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Witness: Lee R. Nickloy
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MISSOURI PUBLIC SERVICE COMMISSION

Case No. ER-2010-0036

SURREBUTTAL TESTIMONY ON INTERIM RATES

OF

LEE R. NICKLOY

ON

BEHALF OF

**UNION ELECTRIC COMPANY
d/b/a AmerenUE**

**St. Louis, Missouri
November, 2009**

AmerenUE Exhibit No. H
Case No(s) ER-2010-0036
Date 12-07-09 Rptr XF

1 **SURREBUTTAL TESTIMONY ON INTERIM RATES**

2 **OF**

3 **LEE R. NICKLOY**

4 **CASE NO. ER-2010-0036**

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

6 A. My name is Lee R. Nickloy. My business address is 1901 Chouteau Avenue,
7 Saint Louis, Missouri 63103.

8 **Q. Are you the same Lee R. Nickloy who filed direct testimony on interim**
9 **rates in this case?**

10 A. Yes, I am.

11 **Q. What is the purpose of your surrebuttal testimony on interim rates?**

12 A. The purpose of my surrebuttal testimony on interim rates is to address certain
13 points raised and arguments made by Office of the Public Counsel witness Russell W.
14 Trippensee and by Staff witness David Murray related to AmerenUE's credit quality and
15 credit ratings, and the impacts thereon related to AmerenUE's request to implement interim
16 rates in this proceeding.

17 **Q. Do you have an opinion regarding whether AmerenUE's credit ratings**
18 **would be upgraded if the Commission allows the Company's request for interim rates?**

19 A. Yes. My opinion is that given the size of AmerenUE's interim rates request
20 and the Company's relative position within its current credit ratings levels, I do not believe
21 the implementation of interim rates, taken by itself, would drive an upgrade of AmerenUE's
22 credit ratings.

1 **Q. Do you have an opinion regarding the impact implementing interim rates**
2 **would have on AmerenUE's credit standing and quality?**

3 A. Yes, I do. The granting of AmerenUE's interim rate request would represent
4 an important, positive step toward reducing the level of regulatory lag the Company is
5 experiencing, which in turn would send a positive signal to the credit rating agencies and the
6 Company's investors, lenders, and other creditors. Notwithstanding the lack of a likely
7 resulting ratings upgrade, AmerenUE's credit standing and quality would clearly be
8 enhanced by the implementation of interim rates as described in my direct testimony on
9 interim rates. This is because steps to reduce regulatory lag, such as the implementation of
10 interim rates, would indicate a more credit supportive regulatory environment, and would
11 improve AmerenUE's cash flow profile, reduce its borrowing needs, and strengthen its
12 financial condition.

13 **Q. What is the difference between credit quality and credit ratings?**

14 A. *Credit quality* represents an entity's creditworthiness and ability to fully and
15 timely cover or service its debt obligations and other liabilities such as payments to trade
16 creditors. Credit quality is assessed through a quantitative (i.e., financial measures and
17 ratios) and qualitative assessment of the Company's financial wherewithal, cash flows,
18 operations, business environment, risk profile, etc. The better the ability of the entity to
19 service these obligations and the greater the degree of financial cushion it maintains in this
20 regard, the higher its credit quality.

21 *Credit ratings* are scaled alphanumeric ratings assigned by rating agencies
22 denoting their analysis and opinion of the subject entity's credit quality. Credit quality can
23 improve or decline without a change in credit ratings.

1 **Q. Why is this important?**

2 A. Although credit ratings are a helpful resource for investors and other creditors,
3 by no means are these the sole determinant or criterion upon which these stakeholders make
4 credit-related decisions and determine at what cost they would be willing to lend to the
5 Company. Bond investors, bank lenders, and trade creditors alike will conduct their own
6 independent analysis of the Company's credit quality using published financial information
7 and their assessment of qualitative factors important for their credit assessment, which in turn
8 impacts the interest rates the Company pays to borrow.

9 **Q. In his testimony, Staff witness David Murray makes several assertions**
10 **regarding the impact of AmerenUE's affiliates on its ratings. Does any such impact**
11 **outweigh or render moot the benefits of reducing regulatory lag?**

12 A. Of course not. AmerenUE is not arguing that it should be granted interim
13 rates in order to drive a ratings upgrade. Although the granting of interim rates is supportive
14 of the Company's credit ratings, its more immediate and direct impact from a credit
15 standpoint is on AmerenUE's credit quality.

16 **Q. Mr. Murray essentially argues that because Standard and Poor's (S&P)**
17 **employs a consolidated approach to assigning credit ratings to AmerenUE and its rated**
18 **affiliates, the Company's interim rate request should be denied. How do you respond?**

19 A. This argument ignores the fact that granting the interim rates request is
20 supportive of AmerenUE's credit quality, for the reasons I cite earlier and have discussed in
21 my earlier testimony, and certainly does not mean that the Company's request for interim
22 rates should be denied. This argument also ignores the fact that AmerenUE's Moody's
23 ratings downgrades over the past several years have been related to AmerenUE-specific

1 ratings factors including erosion in its own credit metrics because of changes in its own
2 financial condition that have nothing to do with its affiliates. Reducing regulatory lag can
3 help reverse that trend.

