It is inappropriate to separate the OSS margins from the fuel and purchased power costs, as Ms. Mantle has attempted to do, because the sharing percentage is applied to changes in the *net fuel costs* (fuel and purchased power costs net of OSS margins) and not individually to fuel/purchased power

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costs or OSS margins. When fuel and purchased power costs are also considered, the upward pressure on net fuel costs between rate cases is even worse—multi-year fuel and transportation contracts typically have escalation clauses which increase fuel costs between rate cases. As a consequence, because net fuel costs generally increase between rate cases, the 5% sharing has effectively disallowed a significant amount of the Company's prudently incurred net fuel costs. Increasing the sharing percentage to 15% would triple the amount of prudently incurred net fuel costs that Ameren Missouri would have to absorb.

Q. Please elaborate on your last statement.

A. An FAC only allows a utility to recover prudently incurred costs. Consequently, if, as a result of a prudence review, the Commission determines costs were imprudently incurred then a disallowance must be made. But that means that the costs that are included in the FAC are only *prudently incurred* costs. The sharing mechanism prevents recovery – one could characterize it as a disallowance – of prudently incurred costs because it is applied only to costs which have not been found to be imprudently incurred. Ms. Mantle's proposal would simply triple the level of prudently incurred costs that the Company will fail to recover, which as the Commission has recognized would indeed impose a significant and unwarranted financial burden on the Company.

Q. In the third reason Ms. Mantle cites, she suggests that the Company would have more incentive to lower fuel and purchased power costs and increase OSS margins if the sharing percentage were changed. Does she point to any evidence to support her claim?

A. No, she does not.

Q. Is her suggestion true?

A. No, it is not. The Company's rigorous policies and processes for procuring fuel and purchased power and for making off-system sales did not change when the FAC was initiated nor have they changed in the three and one-half years since then. We are continually mindful that the FAC is a privilege granted by the Commission which can be revoked, and that fuel and purchased power costs and OSS margins are subject to prudence reviews, and those considerations provide the Company with powerful incentives to keep our net fuel costs as low as possible. Increases in fuel and purchased power costs occur because we operate in fuel and power markets we cannot control. OSS margins are impacted by several factors, including market power prices and the amount of excess generation available after our retail load needs are met, which are often impacted by uncontrollable factors such as weather. The Commission recognized this just over one year ago:

> Staff's fourth argument asserts that a recent decline in Ameren Missouri's off-system sales might be attributable to a reduction in the company's incentive to make those sales. Staff points out that Ameren Missouri's total off-system sales decreased in four of the five accumulation periods since the Commission first approved Ameren Missouri's fuel adjustment clause. However, the reduction in off-system sales that Staff notes is entirely explained by an increase in retail sales during the same period. More retail sales means less power is available to sell off-system. In addition, during this period Ameren Missouri experience several major planned generator outages that reduce the amount of electricity available for off-system sales. Ultimately, under cross-examination, Staff's witness conceded that she was not contending that Ameren Missouri lacks sufficient incentive to make off-system sales.[4]

Q. Does Ms. Mantle contend in this case that Ameren Missouri lacks sufficient incentive to make off-system sales?

[4] Case No. ER-2011-0028, Report and Order, July 23, 2011, p. 83-84.

A. No, she does not, but she continues to advance what is nothing more than a completely unsupported theory that if the sharing percentage were increased the Company would do a better job making off-system sales. She cites no facts to support her theory, because there are none, as Mr. Haro also discusses.

Q. Has Ms. Mantle herself testified about the incentives that exist for Ameren Missouri to properly manage its net fuel costs?

A. Yes, she has. In her sworn deposition in the last rate case, concluded just over one year ago, she testified as follows:

> *Q Okay. Do you agree if there is imprudence the Commission has the power and the obligation to disallow any costs related to the imprudence?*
>
> *A Yes.*
>
> *Q And would you agree that that is a powerful incentive for a utility to avoid imprudent behavior?*
>
> *A Yes.*
>
> *Q Would you agree with me that the use of a fuel adjustment clause in Missouri is a privilege and not a right for utilities?*
>
> *A That is correct.*
>
> *Q And isn't it true that the Commission can take away a utilities fuel adjustment clause if it believes the utility is misusing it?*
>
> *A Yes.*
>
> *Q And doesn't that also provide a powerful incentive for utilities to act reasonably and prudently with respect to their FACs?*
>
> *A Yes.*[5]

[5] Lena Mantle Deposition, Case No. ER-2011-0028, April 13, 2011, p. 44, l. 7 – p. 45, l. 18.

I agree with her statements, and they demonstrate that there is no need to triple the loss of prudently incurred net fuel costs as she is advocating in this case.

Q. Similar to Ms. Mantle's third reason, her fourth reason implies that changing the sharing percentage would provide the Company with more incentive to accurately estimate net fuel costs in base rates. Is that true?

A. No it is not, and she made this same point (which was rejected by the Commission) in our last rate case. The factors that most impact the accuracy of the amount of net fuel costs are driven either by the regulatory process itself, or by the inability of any party to accurately predict at least some of the components of NBFC.

