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Witness: Lynn M. Barnes
Sponsoring Party: Union Electric Company
Type of Exhibit: Rebuttal Testimony
Case No.: ER-2008-0318
Date Testimony Prepared: October 14, 2008

MISSOURI PUBLIC SERVICE COMMISSION

Case No. ER-2008-0318

REBUTTAL TESTIMONY

OF

LYNN M. BARNES

ON

BEHALF OF

UNION ELECTRIC COMPANY d/b/a AmerenUE

St. Louis, Missouri
October, 2008

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REBUTTAL TESTIMONY

OF

LYNN M. BARNES

CASE NO. ER-2008-0318

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. Please describe your educational background and qualifications.

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

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

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

Q. Please describe your employment history.

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

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

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

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the Staff Report Cost of Service (Staff Report) regarding the treatment of certain items in the areas of labor costs, storm costs, and the January, 2007 storm Accounting Authority Order amortization start date.

Q. What specific labor issues are you addressing in your testimony?

A. The three labor issues that I am discussing in this testimony are: (i) Staff's proposed normalization of overtime hours; (ii) the proposed disallowance of the lump sum payments that were distributed to union contract employees during the test year; and (iii) the Staff's Leap Year Day adjustment.

I. NORMALIZATION OF OVERTIME HOURS

Q. Please discuss the Staff's proposed overtime normalization and the Company's position on this issue.

A. The Staff Report recommends normalizing the test year overtime costs that are included in the Company's cost of service by averaging the overtime hours over the past five years. The Company's position is that the test year overtime costs are a better representation overtime levels that can reasonably be expected in the future.

Q. What factors lead you to your conclusion that the level of overtime in the test year is more appropriate than the Staff's proposed normalization?

A. There are several factors that support this conclusion.

a) AmerenUE's work load continues to increase due to increasing customer expectations and the Company's obligations to comply with new Commission rules addressing vegetation management, infrastructure inspection and repair and reliability.

b) Despite aggressive efforts, filling positions with qualified personnel in both the distribution area and the power plants has been increasingly difficult, leaving fewer employees to bear the increasing work load.

c) Competition for contractor resources has increased, thus making it more difficult for the Company to close the gap between the work load and the internal workforce with outside contractor resources.

d) To preserve longer intervals between major outages at the plants and thus improve plant availability, more manhours are worked over shorter periods in forced outage situations.

The result of these factors is that our employees need to work more overtime hours than they have in the past to ensure that necessary work is done.

Q. Is the Company making any effort to increase its level of employees?

A. Yes, the Company currently has initiatives under way to increase internal resources to reduce overtime levels, but the success of these initiatives will not be realized in the near future. For example, the Company currently has the largest lineman apprentice class in recent history; however, qualification takes 24-30 months. In addition, the Company is currently offering to pay a $15,000 bounty for new journeymen linemen just to attract qualified personnel. Because of the difficulty in attracting qualified personnel and the time needed to train personnel who are hired, demands on existing employees will continue to be high, requiring a continued high level of overtime.

II. LUMP SUM UNION PAYMENT

Q. What is the issue regarding the lump sum payments distributed to union contract employees?

A. In its Report, the Staff has disallowed lump sum payments that were made during the test year to certain union contract employees. These payments were an important component of the Company's negotiation of five-year contracts with the unions representing those employees, and they permitted the Company to keep the wages paid to its union employees at a reasonable level.

Q. How were the lump sum payments in the union contracts beneficial to ratepayers?

A. The lump sum payments allowed the Company to set wages at a reasonable level over the contract period. This will result in lower overall costs simply due to the fact that the lump sum payments will not compound over the contract term, i.e., contract escalators are applied to lower base wages, and benefits tied to base wages (such as pensions) will also escalate less. In sum, the overall cost of wages and benefits paid to the union employees over the five-year contract period will be lower, resulting in a lower revenue requirement associated with these wages and benefits over the contract period.

Q. What treatment do you propose for the lump sum payments distributed to union contract employees?

A. As these costs were negotiated in lieu of higher annual pay increases, the Company is proposing to amortize the lump sum payments in rates over the contract period of five years.

III. <u>LEAP YEAR DAY ADJUSTMENT</u>

Q. Why is the Staff's Leap Year Day adjustment to labor expense not appropriate?

A. The test year in this case contained 261 work days, which is a normal amount of work days, notwithstanding the fact that it included a "leap day" on February 29, 2008. For example, the test year for Case No. ER-2007-0002, which was the twelve months ended June 30, 2006, and calendar year 2009 both have 261 work days. Thus, no Leap Year Day adjustment is required or appropriate in this case. I understand that the Staff has agreed to remove that adjustment; however, I reserve the right to further address this issue surrebuttal testimony if the adjustment isn't removed.

IV. STORM COSTS

Q. Please discuss the storm cost issue that you referenced.

A. In its Report, the Staff averaged the non-labor storm costs over the last three years resulting in a $4.9 million disallowance of test year storm costs. The Company's position is that averaging storm costs over three years does not accurately reflect the current level of storm costs or the anticipated level during the period that rates set in this case will be in place.

