

1 STATE OF MISSOURI  
2 PUBLIC SERVICE COMMISSION  
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6 TRANSCRIPT OF PROCEEDINGS  
7 Hearing  
8 March 22, 2007  
9 Jefferson City, Missouri  
10 Volume 29  
11  
12  
13 In the Matter of Union )  
14 Electric Company d/b/a AmerenUE )  
15 for Authority to File Tariffs )  
16 Increasing Rates for Electric ) Case No. ER-2007-0002  
17 Service Provided to Customers )  
18 in the Company's Missouri )  
19 Service Area )  
20  
21  
22 MORRIS L. WOODRUFF, Presiding,  
23 DEPUTY CHIEF REGULATORY LAW JUDGE  
24 JEFF DAVIS, Chairman,  
25 CONNIE MURRAY,  
STEVE GAW,  
ROBERT M. CLAYTON III  
LINWARD "LIN" APPLING,  
COMMISSIONERS.  
  
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1 P R O C E E D I N G S

2 JUDGE WOODRUFF: All right. Let's come  
3 to order, please. Welcome back to the AmerenUE  
4 electric rate case. Any preliminary matters before  
5 we go to the first witness?

6 (NO RESPONSE.)

7 JUDGE WOODRUFF: Who is the first  
8 witness for the day?

9 MR. MICHEEL: I would like to call  
10 Dr. Woolridge. On the schedule it's Steve Hill, but  
11 I think we've agreed to this.

12 JUDGE WOODRUFF: Is that acceptable to  
13 everyone?

14 MR. THOMPSON: Absolutely.

15 JUDGE WOODRUFF: We'll bring up  
16 Mr. Woolridge then.

17 (The witness was sworn.)

18 JUDGE WOODRUFF: And you are Randall J.  
19 Woolridge?

20 THE WITNESS: Yes. J. Randall  
21 Woolridge.

22 JUDGE WOODRUFF: J. Randall Woolridge.  
23 All right.

24 DIRECT EXAMINATION BY MR. MICHEEL:

25 Q. Dr. Woolridge, do you have any

1 corrections that you need to make to any of your  
2 testimony?

3 A. I have a couple of corrections in my  
4 testimonies beginning with my -- I have a direct, a  
5 rebuttal and a surrebuttal. In the direct on  
6 page 16, line 7, it should read -- the first couple  
7 words should be, "Increase to 5.5 percent." The D  
8 should come out.

9 Q. Okay.

10 A. Page 18, line 5, there's a sentence that  
11 is duplicated, "The study shows that the investment  
12 risk of public utilities is relatively low," and then  
13 that's repeated.

14 Q. So delete the second sentence there?

15 A. Yes.

16 Q. Page 30, there are three links there  
17 that -- in the table -- in the table that begins at  
18 line 2. Those three links, the -- the first "2.9  
19 percent" should be "1.7" as it is in the table.  
20 "4.0" should be "5.0," and "3.7" should be "4.4."  
21 They were correct in the text and the table, just in  
22 that table the links didn't produce those numbers.

23 And on page 46, line 13, it should be  
24 "page 42," not "page 43."

25 In my rebuttal testimony on the cover

1 page in the middle it should read, "Rebuttal  
2 Testimony of J. Randall Woolridge."

3 Q. So strike the word "direct"?

4 A. Yes. And on page 3, the end of line 2,  
5 that should be "4.20," not "4.15."

6 Q. Is that your only corrections?

7 A. Yes.

8 MR. MICHEEL: I would tender the witness  
9 for cross-examination, your Honor.

10 JUDGE WOODRUFF: Thank you. Does anyone  
11 wish to cross-examine this witness?

12 MR. THOMPSON: No, thank you, your  
13 Honor.

14 JUDGE WOODRUFF: A lot of no's and  
15 shaking heads so I'll assume there are none. And I  
16 have no questions from the bench, so there's no need  
17 for recross and no need for redirect and you can step  
18 down.

19 MR. BYRNE: Judge, before we go to that  
20 next witness, I had a couple of administrative  
21 matters. I wasn't here when we first started.

22 JUDGE WOODRUFF: All right.

23 MR. BYRNE: But one is, we do have  
24 copies of public versions of the two depositions that  
25 were marked as highly confidential.



1 JUDGE WOODRUFF: All right.

2 MR. BYRNE: It was Mr. Rainwater's, I  
3 guess, and Mr. Naslund's.

4 JUDGE WOODRUFF: All right. I don't  
5 need copies of those for the bench, but if you make  
6 sure you give copies to the court reporter.

7 MR. BYRNE: Okay. Yeah. I guess I need  
8 to know what the exhibit numbers are.

9 MR. THOMPSON: Do we have copies?

10 MR. BYRNE: You already have the highly  
11 confidential version. This is just an extension to  
12 it, so --

13 MR. THOMPSON: Okay.

14 (DISCUSSION HELD OFF THE RECORD.)

15 (EXHIBIT NOS. 258NP AND 259NP WERE  
16 MARKED FOR IDENTIFICATION BY THE COURT REPORTER.)

17 (EXHIBIT NOS. 507, 508 AND 509 WERE  
18 MARKED FOR IDENTIFICATION BY THE COURT REPORTER.)

19 JUDGE WOODRUFF: All right. We're back  
20 on the record.

21 MR. MICHEEL: I would move the admission  
22 of Dr. Woolridge's direct, rebuttal and surrebuttal  
23 with the corresponding numbers.

24 JUDGE WOODRUFF: And those were 507, 508  
25 and 509. Any objections?

1 MR. CYNKAR: No objection.

2 JUDGE WOODRUFF: Hearing none, they will  
3 be received into evidence.

4 (EXHIBIT NOS. 507, 508 AND 509 WERE  
5 RECEIVED INTO EVIDENCE AND MADE A PART OF THE  
6 RECORD.)

7 JUDGE WOODRUFF: And the next witness,  
8 then, is Mr. Hill.

9 MR. THOMPSON: State calls Stephen G.  
10 Hill -- or Staff.

11 (EXHIBIT NOS. 214, 215 AND 216 WERE  
12 MARKED FOR IDENTIFICATION BY THE COURT REPORTER.)

13 (The witness was sworn.)

14 DIRECT EXAMINATION BY MR. THOMPSON:

15 Q. Would you state your name, please?

16 A. Stephen G. Hill.

17 Q. How are you employed, Mr. Hill?

18 A. I'm self-employed with Hill Associates  
19 as a financial analyst and an expert witness in cost  
20 of capital.

21 Q. Are you the same Stephen G. Hill that  
22 prepared or caused to be prepared three exhibits,  
23 direct testimony, rebuttal testimony, surrebuttal  
24 testimony marked for identification purposes as  
25 Exhibits 214, 215 and 216 in this proceeding?

1           A.       Yes, I am.

2           Q.       If I were to ask you those same  
3 questions today, would your answers be the same?

4           A.       Yes.

5           Q.       And as far as you know your answers were  
6 true and correct?

7           A.       Yes.

8                   MR. THOMPSON: At this time I would  
9 offer Exhibits 214, 215 and 216.

10                   JUDGE WOODRUFF: All right. 214, 215  
11 and 216 have been offered. Any objection to their  
12 receipt?