For example, as I mentioned above, fuel cost increases are primarily the result of price escalations that are built into long-term contracts, and generally go into effect in January of each year. Specifically in this case, we know that coal costs will increase on January 1, 2013, just before rates established in this case will go into effect. However, historically our fuel costs that have been used to set base rates have only been updated through the true-up date -- in this case through July 31, 2012 -- and thus using the historical approach we would not capture the January 2013 increase. As a result, the amount of fuel costs in base rates will be lower, despite a known and measurable change that will occur. One way to improve the accuracy of the fuel costs included in NBFC in this case would be to include the known January 2013 coal price increase in the determination of NBFC.

Q. Are you proposing that the January 1, 2013 delivered coal cost increases be included in determining the revenue requirement in this case?

A. Yes, I am. Rates are expected to take effect in this case on January 2, 2013, which is the operation of law date for this case. If Ms. Mantle is serious about the importance of setting NBFC as accurately as possible, then she should be willing to agree that the approximately $39 million of delivered coal cost increases we can calculate today, that were known and measurable as of the July 31, 2012 true-up date, ought to be in the NBFC established in this case. Otherwise, we know that future FAC adjustments will be larger because we know the base will be too low by the amount of the coal cost increases, and we know that 5% of those increases in prudently incurred fuel costs will be borne by the Company. Mr. Neff discusses the quantification of these costs in his rebuttal testimony.

Q. Wouldn't inclusion of January 1, 2013 fuel cost increases violate the "matching principle" since all of the other costs and revenues used to set rates in this case are cut-off at the true-up date of July 31, 2012?

A. In my opinion, no. The matching principle is not really applicable to costs that are separately tracked through a rider, like Ameren Missouri's net fuel costs. Here the fuel rates are known and measurable as of the true-up date and they will take effect before rates set in this case take effect. If they are not included in net base fuel costs then net base fuel costs will certainly be too low, and upward rate adjustments through the FAC will be required at a later date. In addition, since the FAC was first implemented, Ameren Missouri has consistently under-recovered its net fuel costs through base rates and required upward adjustments to fuel costs recovered through its FAC. Under these circumstances, the Commission should include the January 2013 escalations in net base fuel costs. This is one step that can and should be taken to improve the accuracy of the net base fuel calculation. I would also note that the Commission has recognized that

> [O]ne aspect of the Matching Principle is to match revenues and expenses with the period in which they were incurred. However, under another aspect of the Matching Principle, *'ratepayers are charged with the costs of producing the service they receive.'* [footnote omitted] The purpose is to match costs with benefits so that the ratepayers that enjoy the benefits of utility property also bear the costs thereof. [footnote omitted] (emphasis added)[6]

The point is that when customers will be receiving service using the rates set in the case (January 1, 2013 and beyond), the known and measurable coal cost increases will be one of the costs incurred to provide that service.

Q. Are there difficulties in accurately predicting OSS margins for purposes of setting NBFC?

A. Yes, there are. OSS margins included in base rates are impacted by the volume of expected sales and by the assumed price of those sales. As Mr. Haro testifies in his rebuttal testimony, for ratemaking purposes the Company, the Staff and the MIEC have consistently used a three-year average of historical power prices to estimate what prices will be when rates are in effect. Due to the steady decline in market prices over recent years, this method has resulted in the price used to set the off-system sales component of NBFC being higher than the market price that has actually been realized after rates take effect. While other methods of predicting power prices (e.g., using a two-year average, using forward prices, etc.) could be used, as Mr. Haro also testifies there is no evidence that any other method would result in materially more accurate prices or a

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[6] ***In re Missouri-American Water Co.***, Case No. WO-2002-0273, 237 P.U.R.4th 353 (Mo. P.S.C. Nov. 10, 2004).

more accurate overall NBFC. In any event, it is clear that changing the sharing percentage would not have any impact on our ability to forecast these market prices.

In both the third and fourth reasons cited by Ms. Mantle, she implies that the Company has more control over net fuel costs than it has, and that changing the sharing percentage would somehow change the Company's behavior and produce a better result. As is noted above, the real factors that are driving differences between NBFC and actual net fuel costs (i.e, uncontrollable and hard-to-predict market prices, weather, the historical limitations in the regulatory process I discussed above) are largely out of the Company's control. Increasing the sharing percentage on the theory that it will change the Company's behavior with respect to factors that the Company cannot control will only result in less recovery of prudently incurred costs by the Company.

Q. Lastly, Ms. Mantle suggests that the Company may be benefitting from regulatory lag based on her belief about what the outcome of the second FAC prudency case will be. Do you agree?

A. No, I do not. As Ms. Mantle states in her testimony, whether or not regulatory lag exists in that circumstance depends on a Commission decision that hasn't yet been made. The Company believes that it acted appropriately and prudently regarding the transactions that are the subject of the second FAC prudency case. In fact, the Cole County Circuit Court agreed that the Company acted appropriately and did what the law required it to do, as evidenced by its judgment overturning the Commission's decision from the first FAC prudence case relating to the same transactions (that case is currently subject to further appeal).

Ameren Missouri has every right to litigate the significant "prudence disallowances" that the Staff and other parties have recommended in the FAC cases. And if the Company loses, customers will receive the money due to them with interest. The fact that these cases are being litigated provides absolutely no basis to increase the Company's sharing percentage.

Q. In summary, do you agree with Ms. Mantle's recommendation to change the sharing mechanism to 85%/15% from the current sharing mechanism of 95%/5%?

A. No, Ms. Mantle's recommendation is without merit for the reasons stated above.

IV. SEVERANCE COSTS

Q. What is the Staff's position on severance costs resulting from the Company's 2011 Voluntary Severance Election ("VS-11")?