Q. Please elaborate on your position.

A. Certainly. When storms occur, the Company is under tremendous pressure to restore service to customers as quickly as possible due to increasingly high customer expectations, particularly since the 2006 storm events. As a result of these increased expectations as well as recommendations from the Commission Staff and an independent auditor that the Company retained in the wake of the 2006/2007 storms, Kema, more supplemental crews are called in more quickly than they have been in the past, resulting in more overtime worked and increased food and lodging costs to get the restoration completed within a shorter time frame. Recent experience has demonstrated that while the number of major storms in a 12 month period has remained consistent, restoration costs per storm have increased, at least in part due to the Company's improved restoration practices. Based on this information, averaging non-labor storm costs using a period before 2007 does not accurately reflect current and anticipated storm costs. In addition, the Staff offers no opportunity for the Company to recover the portion of the test year storm costs disallowed as a result of the proposed normalization. As a consequence, Staff would unfairly require shareholders to bear these costs, which were prudently incurred for the benefit of our customers. In Case No. ER-2007-0002, AmerenUE was permitted to recover $4,442,000 in unusual storm restoration costs that were incurred in the test year over a five-year amortization period. It is the Company's position that similar treatment should be afforded to any portion of the Company's test year storm restoration costs that are disallowed in this case as well.

V. <u>STORM AAO</u>

Q. Why does the Company disagree with the Staff's recommendation of beginning the amortization of the January 13, 2007 storm AAO costs on January 15, 2007?

A. The Company disagrees with the Staff's recommendation for several reasons. First, the storm restoration effort itself lasted five days— which is three days after the Staff's proposed amortization period would begin. Consequently, the total storm costs were not even incurred prior to the beginning of the Staff's proposed amortization period. Second, the actual amount of the storm costs was not known until several months after the restoration effort was completed, as all invoices from contractors and other utilities were not received until June 2007. Most importantly, beginning the amortization period prior to the effective date of the rates to be established in this rate case insures that the Company will not recover the total amount of its storm costs. This defeats the purpose of authorizing an AAO, which is to capture and preserve costs for potential recovery in a future rate case.

Q. What is the Company's proposal for when the amortization should begin and why?

A. The Company proposes that the amortization period for these storm costs begin when rates go into effect at the conclusion of this case, thus allowing the Company to actually recover the full amount of its restoration costs.

Q. Isn't it possible that the Company's earnings were sufficient to cover the portion of the storm costs that the Staff proposes to amortize away before rates in this case can take effect?

A, No. As the Commission may recall, the Company had a rate case pending at the time of the January, 2007 storm, Case No. ER-2007-0002. The ice storm occurred just 12 days after the cut-off date for known and measurable changes in that rate case—January 1, 2007. As a result, the Company was precluded from seeking recovery of the storm costs in that case. Ultimately, the Commission found that AmerenUE's rates had to be increased by $43 million per year to cover its cost of service without even considering the $24.7 million in incremental ice storm restoration costs. This would suggest that the Company's earnings were not sufficient to cover the ice storm costs during the period Staff proposes for amortization. In fact, as noted in the table below, the Company's return on equity earned during 2007 and 2008 has been materially below the 10.2% allowed in Case No. ER-2007-0002.

Earned Return on Equity
Missouri Electric

	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07
Regulatory Return on Equity	8.68%	8.80%	8.32%	9.91%	9.28%
Allowed Return on Equity (per May 2007 Rate Order)	10.2%	10.2%	10.2%	10.2%	10.2%

Q. What impact will the Staff's proposed amortization period have on the Company?

A. Since the Staff's proposed amortization period begins more than two years prior to the effective dates for rates in this case, if that amortization period is adopted, the Company will be required to absorb nearly half of the restoration costs. This is an unfair result which runs counter to the Commission's policy of encouraging utilities to continually enhance their storm restoration efforts to reconnect customers as quickly as possible after a storm. The Staff approach should be rejected by the Commission.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric	)	
Company d/b/a AmerenUE for	)	
Authority to File Tariffs Increasing	)	
Rates for Electric Service Provided	)	Case No. ER-2008-0318
To Customers in the Company's	)	
Missouri Service Area.	)	

AFFIDAVIT OF LYNN M. BARNES

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

Lynn M. Barnes, being first duly sworn on (his/her) oath, states:

1. My name is Lynn M. Barnes. I am employed by Union Electric Company as Vice President, Business Planning and 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 AmerenUE, consisting of 9 pages, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.

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

Lynn M Barnes
Lynn M. Barnes

Subscribed and sworn to before me this 10th day of October, 2008.

Amanda Tesdall
Notary Public

My commission expires: ________________

Amanda Tesdall - Notary Public
Notary Seal, State of
Missouri - St. Louis County
Commission #0715[illegible]
My Commission Expires [illegible]