13                   (NO RESPONSE.)

14                   JUDGE WOODRUFF: Hearing none, they will  
15 be received into evidence.

16                   (EXHIBIT NOS. 214, 215 AND 216 WERE  
17 RECEIVED INTO EVIDENCE AND MADE A PART OF THE  
18 RECORD.)

19                   MR. THOMPSON: I tender the witness for  
20 cross-examination.

21                   JUDGE WOODRUFF: All right.

22                   THE WITNESS: Your Honor, there's some  
23 typographical errors in my testimony.

24                   JUDGE WOODRUFF: All right. You need to  
25 make some corrections?

1 THE WITNESS: Yes, sir, I do.

2 JUDGE WOODRUFF: All right.

3 MR. THOMPSON: Sorry.

4 JUDGE WOODRUFF: Go ahead and make your  
5 corrections.

6 THE WITNESS: Thank you. Unfortunately,  
7 my direct testimony which I believe is Exhibit 214,  
8 there are quite a number of them, typographical  
9 changes and formatting changes, probably the biggest  
10 of which is that my name is misspelled on every page  
11 of the testimony. It should be S-t-e-p-h-e-n and I'm  
12 not gonna make all those changes. Page -- first time  
13 that's happened, by the way. Page --

14 MR. CYNKAR: That was gonna be my  
15 cross-examination.

16 THE WITNESS: It is me, it is I. Okay.  
17 Page 18, line 10, the second figure should be "9.75"  
18 instead of "9.50." Page 19, line 8 and 9 is part --  
19 shouldn't be -- it is part of the quote. It should  
20 be indented with the rest of the quote. And in the  
21 middle of line 8 it should be "is our forecast"  
22 rather than "i sour forecast."

23 Page 34, line 21, toward the end of the  
24 line in parentheses is a little box. That should be  
25 the Greek symbol beta which is a letter B with a long

1 stem on the left end of it.

2                   And the same is true on page 35 at  
3 line 3, a CAPM formula, the little faint square  
4 should be the Greek symbol beta. And again, at  
5 line 5, the same change, the little square should be  
6 beta.

7                   Page thirty -- bottom of page 36 going  
8 to the top of page 37, this is a formatting error.  
9 Beginning at line 23 there's a quote, that should be  
10 indented going through line 5 of page 37. Same kind  
11 of error happens on pages 59 through 61.

12                   On page 59 starting on line 17 is a  
13 quote from Moody's. Begins, "However, the  
14 importance," going through the bottom of that page.  
15 The next page, page 60 at line 17 is another quote  
16 from Moody's which begins, "Ameren's Illinois utility  
17 subsidiaries." That should be indented all the way  
18 to the bottom of the page. And that quote continues  
19 over on page 61 at the top of the page and ends on  
20 line 4.

21                   And finally, on pages 63 and 64, same  
22 kind of formatting problem. The quote from Standard  
23 & Poor's regarding ring-fencing begins at line 18 on  
24 page 63 and it runs through line 12 on page 64.  
25 Another quote from Moody's begins on line 16 of

1 page 64 and runs through the end of the page on  
2 line 23. And those are quotes and should be  
3 indented.

4 And that -- that same change continues  
5 over to page 65. The quote ends on line 6 of page  
6 65, the quote from Moody's regarding ring-fencing  
7 ends on page 65, line 6.

8 Apologize for all of those changes.  
9 Those are the changes I found in my direct testimony.  
10 There are, I believe, a couple in my surrebuttal. I  
11 found none in my rebuttal testimony.

12 Surrebuttal testimony, I believe, is  
13 Exhibit 216, page 5, line 3, in the parentheses. The  
14 word "doesn't" should be changed to the word "don't."

15 Page 38, line 17 of my surrebuttal  
16 testimony, in the middle of the line it should be  
17 "schedule 9" and not "schedule 8."

18 And finally on page 40, line 17, the  
19 word "structure" is misspelled, the u and the t  
20 should be switched.

21 Thank you, your Honor. Those are the  
22 changes I have.

23 MR. THOMPSON: Thank you, your Honor.  
24 I'll tender the witness this time.

25 JUDGE WOODRUFF: All right. Does anyone

1 wish to cross-examine this witness?

2 (NO RESPONSE.)

3 JUDGE WOODRUFF: All right. Seeing no  
4 cross and I have no questions from the bench, so no  
5 need for recross or redirect, and Mr. Hill, you can  
6 step down.

7 And I believe the next name on the list  
8 is Mr. Gorman.

9 (The witness was sworn.)

10 DIRECT EXAMINATION BY MS. VUYLSTEKE:

11 Q. Mr. Gorman, do you have any corrections  
12 to your direct testimony?

13 A. I do.

14 MS. VUYLSTEKE: Actually, Judge, before  
15 Mr. Gorman goes through his corrections, his  
16 corrections are to his schedule 13 to his direct  
17 testimony, so I'd like to hand these out just for the  
18 convenience of parties.

19 JUDGE WOODRUFF: All right. Go ahead.

20 MS. VUYLSTEKE: Judge, do you need a  
21 copy?

22 JUDGE WOODRUFF: No, I don't.

23 MS. VUYLSTEKE: Okay. Yeah, I guess I  
24 should mark this as an exhibit.

25 JUDGE WOODRUFF: If you want to.

1 MS. VUYLSTEKE: Okay. This will be  
2 Exhibit 716.

3 JUDGE WOODRUFF: In which case I will  
4 need a copy.

5 MS. VUYLSTEKE: Okay. Sorry about that.

6 (EXHIBIT NO. 716 WAS MARKED FOR  
7 IDENTIFICATION BY THE COURT REPORTER.)

8 BY MS. VUYLSTEKE:

9 Q. Mr. Gorman, would you go ahead and  
10 explain those corrections?

11 A. Okay. There's a few other typographical  
12 corrections in addition to that revision in the  
13 schedule. The change in the schedule was made  
14 because I did not reflect Mr. Nickloy's supplemental  
15 direct testimony where he modified the company's  
16 proposed capital structure and embedded debt cost.  
17 And that has caused me to make several changes in my  
18 testimony because I did not take issue with  
19 Mr. Nickloy's position on capital structure and debt  
20 cost.

21 The first adjustment is page 4, table  
22 one. The capital structure ratio should be changed  
23 to the following: Long-term debt would be 44.964  
24 percent, short-term debt is 0.795 percent, preferred  
25 equity is 2.017 percent, common equity is 52.224



1 percent, and the source should be corrected to  
2 supplemental direct of Lee R. Nickloy, schedule  
3 LRN-ES-1.

4 Second correction is page 6, line 19  
5 under bullet G, "number no" should be struck and the  
6 "number limited" should be inserted.

7 On page 10, line 7, the number "GDP"  
8 should be struck and the number "CPI" should be  
9 inserted.

10 On page 11, line 20 --

11 MR. CYNKAR: Excuse me, Mr. Gorman. I  
12 don't think I've had enough caffeine yet this morning  
13 and you're moving a little faster than my -- I'm  
14 responding. If you'd go back to page 10, and what  
15 was the correction there? I'm sorry.