A. In the Staff Report, pages 100 - 101, Staff witness Lisa Ferguson takes the position that the Company should not be allowed to amortize over 3 years the cost of the severance paid to induce employees to accept an early retirement package. The reason cited in the Staff Report was that the Company will have already "recovered" these costs by the time rates set in this case take effect via savings achieved as a result of the early retirements versus the higher labor costs that had been assumed when rates were last set. MIEC takes the same position.

Q. Do you concur with the Staff's and MIEC's position?

A. No, I do not. The VS-11 action was a business decision the Company made to manage costs. Indeed, it is the very kind of cost-management step that we are so often told that regulatory lag is designed to induce the Company to take. Consequently, the Company should benefit from lower labor costs it experienced because of management decisions that it makes until rates are reset, just as Staff and other parties have so often said that the Company must bear the burden of regulatory lag between rate cases if actual costs for a cost-of-service item are greater than the level assumed when rates were last set.

The Staff's and MIEC's positions are tantamount to saying that when regulatory lag benefits customers (as is the case when costs are increasing), then the Company is expected to absorb the loss; but when regulatory lag benefits the Company (as is the case when costs drop between rate cases, as in the case of VS-11), then the Company is expected to return those benefits to customers. Under the regulatory construct, this is inconsistent and imbalanced, particularly when dealing with an extraordinary cost like the severance costs.

The Company acted prudently by offering the VS-11, which resulted in the payment of severance costs and an ongoing reduction in labor costs. This benefit will be realized by customers for years to come in the form of lower labor costs used to set the revenue requirement in rate cases, including in this one. If the benefit of taking steps like this to substantially reduce costs is, in effect, going to be given only to customers, then there will be little to no incentive for the Company to take these types of prudent cost-cutting actions. In my opinion, disallowing the severance costs would be poor regulatory policy.

Moreover, while it is true that the savings realized in 2012 roughly equal the severance costs, if one considers severance costs to be part of the larger payroll and benefit costs the Company incurs and looks back prior to 2012 one will see a much different picture.

Q. Please explain.

A. If one examines the Company's total payroll and benefit costs (excluding those covered by the pension and OPEBs tracker) from March 1, 2009[7] through the true-up date in this case, the Company's rates were set using payroll and benefit costs that were approximately $84 million below the level of such costs actually experienced.

If Staff and MIEC desire to compare costs incurred and savings received by the Company between rate cases, then they should also be willing to recognize the fact that over the past 3 years the Company has significantly under-recovered its payroll costs. Disallowing an amortization of the severance costs only exacerbates this under-recovery, as well as taking away any incentive for the Company to lower costs through future severance programs.

V. PLANT-IN-SERVICE ACCOUNTING

Q. What are the Staff's, MIEC's and OPC's positions on the Company's Plant-in-Service Accounting proposal?

A. All three of these parties oppose the adoption of Plant-in-Service Accounting, primarily noting that the Company is not considering the benefits of regulatory lag. In addition to being generally opposed to the proposal, MIEC witness Michael Brosch argues that the proposal inappropriately fails to account for the growth in Accumulated Deferred Income Taxes ("ADIT").

[7] The effective date of rates in Case No. ER-2008-0318.

Q. Do you agree with their positions?

A. No. I disagree with their witnesses' contentions that the Company is against regulatory lag and that the negative consequences that we are attempting to mitigate with by Plant-in-Service Accounting can be offset simply by the benefits that regulatory lag could theoretically provide the Company in a different environment. Fundamentally, I believe the way capital investment for electric utilities is currently addressed in the ratemaking process in Missouri is conceptually flawed. It is one significant reason why Ameren Missouri and other electric utilities in the state have not been able to consistently earn their authorized returns. And it provides a strong financial disincentive for electric utilities to make investments needed to modernize their aging systems for the ultimate benefit of their customers. The adoption of Plant-in-Service Accounting is designed to mitigate these flaws; it will encourage needed investment and give utilities a better opportunity to earn their authorized returns. As a consequence, I continue to support its adoption in this case.

Q. Is the Company against the premise of regulatory lag?

A. No, we are not against the premise of regulatory lag, unless it is excessive, as long as it is applied consistently and in a balanced way. However, from a practical standpoint, my experience is that the manner in which regulatory lag operates is imbalanced. As I mentioned in my testimony relating to severance costs above, it appears to be the position of the other parties that in cases where regulatory lag harms the Company (e.g., wage increases between rate cases, property tax increases between rate cases), the harm must be absorbed, but when regulatory lag benefits the Company, then there is an expectation that the benefit be returned to the ratepayer (versus being used to offset the negative impact on the Company of regulatory lag in other areas). Examples in this case include positions taken by other parties on the Entergy refund and the property tax refund.

Q. Has regulatory lag benefited the Company or harmed the Company in recent years?

A. Excessive regulatory lag has undoubtedly harmed the Company significantly. In the past few years the Company has experienced an environment where costs are increasing and retail load has been decreasing, resulting in more negative regulatory lag with limited offsetting benefits. The fact that we have filed five rate cases in just over five and one-half years demonstrates this fact. Even with the regulatory changes that have been provided by the Commission over the years to address excessive regulatory lag (e.g., the FAC, various trackers), despite these five rate cases, and despite disciplined cost management, we have been unable to consistently offset the negative impact of the significant regulatory lag that results because assets that are placed in service between rate cases are not reflected in rate base until months or years later. Without some type of regulatory relief in this area, there is not a fair opportunity for the Company to earn its allowed return, except in isolated cases where some external factor (e.g., hot weather) may "save" the Company for a short time.