4 **Q. Have downgrades of AmerenUE's Moody's credit ratings been related to**
5 **the Company's Illinois utility affiliates as Mr. Murray suggests?**

6 A. No. The downgrading of AmerenUE's Moody's long-term credit ratings over
7 the past several years have been related to AmerenUE-specific credit factors including its
8 operating expense and capital investment levels, leverage incurred to fund those investments,
9 and declining financial metrics, among others. Although Moody's did mention, in
10 connection with downgrades of AmerenUE's long-term credit ratings in July 2006 and
11 March 2007, a concern that AmerenUE may be relied upon to a greater degree for
12 upstreamed common dividends if its Illinois utility affiliates' cash flows were to decline or if
13 rate freeze legislation was enacted in Illinois, these concerns were by no means the principal
14 drivers for those downgrades. Moody's again cited AmerenUE-specific credit factors,
15 including those listed above, as rationale for those ratings actions. In this regard, I would
16 point out that the Illinois-related risks Moody's expressed concern about did not materialize
17 given the settlement agreement reached later in 2007, yet AmerenUE's Moody's credit
18 ratings were not subsequently upgraded, as ultimately were Moody's credit ratings for the
19 Company's Illinois utility affiliates. Indeed, Moody's further downgraded AmerenUE's
20 credit ratings in May 2008 expressing continuing concern over further degradation of the
21 Company's financial measures and increasing costs and expenditures, among others, all
22 related specifically to AmerenUE.

1 **Q. Does AmerenUE receive financing or liquidity-related benefits from**
2 **being part of a holding company?**

3 A. Yes it does. The parent company of AmerenUE, Ameren Corporation, has
4 significant access to short-term borrowing and liquidity resources and can supplement
5 AmerenUE's own short-term funding resources. Ameren Corporation has provided short-
6 term funds to AmerenUE from time to time, and importantly, has done so when AmerenUE
7 had exhausted its own short-term borrowing capacity.

8 **Q. Is AmerenUE's credit quality impaired by its affiliates?**

9 A. No, it is not. The fundamental credit quality of AmerenUE is protected from
10 the business and financial risks of its affiliates. AmerenUE's affiliates are separate,
11 independent legal entities and are financed and capitalized independently of AmerenUE.
12 AmerenUE is not legally or morally obligated to support the debt obligations of its affiliates.
13 Specifically,

- 14 1) AmerenUE is not making loans to any of its affiliates;
15 2) None of its affiliates' indebtedness is recourse to AmerenUE;
16 3) AmerenUE has not guaranteed any debt obligations of its affiliates;
17 4) An affiliate event of default under its debt obligations will not cause an
18 event of default under AmerenUE's debt obligations;
19 5) AmerenUE has its own borrowing capability under its bank facilities; and
20 6) Unless its is paying for some intercompany service (e.g., financial,
21 accounting, fuel purchasing and human resources services), the only outgoing
22 cash flow from AmerenUE to Ameren Corporation is: a) in the form of
23 common dividends on the AmerenUE common stock owned by Ameren

1 Corporation, which is used to support a portion of the Ameren Corporation
2 *dividend paid to its equity investors* (these equity investors have provided
3 equity capital to Ameren Corporation which it has used to make infusions of
4 common equity capital into AmerenUE which provides an important source of
5 equity funds the Company needs for its operations and which enhances
6 AmerenUE's credit quality), or (b) the repayment of short-term loans made
7 from time to time by Ameren Corporation to AmerenUE to supplement
8 AmerenUE's liquidity resources.

9 **Q. Are AmerenUE's credit ratings too high or too costly to maintain as**
10 **signaled by Office of the Public Counsel witness Russell W. Trippensee?**

11 A. No, they are not. With senior secured credit ratings of A3, BBB and A from
12 Moody's, S&P and Fitch, respectively, AmerenUE's credit ratings are within the range of
13 ratings commonly assigned to other comparable regulated utilities. AmerenUE must
14 maintain solid investment grade ratings to ensure long-term access to permanent debt capital
15 at reasonable cost.

16 **Q. Does this conclude your surrebuttal testimony on interim rates?**

17 A. Yes, it does.


In the Matter of Union Electric Company) Case No. ER-2010-0036
d/b/a AmerenUE's Tariffs to Increase its)
Annual Revenues for Electric Service.)

[illegible]

1. My name is Lee R. Nickloy. I am employed by Ameren Services Company as Assistant Treasurer and Director of Corporate Finance.

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

correct.



Lee R. Nickloy

Mary Hoyt
Notary Public

My commission expires: 4-1-2010