16 THE WITNESS: Page 10, line 7 --

17 MR. CYNKAR: Yes.

18 THE WITNESS: -- towards the end of the  
19 sentence, it reads "GDP inflation."

20 MR. CYNKAR: Uh-huh.

21 THE WITNESS: That's -- GDP should be  
22 struck and CPI, consumer price index, or just CPI  
23 should be inserted.

24 MR. CYNKAR: Thank you.

25 THE WITNESS: On page 11, line 20, there

1     should be a decimal after the -- in between the two  
2     zeros. It reads "100 percent"; it should be "10.0  
3     percent."

4                     Page 23, line 1, the number "20 percent"  
5     should be "21 percent."

6                     And then Ms. Vuylsteke passed out a  
7     revised schedule MPG 13 which also was corrected to  
8     reflect Mr. Nickloy's supplemental testimony and  
9     revised capital structure mix and -- and correction  
10    for his up -- updated embedded debt cost. That  
11    concludes my corrections.

12                    MS. VUYLSTEKE: Okay. With that, I'd  
13    offer the witness for cross-examination.

14                    JUDGE WOODRUFF: Do you want to go ahead  
15    and offer the exhibits at this point?

16                    MS. VUYLSTEKE: Sure. At this point I  
17    will offer Exhibits 705 and -- which is the direct  
18    testimony of Mike Gorman, and 706 which is his  
19    surrebuttal.

20                    JUDGE WOODRUFF: As well as 716, I  
21    assume?

22                    MS. VUYLSTEKE: Yes, thank you.

23                    JUDGE WOODRUFF: 705, 706 and 716 have  
24    been offered. Are there any objections to their  
25    receipt?

1 MR. CYNKAR: No objection.

2 JUDGE WOODRUFF: Hearing no other  
3 objections, they will be received into evidence.

4 (EXHIBIT NOS. 705, 706 AND 716 WERE  
5 RECEIVED INTO EVIDENCE AND MADE A PART OF THE RECORD.)

6 JUDGE WOODRUFF: And does any party wish  
7 to cross-examine Mr. Gorman?

8 MR. THOMPSON: I have questions.

9 JUDGE WOODRUFF: For Staff then.

10 MR. THOMPSON: Thank you.

11 CROSS-EXAMINATION BY MR. THOMPSON:

12 Q. Good morning, Mr. Gorman.

13 A. Good morning.

14 Q. First of all, let me direct your  
15 attention to my visual aid. Your recommended return  
16 on equity is 9.8 percent; is that correct?

17 A. That is correct.

18 Q. And are you familiar with the testimony  
19 of Mr. King?

20 A. Yes.

21 Q. His recommended return on equity was  
22 9.65 percent; isn't that correct?

23 A. It is.

24 Q. And are you familiar with the testimony  
25 of Mr. Hill?

1           A.       I am.

2           Q.       And he proposed 9.25, did he not?

3           A.       Yes.

4           Q.       And Dr. Woolridge, are you familiar with  
5 his testimony?

6           A.       I am.

7           Q.       He proposed 9.0; is that correct?

8           A.       Yes.

9           Q.       Okay. And would you agree that this  
10 chart, feeble as it may be, graphically reflects  
11 those recommendations?

12          A.       Yes.

13          Q.       Okay. And are you familiar with the  
14 Commission's use of an analytical tool that it has  
15 termed the zone of reasonableness?

16          A.       I am.

17          Q.       And would you agree with me that the  
18 Commission has defined that as a zone that is 200  
19 basis points wide that is centered on the average of  
20 recently awarded ROEs in the industry under  
21 consideration?

22          A.       It's my understanding, yes.

23          Q.       Okay. Now, Mr. Hill testified that the  
24 average was 10.5; do you recall that?

25          A.       I'd have to verify his testimony, but I

1 recall that comment being made yesterday.

2 MR. CYNKAR: Your Honor, I object. This  
3 is friendly cross and improper.

4 MR. THOMPSON: Why is it improper?

5 MR. CYNKAR: Friendly cross. The  
6 Commission has sustained -- the Commission has  
7 sustained objections to friendly cross quite -- cross  
8 quite regularly.

9 MR. THOMPSON: Well, if I may, your  
10 Honor, the prohibition of friendly cross that the  
11 Commission traditionally observed was a matter  
12 adopted by the Commission in either its procedural  
13 order or it was agreed by the parties in the hearing  
14 memorandum. And the procedural order in this case  
15 does not include any prohibition on friendly cross  
16 and there is no procedural memorandum -- or hearing  
17 memorandum. So I would suggest to you that there is  
18 no bar on friendly cross.

19 JUDGE WOODRUFF: I will overrule the  
20 objection. I'll allow you some leeway. Although  
21 there is no official prohibition in this case against  
22 friendly cross, I don't want you to go too far with  
23 this.

24 MR. THOMPSON: Thank you, your Honor.

25 JUDGE WOODRUFF: And assuming that it is

1 friendly cross and I don't -- at this point I don't  
2 know where you're going with it.

3 MR. THOMPSON: Any minute now I'm gonna  
4 herd him that way.

5 MR. CYNKAR: I appreciate that. Thank  
6 you.

7 MR. THOMPSON: Just wait for it, you'll  
8 see it when it happens.

9 BY MR. THOMPSON:

10 Q. One last question, if I might. With  
11 respect to your recommendation of 9.8, were you  
12 present last night when Dr. Van Der Weide testified?

13 A. Yes.

14 Q. And do you recall that he stated that an  
15 award at that level would be punitive?

16 A. I do.

17 Q. Do you believe that an award of 9.8  
18 would be punitive?

19 A. I do not, and the reason I reached that  
20 conclusion is -- is recent evidence in Illinois.  
21 Illinois, the Ameren Illinois utilities were awarded  
22 a roughly 10.0 percent return on equity. That return  
23 on equity was disclosed to the analyst participating  
24 in their conference call Ameren senior executives  
25 held with security analysts around February 15th of

1 this year. Not a single analyst in the transcript of  
2 that call stated any concern or voiced any -- any --  
3 any concern about the viability of the company and  
4 the ability to maintain stock prices with a return on  
5 equity of 10 percent.

6 I would also note that if 10 percent  
7 were punitive, Ameren would have filed for rehearing  
8 on that issue in Illinois, and it's my understanding  
9 that they did not after reviewing their rehearing  
10 petition. If this company has a fiduciary  
11 responsibility to their shareholders, one would  
12 reasonably expect that if they were awarded a  
13 punitive return on equity, they would seek to adjust  
14 it in the rate hearing. They did not.

15 For those reasons, I believe the  
16 10 percent is not punitive as evidenced from recent  
17 discussions Ameren has had with security analysts and  
18 actions of Ameren senior management itself.

19 I would also note that a 10 percent is  
20 reasonably consistent with many rate filings around  
21 the country. 9.8 percent is somewhat below that  
22 10 percent authorized return on equity, but a  
23 somewhat reduction to their last authorized return on  
24 equity reflecting the 2006 calendar year is  
25 consistent with the trend in declining authorized

1 returns on equity.

2 MR. CYNKAR: Your Honor, I renew my  
3 objection.

4 MR. THOMPSON: Same response.

5 JUDGE WOODRUFF: I'm going to overrule  
6 the objection about friendly cross. However, this  
7 clearly is a narrative answer. If you have other  
8 questions --

9 MR. THOMPSON: I have one more question.  
10 Thank you, your Honor.

11 BY MR. THOMPSON:

12 Q. You would agree with me, would you not,  
13 Mr. Gorman, that your recommendation of 9.8 is  
14 squarely within the zone of reasonableness defined by  
15 this Commission?