Q. Please explain why you believe the current treatment of capital investment in the ratemaking process is conceptually flawed.

A. Since the late 1970s when Proposition 1 was enacted, electric utilities have been prohibited from recovering in rates the cost of capital being invested in facilities under construction. Said another way, the cost of construction work in progress

("CWIP") for electric facilities is required by Missouri law to be excluded from rate base when rates are set. An electric utility is only permitted to recover the cost of facilities after they are "fully operational and used for service."

However, the regulatory process recognizes that utilities have to receive some compensation for devoting their capital to projects under construction. Consequently, utilities are allowed to accrue an Allowance for Funds Used During Construction ("AFUDC") during the period when a facility is being constructed. AFUDC is simply the cost of capital used to finance the construction of the facility. But once the facility is placed in service, the accrual of AFUDC stops, the accrued amount of AFUDC is added to the cost of the project, and depreciation of the full cost of the facility, including the accrued AFUDC, begins.

The flaw in this scheme is that the utility does not actually recover a return on its investment or recover the depreciation expense associated with that investment until rates are set in its next rate case, months or years after the plant goes into service. For the period of time between when a facility is placed in service and when its costs are ultimately reflected in rates, the utility suffers a permanent loss of the return and depreciation applicable to that capital investment for that period. As a consequence, Missouri electric utilities never recover the full cost of any capital investments that they make. The more that an electric utility invests above the depreciation expense that is already built into rates, the greater the negative impact is on its financial performance. And in an environment like the current one where significant incremental investment is required to modernize aging infrastructure, the utility's failure to recover the full cost of its investment can have severe negative financial consequences.

Q. Has the Commission recognized this conceptual flaw in some situations?

A. Yes it has. As I pointed out in my direct testimony, the Commission has allowed utilities to use "construction accounting" for major projects, such as the construction of nuclear plants, or most recently the construction of the Company's Sioux Scrubbers, which cost approximately $600 million. Using construction accounting, utilities have been permitted to continue accruing AFUDC and deferring depreciation expense between the period that the facility goes into service and the time that the costs can be reflected in rates. This treatment reflects a recognition that it is inequitable (and undermines the opportunity to earn a fair return) to require the utility to absorb these costs for a large capital project. But this is no less true when the utility has to absorb these costs associated with thousands of smaller projects, whose aggregate costs can be as great as the cost of a large project.

The same logic that supported construction accounting for the Sioux Scrubbers and the Callaway Nuclear Plant also supports the adoption of Plant-in-Service Accounting for other capital projects, particularly when the industry as a whole, and Ameren Missouri in particular, is facing a need to replace significant amounts of aging infrastructure and substantial modernization costs and at the same time faces flat or even declining load growth. Regulatory policies that discourage this investment by imposing systematic under-recovery of capital costs will not serve customers' or the Company's best interests in the long run.

Q. Mr. Brosch argues that the Company has not presented any compelling financial justification for its Plant-in-Service Accounting proposal. Do you agree?

A. Absolutely not. For many years the Company has presented evidence of its inability to consistently earn its authorized return. The systematic under-recovery of the cost of capital projects is one important cause of these consistent under-earnings. Mr. Brosch also suggests in his testimony that the Company hasn't demonstrated the need for this change in regulation since we haven't identified specific projects that weren't funded as a result of concerns about the negative effects of regulatory lag. This argument isn't valid. One of the considerations in determining what amounts are available to fund future investments is the impact of these expenditures on the Company's ability to earn a fair (or even it's authorized) return. In other words, we align our expenditures around the rates and regulatory treatment provided by the Commission. As noted earlier, it is simply not sustainable for us to continue to reduce expenditures and then have those reduced expenditures reflected in rates. If we do so, we end-up with the real possibility that we could potentially be in a position of under-funding projects that would be beneficial to customers and we delay addressing aging infrastructure issues, all because the ratemaking process continues to provide less funds than are needed to both fund beneficial investments and give the Company a reasonable opportunity to earn a fair return. In the end, this is detrimental to the Company and customers alike.

Q. How do you respond to Mr. Brosch's contention that you do not have a list of investments that you have not made, but which would be beneficial if made?

A. There is no point in preparing a budget or forecast of investments that can't be completed due to the negative impact on earning a fair return. Until the regulatory process adequately gives us a reasonable opportunity to earn a fair return while investing in the system in a manner that would be beneficial for our customers we have to take steps to reduce expenditures (including capital investments) in an attempt to earn a fair return. We budget for the reality provided by the funds the ratemaking process gives us. If that reality improves, we could adjust our budgets accordingly.

Q. How do you respond to Mr. Brosch's comment regarding an additional regulatory burden for Staff if Plant-in-Service Accounting were approved?

A. I don't believe that implementing Plant-in-Service Accounting will add more work for the audit staff, but even if it does that isn't a valid reason to not adopt a change in regulation that removes a disincentive to make beneficial investment and results in a significant improvement in the utilities' opportunity to earn a fair return.

Q. Mr. Brosch also argues that our Plant-in-Service Accounting proposal is "improper single-issue ratemaking." How do you respond?

A. Plant-in-Service Accounting is no more single-issue ratemaking than accruing AFUDC on every project and it is no more single issue ratemaking than continuing to accrue AFUDC and deferring depreciation as the Commission has done in the past when it approved the use of construction accounting. Moreover, Plant-in-Service Accounting is not ratemaking at all. Rates would not be changed by the adoption of Plant-in-Service Accounting. Rather, with respect to sums accrued and deferred through

Plant-in-Service Accounting ratemaking will only take place in a future rate proceeding when all relevant factors are considered.

Q. Mr. Brosch further argues that the Plant-in-Service Accountiug proposal would remove the regulatory lag incentive to encourage management to carefully optimize budgets. Is he right?

A. No, the opposite is true. As I discussed earlier, historical regulatory policies are creating a disincentive for us to make investments that would be beneficial if made, both to the Company's and customers' detriment.

Q. How do you respond to Mr. Brosch's point that there may be operations and maintenance expense savings as aging infrastructure is replaced?

A. Mr. Brosch is merely speculating about the Company's operations and maintenance ("O&M") expense. Even if there were some small decrease in O&M expenses related to these particular replacements, the rest of the aging system continues to get older and by his logic O&M expenses on those items would be increasing.

Q, Mr. Brosch argues that the exclusion of ADIT from the Company's Plant-in-Service Accounting is a "critical omission." Do you agree?

A. No, I do not. ADIT is an offset to rate base that effectively flows the benefits of accelerated depreciation to customers. However, accelerated depreciation is designed to encourage investment, and so the Commission has not required electric utilities to recognize changes in ADIT until rates are changed. For example, ADIT was not taken into account in calculating the accruals in the construction accounting for the Sioux Scrubbers and the Callaway Nuclear Plant; however, it was taken into account when the costs of those facilities were included in rates in the next rate case. Similarly, the accruals calculated under our Plant-in-Service Accounting should not include changes in ADIT. As always, ADIT will be updated in the next rate case when the costs associated with Plant-in-Service Accounting are ultimately approved and go into rates. Again, Plant-in-Service Accounting does not impact any rate calculation in this case and does not involve ratemaking; rather, rate base would only be changed in a future rate case, at which time ADIT's impact on rate base would be accounted for.

Q. In your view, have any of the parties presented a sufficient reason for the Commission to reject Plant-in-Service Accounting?

A. In my opinion, no. Plant-in-Service Accounting is a logical mechanism to correct some of the detrimental impacts of excessive regulatory lag in Missouri and to encourage investment by compensating utilities for the full cost of the capital they devote to building facilities. It is based on the same logic as "construction accounting," which the Commission has used for large projects for many decades. In addition, the impact on customers' rates should be minimal. Given the fact that the deferrals authorized by Plant-in-Service Accounting will be added to the cost of the facilities and recovered over the life of the facilities, the impact on rates in any given year should not be significant.

VI. STORM RESTORATION COSTS

Q. What level of storm restoration costs is Staff witness Kofi Boateng proposing in this rate case?

A. Mr. Boateng is recommending a normalized test year level of $6.98 million for non-labor related storm restoration costs based upon a 60-month average.

Q. Is this level of storm costs sufficient?

A. Yes, it is sufficient in the sense that our proposed 36-month average produces a result very similar to Mr. Boateng's 60-month average. Whether the level is truly sufficient to cover future storm costs is in fact highly uncertain, because storm costs are largely out of our control and are quite volatile and unpredictable. That is one of the key reasons why a two-way storm restoration cost tracker is warranted.

Q. Did any other witnesses propose a different treatment for storm costs in this case?

A. Yes. MIEC witness Greg Meyer proposed a $6.5 million level of non-labor related storm restoration costs. This amount was calculated based on a 62-month average of storm costs incurred between April 2007 and May 2012.

Q. Why does Mr. Meyer use a 62-month average?

A. In his testimony, Mr. Meyer indicates that this time period represents the "entire period of time since the costs of major storms have been accumulated for purposes of developing a normalized level of expense."

Q. Is it appropriate to use a 62-month timespan?

A. No. An average of historic storm costs is used in order to normalize the expense due to its unpredictability and volatility. But the purpose of normalization is to find a representative period of time that most accurately reflects what cost levels will be during the time when rates are in effect. Unless there are compelling reasons to do so, we ordinarily normalize items using a combination of 12-month periods, not five 12-month periods plus 2 months. As discussed in Ameren Missouri witness David Wakeman's rebuttal testimony, storm costs are unpredictable and have been increasing due to higher customer (and Commission) expectations of the Company to restore service as quickly as is safely possible after a storm. Using an unusual timespan that results in a lower cost level does not seem to make sense.

Q. Do Messrs. Boateng or Meyer support the Company's request to defer the storm costs incurred during the test year that were in excess of the amount collected in rates and amortize those excess costs over five years?

A. No, they do not. The basis for their rejection is that the Company has since "collected" these excess costs in base rates since the amount of storm costs has not increased since the September 30, 2011 test year end.

Q. Do you agree with their position?

A. Yes, under these particular circumstances I do. The Company has not had a major storm in 2012, and at this point we have nearly received revenues through rates sufficient to cover all of our storm costs. As a consequence, we are withdrawing our request to amortize an additional amount of storm costs.

Q. The Company proposed a storm tracker so that it would not in effect benefit or be harmed by responding to storms that are beyond its control. Did any parties oppose this tracker?