16 A. It is squarely within the zone of  
17 reasonableness. However, I would point out that the  
18 2006 average return on equity is 10.3 percent, not  
19 10.5. That is based on regulatory research, review  
20 of Commission orders, and it's also consistent with  
21 the finding by the Edison Electric Institute that  
22 also tracks authorized returns --

23 MR. CYNKAR: Objection, narrative  
24 answer.

25 JUDGE WOODRUFF: Sustained.



1 BY MR. THOMPSON:

2 Q. And so, given that correction to the  
3 average, your recommendation of 9.8 is, in fact, even  
4 closer to the midpoint of the zone than it appears on  
5 this chart?

6 A. Correct.

7 MR. THOMPSON: Thank you very much. No  
8 further questions.

9 JUDGE WOODRUFF: All right. Anyone else  
10 wish to cross?

11 MR. CYNKAR: Yes, your Honor.

12 CROSS-EXAMINATION BY MR. CYNKAR:

13 Q. Good morning, Mr. Gorman.

14 A. Good morning.

15 Q. You testified a moment ago about  
16 proceedings in Illinois and a lack of a rehearing  
17 petition in those proceedings --

18 A. Yes.

19 Q. -- do you recall that? You haven't been  
20 involved in speaking with Ameren's general counsel  
21 about the strategy in those proceedings, have you?

22 A. No.

23 Q. You haven't been taken into the bosom of  
24 Ameren to understand their strategy in making those  
25 decisions, have you?

1           A.       I'm not sure what you mean "into the  
2   bosom of Ameren," but I've not been part of their  
3   management discussions.

4           Q.       So your observations about why or why  
5   not such a rehearing petition was or wasn't filed is  
6   purely your speculation?

7           A.       It's my speculation, it's my --

8           Q.       Thank you. That's all -- that's all I  
9   needed. Now, I just want to go back since this may  
10  be one of the last times we get a chance to use this  
11  beautiful work of art of Judge Thompson's. You  
12  recall he asked you about the -- what he calls the  
13  analytical tool of the Commission of this zone of  
14  reasonableness?

15          A.       Yes.

16          Q.       Okay. And Dr. Woolridge's  
17  recommendation is outside the zone of -- let's make  
18  it clearer.

19          A.       I can see.

20          Q.       Dr. Woolridge's is outside the zone of  
21  reasonableness, is it not?

22          A.       Yeah, it's below the -- the low end,  
23  yes.

24          Q.       And Mr. Hill's is also outside the zone  
25  of reasonableness, is it not?

1           A.       Well, if you adjusted the midpoint --

2           Q.       No, no, no, I'm talking -- please, just  
3 answer my question. In terms of the zone of  
4 reasonableness, as my colleague has so artistically  
5 presented to us, that is below that zone of  
6 reasonableness, correct?

7           A.       With the assumption that the midpoint --

8           Q.       I'm sorry --

9           A.       -- would be 10.25 percent --

10          Q.       I'm sorry. It's not an assumption. The  
11 10.5 percent is here, and I'm just asking you with  
12 respect to this piece of demonstrative evidence.  
13 Mr. Hill's recommendation is outside the zone of  
14 reasonableness, is it not?

15          A.       With that chart it is --

16          Q.       Okay.

17          A.       -- particularly on that chart.

18          Q.       Sir, I just need a yes or no question,  
19 very, very simple. And so then, Dr. Woolridge's and  
20 Mr. Hill's testimony here should be rejected,  
21 correct?

22          A.       As should Dr. Van Der Weide's and  
23 Ms. McShane's.

24                   MR. CYNKAR: That's all I have, your  
25 Honor.

1 JUDGE WOODRUFF: All right. Thank you.

2 Any other cross?

3 (NO RESPONSE.)

4 JUDGE WOODRUFF: I have no questions  
5 from the bench so there's no need for recross. Any  
6 redirect?

7 REDIRECT EXAMINATION BY MS. VUYLSTEKE:

8 Q. Mr. Gorman, Mr. Cynkar asked you about  
9 the zone of reasonableness. Are you familiar with  
10 EEInc's -- excuse me, EEI's rate case summary for  
11 2006?

12 A. I am.

13 Q. And what is the average return for 2006  
14 according to EEI's rate case summary report?

15 A. 10.3 percent.

16 MS. VUYLSTEKE: Thank you.

17 JUDGE WOODRUFF: Thank you. And  
18 Mr. Gorman, you can step down.

19 THE WITNESS: Thank you.

20 JUDGE WOODRUFF: And the next name on  
21 the list is Billie LaConte. Good morning. If you'll  
22 please raise your right hand.

23 (The witness was sworn.)

24 JUDGE WOODRUFF: You may be seated. You  
25 may inquire.

1 (EXHIBIT NOS. 550NP, 551P, 552NP, 553P  
2 AND 554 WERE MARKED FOR IDENTIFICATION BY THE COURT  
3 REPORTER.)

4 MS. LANGENECKERT: Good morning. I have  
5 Ms. LaConte's testimony to submit to this Commission.  
6 We have Exhibit 550 which is her direct testimony on  
7 return on equity, off-system sales, sharing mechanism  
8 and the 10 percent cap on residential, nonproprietary.  
9 551 is the same, proprietary.

10 JUDGE WOODRUFF: Is it proprietary or  
11 highly confidential?

12 MS. LANGENECKERT: Proprietary.

13 JUDGE WOODRUFF: Proprietary. Okay.

14 MS. LANGENECKERT: 552 is her  
15 interruptible rate testimony which was filed direct  
16 on the rate design, nonproprietary. 553 is the  
17 proprietary, same testimony. And 554 is her  
18 surrebuttal testimony. And Ms. LaConte has some  
19 changes to her testimony which she would like to  
20 present.

21 THE WITNESS: The first one is to my  
22 direct testimony, page 3, line 16.

23 DIRECT EXAMINATION BY MS. LANGENECKERT:

24 Q. And this is your direct, 550 and 551?

25 A. Yes, I'm sorry. Actually, it's starting

1 at line 17. Replace the word "utilities" with "the  
2 proxy groups' average."

3 MR. CYNKAR: Excuse me, is that in both  
4 places?

5 THE WITNESS: Yes.

6 MR. CYNKAR: Thank you.

7 THE WITNESS: After the word "equity," a  
8 period should be inserted.

9 MR. CYNKAR: I'm sorry, Ms. LaConte,  
10 just hold on for one second. I've been trying to  
11 increase my caffeine intake while we're here, but it  
12 hasn't kicked in yet.

13 MR. THOMPSON: Do you need a break?

14 MR. CYNKAR: No.

15 MR. MILLS: Could I get the page and  
16 line again, please?

17 THE WITNESS: Yeah. Page 3 of direct,  
18 line 17.

19 MR. MILLS: Thank you.

20 THE WITNESS: After the word "equity"  
21 put a period. Delete lines 18 through 20.

22 And then the next change is to my  
23 surrebuttal testimony which is Exhibit 554, page 4,  
24 line 25. After the word "group," insert a period and  
25 delete the rest of that sentence all the way through

1 line 26 midway. Those are all my changes.