A. Yes. MIEC witness Greg Meyer and Staff witness John Cassidy opposed the tracker. Mr. Meyer opposes it on principle (i.e., he opposes all trackers), noting that he believes that a much better approach is to consider storm costs in a traditional ratemaking setting. Mr. Cassidy provided no rationale for his opposition.

Q. Is reflecting storm costs in base rates without use of a two-way tracker an appropriate way to address storm costs in the ratemaking process?

A. No. As Mr. Meyer points out in his own testimony, storms are "acts of God" and as such very unpredictable. He further states that he believes that it is inappropriate for ratepayers to bear the entire burden of cost recovery for these events. While I agree that storms are indeed acts of God, I disagree that the Company should be put in the position of being expected to respond aggressively to storms to restore service as quickly as humanly possible while rates fail to cover the cost of that response. The opposite result could occur if there are relatively few storms in a given period—the Company's rates would reflect more storm restoration costs than are being experienced. The point is that the lack of predictability of storm costs makes it very difficult to accurately set an appropriate base level of those costs in rates using the traditional methods. As a result, it is inevitable that there will be some periods when the assumed level of storm costs used to set the Company's rates will match actual experience and others where it will not. This is true for other costs as well; however, as it relates to storm costs, the expectation of ratepayers and regulators is that the amount of expense incurred to restore customers as quickly as is safely possible should not be limited to the amount built into rates at that particular time. There is an inconsistent message being delivered in this instance: ratepayers and regulators want power restored as quickly and safely as possible after a storm, but the Company's rates are not designed to provide funds needed to cover the costs that it may incur to achieve this goal. The solution to this conundrum is the two-way storm tracker that I proposed in my direct testimony.

VII. PSC ASSESSMENT COSTS, RATE CASE EXPENSES, & VEGETATION MANAGEMENT/INFRASTRUCTURE INSPECTION COST TRACKER

Q. In its direct testimony, the Company requested to defer the increase in its PSC assessment costs incurred since the last rate case and amortize them over two years. Has that proposal been accepted by the Staff?

A. No. In the Staff Report, Staff opposed this proposal and Staff contends that it has properly annualized the Company's PSC assessment as part of the cost of service in this case. We accept the Staff's position on this issue and will reduce our cost of service by the amortization amount accordingly.

Q. Staff has recommended that $1,000,000 be included in Ameren Missouri's revenue requirement for rate case expenses. Do you agree with this recommendation?

A. No, I do not. In her testimony, Staff witness Lisa Hanneken made this recommendation based on a comparison of what other utilities across the state are spending on rate cases, what Ameren Missouri spent in its last two rate cases, and the projected costs of the current case. Since there are significant differences in size and complexity among the investor-owned utilities across Missouri, rate case costs incurred by other utilities don't truly reflect an appropriate amount of expense for Ameren Missouri.

Staff's recommendation is arbitrary and unsupported. The only apparent research Staff performed involved looking at what other "large utilities" spent and what the Company spent in its last two rate cases. When asked for the data, the Staff refused to provide it and the Staff has provided no explanation as to why the specific issues and the different positions of the parties in this rate case are so very similar to those in the last two rate cases (or to other rate cases for other utilities) that the $1 million it proposed is appropriate for the prosecution of this rate case.

Q. Is there any Company-specific information that would allow the Commission to rationally determine an appropriate level of rate case expense in this case?

A. Yes. This is the third rate case filed by the Company in approximately the past three years. Rate case expense has varied from case to case, as shown below:

ER-2010-0036	ER-2011-0028	ER-2012-0166
$2,128,352	$1,735,867	$1,903,000 (est.)

The availability of this history and variation in expense suggest that rate case expense can be normalized, just as many other components of the revenue requirement calculation are normalized. Based on the average of rate case expenses incurred or estimated by Ameren Missouri for these cases (which is the same information reviewed by Ms. Hanneken), and noting that these rate cases were filed approximately 15 months apart, a more reasonable normalization for Ameren Missouri rate case expense would be $1.538 million. This number is calculated based on the average rate case expenses estimated for this case and the amounts incurred in the previous two rate cases, the sum of which was $5.767 million. That amount divided by three is $1.922 million. Since the average gap between rate cases was 15 months, this number would need to be divided by 15 and multiplied by 12 to convert to the normalized number of $1.538 million.

Q. Why is that a more appropriate figure?

A. Because it reflects the Company's actual historical experience and a reasonable estimate of the expense for this case, which is in line with that experience. And as discussed below, a utility has a right to have its rate case expense reflected in the determination of its revenue requirement because for a regulated utility rate case expense is a necessary and legitimate cost of operating the business. Based upon recent history regarding the frequency of our rate case filings, we could reasonably expect to receive revenues approximating this sum between rate cases. In contrast, Staff's arbitrary $1 million figure is significantly less than actual expenditures for any of our recent rate cases and would likely fall short of actual expenditures for this case as well. I would also note that the Company's original inclusion of $1.9 million in the revenue requirement, which did not account for the intervals between rates cases, was also higher than warranted, by approximately $350,000.

Q. Please explain.

A. Assuming, as history has shown, that the interval between rate cases is 15 months, over the 15 months after rates are set in this case Staff's approach will in effect provide just $1.24 million of revenues ($1 million/12/15). But, on average, our rate case expense has exceeded that amount by more than $300,000.