2 MS. LANGENECKERT: I'd like to offer  
3 Ms. LaConte's testimony.

4 JUDGE WOODRUFF: All right. 550NP,  
5 551P, 552NP, 553P, 554 have been offered. Are there  
6 any objections to their receipt?

7 MR. THOMPSON: No objection.

8 JUDGE WOODRUFF: Then they will be  
9 received into evidence.

10 (EXHIBIT NOS. 550NP, 551P, 552NP, 553P  
11 AND 554 WERE RECEIVED INTO EVIDENCE AND MADE A PART  
12 OF THE RECORD.)

13 MS. LANGENECKERT: Tender Ms. LaConte  
14 for cross-examination.

15 JUDGE WOODRUFF: Thank you. And does  
16 anyone wish to cross-examine Ms. LaConte?

17 (NO RESPONSE.)

18 JUDGE WOODRUFF: Hearing none,  
19 Commissioner Appling, do you have any questions for  
20 this witness?

21 QUESTIONS BY COMMISSIONER APPLING:

22 Q. I apologize for walking in late.

23 A. That's all right.

24 Q. But my age is causing me to move a  
25 little slowly these days, okay? What do you do,

1    ma'am? Talk to me a little bit about what you do and  
2    what you're doing here and what you're talking about  
3    here.

4           A.       Well, I'm an economic consultant for  
5    Drazen Consulting Group. I'm here to represent the  
6    Missouri Energy Group.

7           Q.       Right.

8           A.       I've submitted testimony on the risk  
9    that AmerenUE faces. I didn't submit direct  
10   testimony that advocated a specific return on equity,  
11   but I thought my testimony would help the Commission  
12   in determining where in the range they should set the  
13   utilities' return on equity, and in my testimony I  
14   discuss the risks that Ameren faces in relation to  
15   other utilities and also the risk it faces today as  
16   opposed to a few years ago.

17          Q.       What are you recommending, a 12.6? What  
18   is your recommendation? What are you saying that --

19          A.       Well, I have not done a specific  
20   analysis.

21          Q.       Okay.

22          A.       My recommendation would be based on the  
23   Commission's zone of reasonableness, would be to  
24   assign a return on equity at the lower end of that  
25   zone.



1 Q. Why would you say that?

2 A. Why would I say that?

3 Q. Uh-huh.

4 A. Well, I think that the risks that Ameren  
5 faces are lower than other utilities. It's a  
6 well-run company. They've asked for certain features  
7 that will also reduce their risk such as a fuel  
8 adjustment clause. I think in relation to other  
9 utilities, specifically, I would say that the risk  
10 Ameren faces in relation to other utilities, that  
11 they're average and they should not receive a return  
12 on equity that is above average.

13 Q. Okay. If we did not give AmerenUE a fuel  
14 adjustment clause, then what would your recommendation  
15 be in order to try to not hurt this company?

16 A. I would suggest that the Commission  
17 allow a small adjustment on the return on equity to  
18 reflect that, although I should say that the fuel  
19 adjustment risk that Ameren faces is quite low. They  
20 have a lot of base load generation that is mainly  
21 coal and nuclear, and they don't face that much risk  
22 in terms of volatility for their natural gas.

23 COMMISSIONER APPLING: Thank you very  
24 much. I appreciate that. I'm just trying to get  
25 my arms around what it is that we need to do for

1 this company, okay?

2 THE WITNESS: Okay.

3 COMMISSIONER APPLING: Thank you very  
4 much for your comments.

5 THE WITNESS: You're welcome.

6 JUDGE WOODRUFF: Commissioner Clayton,  
7 did you wish to ask any questions?

8 QUESTIONS BY COMMISSIONER CLAYTON:

9 Q. Just very briefly, and I apologize for  
10 walking in right in the middle of your testimony.  
11 What is your recommendation to this Commission?

12 A. I would recommend that the Commission  
13 review my testimony and see how I've discussed the  
14 risk factors that face AmerenUE, recognize that  
15 they're average and that they should award the  
16 utility a return on equity that is in the lower end  
17 of their zone of reasonableness.

18 Q. Okay. Do you offer a specific amount?

19 A. No, sir, I don't.

20 Q. So your suggestion is just go read your  
21 testimony, huh?

22 A. No.

23 COMMISSIONER CLAYTON: I guess I'll do  
24 that.

25 JUDGE WOODRUFF: All right. Any

1 further -- no other questions from the bench, so is  
2 there any recross based on those questions from the  
3 bench?

4 (NO RESPONSE.)

5 JUDGE WOODRUFF: Seeing none, any  
6 redirect?

7 MS. LANGENECKERT: No.

8 JUDGE WOODRUFF: All right.

9 Ms. LaConte, you can step down. And that, I believe,  
10 completes all the witnesses on return on equity. The  
11 only other issues set for today was the capital  
12 structure which would be Mr. Nickloy.

13 MR. MILLS: I don't have any questions  
14 for Mr. Nickloy.

15 JUDGE WOODRUFF: Well, let's bring him  
16 up and swear him in and see if he has any ...

17 (The witness was sworn.)

18 MR. CYNKAR: Your Honor, Mr. Nickloy  
19 does not have any changes and so I tender him for  
20 cross-examination.

21 JUDGE WOODRUFF: Is this his only  
22 appearance or will he be back?

23 MR. CYNKAR: This is his only  
24 appearance. Would you like me to move his --

25 JUDGE WOODRUFF: Yes.

1                   (EXHIBIT NOS. 55, 56 AND 57 WERE MARKED  
2   FOR IDENTIFICATION BY THE COURT REPORTER.)

3                   MR. CYNKAR: All right. That's fine.  
4   Your Honor, I offer and move into evidence Exhibit 55  
5   which is the direct testimony of Lee Nickloy, Exhibit  
6   56 which is the supplemental direct testimony of Lee  
7   R. Nickloy and Exhibit 57 which is the rebuttal  
8   testimony of Lee R. Nickloy.

9                   JUDGE WOODRUFF: All right. Exhibits  
10   55, 56 and 57 have been offered. Are there any  
11   objection to their receipt?

12                  MR. THOMPSON: No objection.

13                  JUDGE WOODRUFF: Hearing none, they will  
14   be received into evidence.

15                  (EXHIBIT NOS. 55, 56 and 57 WERE  
16   RECEIVED INTO EVIDENCE AND MADE A PART OF THE RECORD.)

17                  MR. CYNKAR: Tender the witness for  
18   cross-examination.

19                  JUDGE WOODRUFF: Thank you. Does any  
20   party wish to cross-examine this witness?

21                  MR. THOMPSON: No questions from Staff,  
22   your Honor.

23                  JUDGE WOODRUFF: All right.

24                  MR. MILLS: No questions.

25                  JUDGE WOODRUFF: And we'll come up for

1 questions from the bench. Commissioner Clayton?

2 COMMISSIONER CLAYTON: No.

3 JUDGE WOODRUFF: Commissioner Appling?

4 QUESTIONS BY COMMISSIONER APPLING:

5 Q. Where you from?

6 A. I'm from St. Louis.

7 Q. Okay. I wouldn't want you to drive all  
8 the way up here and not say something. What do you  
9 do, sir?

10 A. I'm the assistant treasurer for AmerenUE.

11 Q. Assistant treasurer, huh? So you're the  
12 one that's counting all that money in the back room?

13 A. That's part of my responsibility.

14 Q. Okay. What do you have that you can  
15 share with us that would be helpful or hurtful to  
16 Ameren? Talk to us this morning about what you do,  
17 and -- I haven't read your testimony and that's the  
18 reason I'm asking that question. Do you have  
19 anything that you could share with us this morning  
20 that would be helpful?

21 A. Can I ask, Commissioner Appling, in what  
22 terms you would like me to --

23 Q. Any terms you want to as long as you  
24 don't talk badly about me, okay?

25 A. I promise not to. I can offer this

1    general statement:  That I think it's important that  
2    the decision in this rate case is one that's fair and  
3    balanced.  I know a number of parties are concerned  
4    about the outcome.  The rating agencies have  
5    indicated that they're watching the outcome of the  
6    case, so I think a constructive rate case decision  
7    would be helpful for the company, would be supportive  
8    of credit ratings and enable the company to have the  
9    wherewithal and the capability to issue debt in the  
10   future, to replace maturing debt and also to be able  
11   to fund capital expenditures, especially in the years  
12   going forward for such things as environmental, CAP-X  
13   and the like.

14           Q.       You see the numbers.  Have you heard  
15   anyone talking about the return on equity that  
16   this -- that you-all should receive?  Have you heard  
17   any testimony on that?

18           A.       Yes, I've been present for the testimony  
19   offered by the return on equity witnesses both  
20   yesterday afternoon and evening, and this morning.

21           Q.       If I landed on a 9.8 for Ameren, would  
22   that be a positive or a negative for your company?

23           A.       I think that could be viewed in my  
24   opinion as a negative.  The rating agencies will  
25   focus on that result in a number of ways.  They will

1 look at the overall cash flow result, that that would  
2 sort of be a component of -- in the revenue  
3 requirement here, they would also look at that  
4 decision in the context of other decisions, so I  
5 can't state specifically how they would react, but I  
6 believe that that could put negative pressure on  
7 ratings for an outcome of that number.

8 Q. Have we come to a point that we're  
9 letting the rating agencies direct traffic for these  
10 major -- major companies?

11 A. I don't think so. I don't think that's  
12 the case.

13 Q. Okay. You know, one of my major  
14 concerns also is giving the citizens of this state  
15 what they deserve. And you-all have not had a good  
16 year --

17 A. I understand.

18 Q. -- of doing that, so I hope that the  
19 rating agency has taken that into consideration too.

20 A. They do, they are aware of the  
21 challenges that the company has faced and the  
22 situations over the past few years -- or the past  
23 year.

24 COMMISSIONER APPLING: Thank you very  
25 much for coming up, and I just didn't want you to go

1 back to St. Louis without saying something, okay?

2 THE WITNESS: Thank you.

3 JUDGE WOODRUFF: Commissioner Clayton?

4 COMMISSIONER CLAYTON: Go ahead.

5 QUESTIONS BY CHAIRMAN DAVIS:

6 Q. Is it Nickloy?

7 A. It is.

8 Q. So in your duties as -- was it assistant  
9 or deputy treasurer?

10 A. Assistant treasurer.

11 Q. Assistant, assistant treasurer. So I  
12 mean, do you track the checks that are outgoing?

13 A. I don't track checks that are outgoing.

14 Q. Expenses, you track expenses?

15 A. No. Part of my -- my group would  
16 involve a cash management of banking and cash  
17 management group that actually would make payments.  
18 But as far as tracking what those expense items are,  
19 no.

20 Q. Okay. So do you have a lot of  
21 interaction with the rating agencies?

22 A. I do.

23 Q. You do. Okay. Do you know how much  
24 Ameren pays to S&P, Fitch and Moody's on an annual  
25 basis?



1           A.       No, sir, I don't know specifically how  
2 much we pay them.

3           Q.       But you do pay them, correct?

4           A.       That's -- that's true, yes.

5           Q.       Okay. Can you find out that number and  
6 get back to us?

7           A.       I can get that number for you,  
8 certainly.

9           Q.       Okay. Now, are you familiar with any of  
10 the rating agency reports on this case?

11          A.       I am.

12          Q.       I am. Is it -- is it fair to say that  
13 the only thing that the rating agencies have looked  
14 at is Ameren's initial number of what they filed,  
15 360 million?

16          A.       The rating agencies have also looked at  
17 Staff's recommendation in this case.

18          Q.       Oh, yeah, well, we'll get to that. But  
19 from the Ameren side, the only thing I've seen so far  
20 is Ameren has asked for 360 million. Is that a  
21 recurring theme in many of those reports?

22          A.       It has been mentioned in the reports,  
23 I've seen the statement made.

24          Q.       Okay. But there's never any -- there's  
25 never any analysis that says well, you know, we

1 actually think -- think this or that, is there? It's  
2 just -- more or less it's just a statement, Ameren's,  
3 you know, requested \$360 million?

4 A. They do make that statement. They --  
5 they certainly have access to the company's filings  
6 in the case, they may be doing some analysis around  
7 the various arguments and the components of that  
8 number that is part of our testimony. You know, I  
9 haven't seen any specifics around that in a report,  
10 but certainly we have the information available to  
11 them to look at that.

12 Q. All right. Are you familiar with The  
13 Brattle Group at all?

14 A. I am.

15 Q. You are? Okay. Are you familiar with  
16 any research that Johannes -- I'm gonna -- hopefully  
17 I don't massacre his name, but Johannes Pfeifenberger  
18 or anybody else might have done at the The Brattle  
19 Group regarding research concerning electric and gas  
20 utility rate cases about the portion, you know, when  
21 a company asks for, say, \$360 million in this case,  
22 what portion they actually get? Are you familiar  
23 with any of the research they've done in that area?

24 A. No, sir, I am not familiar with that  
25 research.

1 Q. Okay. All right. Well, do you know  
2 what Ameren's revenue request is down to now?

3 A. I do not.

4 Q. No. So if it was in the neighborhood of  
5 \$230 million, possibly -- \$230-something million,  
6 possibly even less, you'd have no reason to dispute  
7 that?

8 A. I would have no reason to dispute that  
9 number.

10 Q. Okay. Has any rating agency reported  
11 that Ameren's -- AmerenUE's revenue requirement in  
12 this case has been reduced from 360 to below  
13 \$240 million to the best of your knowledge?

14 A. I am not aware of any statements by the  
15 rating agencies to that effect.

16 Q. Okay. Has any rating agency reported on  
17 the fact that, you know, Staff's recommendation has  
18 actually come up by, I don't know, 50, \$80 million or  
19 so?

20 A. The rating agencies may be aware, but to  
21 my knowledge I have not seen a report of that.

22 Q. They've never -- they've never reported  
23 it. And now, are you familiar with a release that  
24 Ameren did a few weeks ago where more or less they  
25 said they had to -- had to book a number for this

1 rate case and booked 100 million?