Q. What is OPC's position regarding the inclusion of costs for outside consultants in the Company's rate case expense?

A. Although OPC's overall position regarding rate case expense is problematic in a far more serious way (a point that I will address later in this testimony), OPC proposes that costs associated with outside consultants, as well as the cost of outside counsel, should not be included in rates. This was OPC's position in the Company's last rate case as well.

Q. What is OPC's explanation for disallowing this type of rate case expense which has traditionally been recoverable by utility companies?

A. OPC witness Ted Robertson essentially argues that the expenses associated with the Company's use of outside consultants and outside counsel are unnecessary and, therefore, should be automatically disallowed. OPC bases this argument on its conclusion that Ameren Missouri, as a "large utility with many educated employees" and licensed attorneys, has all the expertise it needs to support the Company's rate increase request. Although OPC acknowledges that rate case expenses are a normal cost of business for a regulated utility and recoverable in rates, it essentially argues for disallowance of nearly all of Ameren Missouri's rate case expense.

Q. Does the Company agree with the proposed disallowance of rate case expenses associated with the use of outside consultants and outside counsel?

A. No. It is reasonable and necessary to use outside consultants and outside counsel who have a particular expertise in the issues in this rate case to prosecute the case before the Commission and against all the various experts retained by the parties in this rate case who oppose the Company's request—often quite vigorously. MIEC, for example, has hired a large St. Louis law firm to represent its members' interests and also uses numerous experts to oppose rate increase requests. In fact, MIEC has not only engaged Bryan Cave as its attorneys, but has engaged two different utility consulting firms and filed the testimony of no less than seven consultants.

Of course, both Staff and OPC point to the fact that the Company employs numerous highly educated employees and inside counsel as justification for denying recovery of costs for those retained outside the Company. The Company acknowledges that its employees are competent in many areas and have provided competent testimony in support of the Company's current and past rate increase requests. It is important to remember, however, that these employees have duties far broader than supporting the Company's rate increase requests; moreover, their testimony is often Company-specific and not necessarily based upon an expertise that is industry-wide on all issues. Put up against several Staff counsel, OPC, multiple attorneys representing MIEC, and attorneys representing the additional approximately 10 intervening parties in the case (and the many, many experts who will be testifying on behalf of the rate request for other parties in this rate case), reliance on the Company's employees alone would very likely result in the Company being unable to properly address these parties' contentions. The Company has a right to utilize the resources it needs to respond to issues raised and arguments made by parties opposed to the request to increase rates. The result is that the Commission has a complete record that will enable it to reach a proper resolution of the case and to perform its ultimate duty of setting just and reasonable rates.

The real problem behind OPC's argument that the Company should only use Company witnesses and counsel is that the Company's ability to direct its defense and make strategic choices about that defense would be restricted and co-opted by OPC. Despite the testimony of OPC's accountant, the outright exclusion of the use of outside consultants and outside counsel goes far beyond the more traditional and appropriate evaluation of whether a particular consultant provides duplicative testimony; instead, it goes to the very essence of the Company's right to direct its legal defense and choose its legal strategy. While the Company recognizes that it should not "automatically" be able to recover rate case expenses, the Commission has always recognized that because a utility should have reasonable discretion in defending its rate increase request, it "will not lightly intrude into the Company's decisions about how best to present its case."[8]

Q. Are Company employees or Ameren Services Company employees who provide services for the Company available to perform all of the necessary work for a rate case?

A. No. The entire Legal Department at Ameren Services Company consists of just 16 lawyers. While there are a handful of other employees across the entire spectrum of companies owned by Ameren Corporation who have law degrees, some of them do not have active law licenses. Even if they did, that does not mean that they have the knowledge and experience to handle Public Service Commission work. There are only two lawyers in the Legal Department whose job responsibility includes Missouri regulatory (i.e., Public Service Commission) work. There is only one other attorney in the Legal Department who has had any material experience in Missouri regulation, but that attorney has a full-time job handling FERC matters. Other "regulatory lawyers" (i.e., at the state level) are dedicated full time to work in Illinois.

The limited number of personnel in Ameren Services Company who understand cost of capital are engaged full time in managing capital needs for the companies they serve. I deal with those personnel regularly; their "day jobs" already keep them fully occupied, leaving them little additional time to actively work on rate cases or to regularly act as witnesses. The Company does not have regulatory economists on staff that have the knowledge, experience or training necessary to address the kinds of policy issues that, for example, Ameren Missouri witness John Reed addresses in his testimony in this case.

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[8] Report and Order, Case No. GR-2004-0209, p 72.

In summary, the premise that there are qualified in-house personnel available to devote the vast amounts of time necessary to properly handle rate case duties is a false one.

Q. You mentioned earlier that OPC's position with regard to rate case expense was problematic in a far more serious way. How so?

A. OPC takes the same position that it did in the last rate case that rate case expenses should be borne in whole or in part by the shareholder, although OPC applies this somewhat differently than it did in the last rate case. Instead of proposing a 50-50 split of those costs, OPC proposes here that the Commission adopt a sliding scale for sharing rate case expenses based upon how the Commission ultimately resolves the Company's rate increase request. OPC justifies its proposal by arguing that the Company has no incentive to present a "bare bones" revenue requirement request, pointing to the Company's executive incentive compensation plan in which, OPC says, "some aspects" are "directly or indirectly influenced" by the ability of the Company to obtain favorable outcomes in rate proceedings. This proposal and OPC's reasoning raise concerns for any regulated utility and for the Company in particular.

Q. What are these concerns?

A. When the Company's costs rise, the Company's efforts to secure rates which allow it the opportunity to earn a reasonable return on the investment of the Company and its shareholders are not only entirely lawful, but necessary to customers. It is the customer who is the primary beneficiary when a utility's ability to fulfill its statutory obligation to provide adequate and reliable service is ensured because the

Company is able to attract investment and maintain that investment by providing a reasonable return to its shareholders.

In Kansas City Power and Light's last rate case, Commissioner Jarrett pointed out the fact that those who argue for sharing rate case expense with the shareholders overlook the shared benefits inherent in all the costs a utility incurs in providing service:

> What these arguments fail to recognize is that both shareholders and ratepayers benefit from all kinds of spending by the utility. Ratepayers receive many benefits from expenses that are born solely by the ratepayers (for example, executive bonus programs used to retain excellent managers typically are not included in rate base). Should this Commission require the ratepayers to pay a share of those expenses because they receive the benefit of a properly managed utility? I do not think any ratepayer advocate would argue for that. Rate case expense is a necessary cost of doing business because utilities have a legal obligation to provide safe, adequate and reliable service to ratepayers, and that meeting that obligation may only be achieved through the rate making process. When their costs rise, the utilities' only recourse is to come to the Commission and ask for a rate increase to recover those additional costs. Routinely Staff and other parties vigorously oppose such increases. Utilities must hire lawyers and experts to prove their case because utilities have the burden of proof. It has been my experience that utilities rarely, if ever, receive everything they ask for.
>
> In a cost based regulatory system, like we have here in Missouri, recovery of prudently incurred costs by the utility ensures a balance of the regulatory paradigm. Singling out a cost for different rate treatment, where the same rationale for different treatment could be applied to any other cost, risks disincentivizing utilities to meet their statutory obligations. Because the rate increase proceeding is the only mechanism available to the utility for meeting its regulatory obligations, I believe it is inappropriate, in a cost based regulatory system, to disallow any prudently incurred rate case expenses[9].

The Company is also quite concerned with the suggestion that it is in the best interests of ratepayers that the Company only put before the Commission a "bare bones" revenue requirement request. While I am uncertain regarding what OPC considers a

[9] Concurring Opinion of Commissioner Terry M. Jarrett in the Report and Order, Case Nos. ER-2010-0355 and ER-2010-0356.

"bare bones" revenue requirement request to be, it seems to suggest that the Company's current request is intended only to benefit shareholders and/or includes recovery of costs entirely unnecessary to provide adequate and reliable service to customers. This is certainly not the case. But even if it were, the ratemaking process is expressly designed to address these issues by reviewing the evidence the parties are free to offer and to resolve the disputed issues based on that evidence in a matter that is fair and reasonable. Ultimately the decision of what is appropriate is up to the Commission, but the Commission should not be deprived of having a full record before it when it makes its decision.

Moreover, OPC's testimony implicitly suggests that there is a minimum request to which all parties would agree and, therefore, would not be disputed before the Commission. As OPC itself must admit, this is entirely unrealistic. I am not aware of a single rate request that was unopposed by some party, nor am I aware of any case in which a utility received all it requested. It is the regulatory ratemaking process itself and the inherent conflict in that contested ratemaking process that produces rates which, in the Commission's view, are just and reasonable.

Finally, OPC's proposal purports to address a perceived problem that management has no incentive to monitor rate case expense. However, the Commission always has the power to disallow imprudently incurred rate case expenses. Adoption of the OPC's sliding scale proposal would only serve to improperly disallow a portion of the prudent and reasonable expenses that a utility incurs to prosecute its rate cases. Perhaps this is why the recent survey conducted by Staff in Case No. AW-2011-0330 indicated that *none* of the state commissions who responded to the survey shares rate case expense between the ratepayer and the shareholder.[10] The Company believes it appropriate to adhere to the traditional approach allowing recovery of all reasonable and prudent rate case expenses, and to reject OPC's unprecedented and unreasonable recommendations.

Q. In his testimony, MIEC witness Greg Meyer recommends discontinuing the vegetation management and infrastructure inspection tracker based on the assumption that enough time has passed to develop an ongoing expense level in rates. Do you agree?

A. No, I do not. The Company has not yet completed an entire trim cycle or inspection cycle and the costs incurred to comply with the Commission mandated rules have been steadily increasing. The purpose of the trackers was to insure that the Company would appropriately recover costs relating to compliance with the Commission's new, mandatory rules. The trackers were also designed to be two-way so that the Company would not recover any amounts in excess of its actual expenditures. Neither the ratepayer nor the Company is harmed by the trackers so there is no reason to discontinue them.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

[10] "Rate Case Expense: A Commission Inquiry" at Slide 22 (September 21, 2011 Presentation to NARUC Subcommittee on Accounting and Finance).

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a Ameren Missouri's Tariffs to Increase Its Revenues for Electric Service.	)))	**Case No. ER-2012-0166**

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 Rebuttal Testimony on behalf of Union Electric Company d/b/a Ameren Missouri consisting of 38 pages and Schedule(s) N/A, 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 9th day of August, 2012.

Julie Donohue
Notary Public

My commission expires:

Julie Donohue - Notary Public
Notary Seal, State of
Missouri - St. Louis City
Commission #09753418
My Commission Expires 2/17/2013