2 A. I'm not familiar with that release.

3 Q. You're not -- you're not familiar with  
4 that at all?

5 A. You're speaking of like a public press  
6 release?

7 Q. Uh-huh.

8 A. I'm not familiar with that.

9 Q. You're not familiar with that at all.  
10 Okay. Okay. So I think you said earlier that you  
11 were interested in what -- what did you -- well, how  
12 did you characterize it, a fair outcome in this -- in  
13 this case?

14 A. Yes, sir.

15 Q. Okay. And what -- what -- what issue  
16 are you here testifying on again?

17 A. I've been asked to talk about capital  
18 structure.

19 CHAIRMAN DAVIS: Uh-huh, okay. And  
20 you're just -- never mind. I don't have any further  
21 questions at this time, Judge.

22 JUDGE WOODRUFF: Commissioner Gaw, did  
23 you want to go first or Commissioner --

24 COMMISSIONER GAW: No, I'll let  
25 Commissioner Clayton. I don't believe I have any

1 questions.

2 JUDGE WOODRUFF: Okay. Commissioner  
3 Clayton?

4 COMMISSIONER CLAYTON: Thank you, Judge.

5 QUESTIONS BY COMMISSIONER CLAYTON:

6 Q. What does the assistant treasurer do in  
7 a company?

8 A. An assistant treasurer can have a number  
9 of roles in the company. Specifically what I'm  
10 charged with is financing the operations of the  
11 company by the issuance of long-term debt and  
12 short-term debt. Banking and cash management is part  
13 of my group. I have a liaison and communication role  
14 with the rating agencies. My group also includes  
15 capital budgeting activities, credit risk management  
16 and some other leasing and things like that. There  
17 are roles that if you look at my counterparts in  
18 other companies or other assistant treasurers at  
19 Ameren, they could have roles involving pension and  
20 trust investments and a number of other areas.

21 Q. Okay. So -- so one of your  
22 responsibilities is addressing issues involving debt  
23 and securing debt and other financing?

24 A. Yes, sir, that's correct.

25 Q. To cash management?

1           A.       Correct.

2           Q.       To always make sure that the balance --  
3   the books balance and that there's -- there's cash in  
4   the bank account to meet payroll and things like  
5   that?

6           A.       I'm not responsible for balancing the  
7   books. I don't have an accounting -- any sort of  
8   accounting responsibilities, but I am responsible for  
9   making sure adequate funding is available for  
10   disbursements.

11          Q.       Are you a -- are you a --  
12   finance-trained or accounting-trained?

13          A.       More -- my experience and background is  
14   more in the areas of finance, not accounting.

15          Q.       Okay. Okay. So you're aware of when a  
16   rating agency modifies Ameren's credit rating?

17          A.       Yes, I would be.

18          Q.       You'd be one of the first people to know  
19   in the business?

20          A.       Yes.

21          Q.       And does that make you more attuned to  
22   what the rating agencies are saying or what signals  
23   that they are sending regarding credit?

24          A.       I think that's a fair statement.

25          Q.       Okay. Are you aware of AmerenUE's

1 credit history, say, over the past seven years?

2 A. I would be, yes.

3 Q. Okay. Exhibit 113, I believe, was  
4 supplied yesterday when I wasn't here. And is this --  
5 this isn't an HC document, is it?

6 JUDGE WOODRUFF: No, it's not.

7 BY COMMISSIONER CLAYTON:

8 Q. Do you have a copy of Exhibit 113 in  
9 front of you?

10 A. I do not?

11 Q. You're not? Maybe we could find a --  
12 it's an Ameren-prepared document.

13 A. I have the exhibit.

14 Q. Okay. On the first line just so we can  
15 get a benchmark here, you agree that the first date  
16 or first period where a credit rating is established  
17 is January 1 of 2000?

18 A. No, in this analysis this was actually  
19 an analysis that I prepared.

20 Q. Okay.

21 A. I was not -- I was not aware that it was  
22 labeled Exhibit 113, did you say? But for purposes  
23 of -- purposes of this analysis, the January 1, 2000  
24 is just the beginning date and what the ratings were  
25 at that time.

1 Q. There wasn't a change on January 1st?

2 A. Not that I can recall, no, sir.

3 Q. Okay. So you prepared this document?

4 A. I did.

5 Q. So you know it inside and out?

6 A. I -- yeah, to the extent that I --

7 Q. There's no running now.

8 A. -- help preparing it.

9 Q. Okay. So on January 1st, 2000, the line

10 or row sets out the credit rating for different types

11 of debt for Ameren between two different rating

12 agencies, Moody's and S&P; would you agree with that?

13 A. For Union Electric Company.

14 Q. For Union Electric. Not AmerenUE -- is

15 it AmerenUE, d/b/a Union Electric or --

16 A. It's Union Electric Company d/b/a

17 AmerenUE.

18 Q. I got it backwards, thank you. Sounds

19 like a lawyer wrote that which I appreciate, of

20 course. So tell me what, in that first column,

21 capital A, small a 3, what does that mean?

22 A. That's a Moody's rating also referred to

23 as double a 3.

24 Q. What is the highest possible rating that

25 Moody's could award for a senior secured debt?



1           A.       The highest rating in their scale would  
2 be triple A.

3           Q.       Are those capital A's or small A's or  
4 does it matter?

5           A.       I believe it's capital A, small A, small  
6 A, subject to check.

7           Q.       This is gonna be fun. Okay. So how  
8 many steps below that top rating of triple A is aa 3?

9           A.       It would be three notches below it.  
10 Although, I would point out that I don't know if an  
11 electric utility company would ever be able to  
12 achieve a triple A rating on its -- on its own.

13          Q.       I -- I wouldn't know that. That's fine.  
14 Now, what is the column that's marked "issuer"?

15          A.       That's an issuer rating for Moody's or  
16 S&P, depending on which -- which category you're  
17 looking at. It's a general rating for the company,  
18 typically not one assigned to specific debt  
19 securities.

20          Q.       And what is C/P?

21          A.       Commercial paper or short-term rating.

22          Q.       So is that short-term debt?

23          A.       It would be, yes.

24          Q.       Okay. And in that column it has a P 1.  
25 What is the highest ranking that one could get in

1 that column?

2 A. From Moody's, it would be P 1.

3 Q. P 1 is the highest and then P 2, P 3 and  
4 P 4 would be lower?

5 A. P 1, P 2, P 3. After that there are  
6 some speculative type of short-term ratings.

7 Q. After that it's don't even think about  
8 it?

9 A. And with respect to commercial paper  
10 that would be a true statement in my assessment.

11 Q. Okay. Well, let's focus on Moody's  
12 rankings for right now. So the credit ranking in  
13 those three areas for senior-secured, issuer and C/P  
14 or commercial paper stayed constant until  
15 February 10, 2003; is that correct?

16 A. It is, yes.

17 Q. And the changes that were made in  
18 February of 2003, were those upgrades or downgrades?

19 A. The February 2003 rating action was a  
20 downgrade, a one-notch downgrade.

21 Q. Okay. And can you tell me what -- what  
22 triggered that downgrade?

23 A. Yeah. Moody's sided with -- with  
24 respect to UE lower revenue growth, higher expenses,  
25 increase CAP-X, increasing leverage to finance

1 capital expenditures among a number -- number of  
2 other factors.

3 Q. So -- so it's just a number of factors  
4 in the nature of the business. There wasn't one  
5 event that actually triggered that?

6 A. I'm not aware that that was an  
7 event-driven downgrade.

8 Q. Okay. Well, the legislature --  
9 legislature wasn't doing something or the Commission  
10 wasn't doing something, it was just general nature of  
11 the business?

12 A. I think that's a correct statement.

13 Q. Okay. Now, the next movement under the  
14 Moody's column occurred July 26th, 2006; would you  
15 agree with that?

16 A. Correct.

17 Q. Okay. And was that movement an upgrade  
18 or a downgrade?

19 A. That was a downgrade.

20 Q. Okay. And was there some regulatory  
21 action on the part of this Commission or did the  
22 legislature take some action or were there any events  
23 that caused that downgrade or do you know what caused  
24 that downgrade?

25 A. That downgrade was related to Moody's

1 assessment of weaker financial metrics, higher  
2 operating costs, large capital expenditure  
3 requirements. I think they indicated environmental  
4 CAP-X. I do not recall that that was -- that rating  
5 change was related to a legislative action or event.

6 Q. Okay. And no regulatory action or  
7 event?

8 A. Not to my knowledge, no.

9 Q. Okay. March 12th, 2007, would have been  
10 the next change in credit rating?

11 A. That's correct.

12 Q. And what caused -- was that an upgrade  
13 or a downgrade?

14 A. That was a downgrade.

15 Q. And what caused that or were there any  
16 triggering events for that?

17 A. Moody's indicated that it was due to  
18 higher costs at UE, lower financial metrics. They  
19 pointed to Staff's recommendation in this case as  
20 reasons for that downgrade.

21 Q. So Staff's recommendation was part of  
22 the downgrade?

23 A. I believe that was part of Moody's  
24 consideration.

25 Q. Well, I was surprised by that, because

1 it doesn't appear that Staff's recommendation in the  
2 complaint case in 2001 caused any type of movement in  
3 Ameren's credit rating from between 2001 to 2002 when  
4 that case was settled. Do you have any explanation  
5 for that?

6 A. I don't. I can't speak for Moody's.

7 Q. Does it seem inconsistent as one who  
8 deals with credit ratings on a daily basis?

9 A. I wouldn't think of that as an  
10 inconsistency, no.

11 Q. Is it a matter of being selective in  
12 which -- which criteria Moody's reviews? I mean, are  
13 they -- they picking and choosing what are important  
14 factors and how to rate companies for credit?

15 A. No. I think they -- they take an  
16 overall comprehensive approach and they consider all  
17 the factors that are relevant as part of any rating  
18 action.

19 Q. Are you just the assistant treasurer for  
20 the Missouri properties or are you also -- do you  
21 work for Ameren Corp. as well?

22 A. I'm an -- I'm an assistant treasurer for  
23 Ameren Corporation as well.

24 Q. Okay. So you're knowledgeable of the  
25 Illinois businesses?

1           A.       I am.

2           Q.       Were there -- were there any  
3       difficulties in Illinois between 2001 and 2002 with  
4       problems in rates or the legislature, anything like  
5       that?

6           A.       Not -- not to my -- that would have  
7       impacted ratings?

8           Q.       Uh-huh, yes.

9           A.       Not to my knowledge. I'm not thinking  
10      of anything at the moment.

11          Q.       You'd agree that there is significant  
12      activity affecting the credit rating going on in  
13      Illinois right now, would you not?

14          A.       Affecting the credit rating of which --  
15      which companies?

16          Q.       Any of the companies.

17          A.       Certainly the Illinois utilities would  
18      be affected by current events in Illinois.

19          Q.       Do you believe that the Union Electric  
20      rating is not affected by the Illinois properties?

21          A.       Are you speaking about the Moody's  
22      rating?

23          Q.       Excuse me, the Moody's rating of Union  
24      Electric, you're saying that it is not affected by  
25      activities in Illinois?

1           A.       You know, I think Moody's probably looks  
2     at that, but when I look at the reasons they cited  
3     for the recent downgrade of UE, they listed a number  
4     of UE-specific factors for that downgrade.

5           Q.       Is there speculation that Union Electric  
6     potentially could be relied upon to meet Ameren's  
7     dividend obligations to make up for shortfalls in  
8     Illinois? Is that a possible complication,  
9     downgrading Union Electric's credit rating?

10          A.       I think Moody's indicate that, but they  
11     are aware that there would be to the extent Illinois  
12     utilities were unable to pay dividends or a level  
13     that they typically pay them. Another source of  
14     dividends could be from our unregulated operations.  
15     The rating agencies have, you know, indicated that  
16     that would be another potential source. Also another  
17     potential source for that would be the liquidity  
18     available at the Ameren Corp. level.

19          Q.       You said you are the assistant treasurer  
20     for Ameren Corp.?

21          A.       That is correct.

22          Q.       Does that -- does that mean you do not  
23     hold titles for Union Electric or with the Illinois  
24     properties, the sub corporations?

25          A.       I am assistant treasurer for Union

1 Electric Company through Illinois utilities, a number  
2 of our other subsidiaries.

3 Q. So you get checks from all of them is  
4 what you're saying?

5 A. I get checks?

6 Q. Yeah.

7 A. You -- paychecks?

8 Q. Yeah.

9 A. No, I'm --

10 Q. You work for each of them, right?

11 A. Well, I'm actually an employee of Ameren  
12 Services Company and that's who I -- my paycheck  
13 is --

14 Q. So that's what they do to you, you only  
15 get one check?

16 A. I just get one.

17 Q. Okay. We'll talk to them about that.  
18 Did you meet your earnings per share to get a bonus?

19 A. I did receive a bonus.

20 Q. We talked about that for a while the  
21 other night. Now, I want to ask about the importance  
22 of certain factors that have been suggested  
23 throughout this hearing. For example, we've heard  
24 that rating agencies look to whether a fuel  
25 adjustment clause is available to the company as



1 being part of the analysis. Is that a fair  
2 statement?

3 A. I -- yes, I would agree with that.

4 Q. Okay. Can you point to me where  
5 Ameren's credit rating in Exhibit 113 was increased  
6 after legislation passed?

7 A. No. The rating agencies have not  
8 increased the ratings because of that, but I know  
9 they've made some positive statements about that  
10 legislation.

11 Q. Okay. I've also read where rating  
12 agencies look at whether -- whether certain  
13 depreciation rates are implemented in a state as to  
14 also being an important factor in a company's credit  
15 rating. Do you recall reviewing any material like  
16 that?

17 A. I don't recall reviewing statements that  
18 they may have made about that.

19 Q. About depreciation?

20 A. Not to my knowledge.

21 Q. Do you think -- do you think changes in  
22 depreciation policy can affect a credit rating?

23 A. I think to the extent it has a positive  
24 or negative impact on cash flows, that that could  
25 influence ratings either upwards or downwards.

1           Q.       Okay. Are you aware that the Missouri  
2 Commission changed a policy regarding the net salvage  
3 depreciation issue in recent years? Are you aware of  
4 that?

5           A.       I'm not aware of that, no.

6           Q.       Well, if it was a significant issue for  
7 credit rates -- credit rating agencies, would you be  
8 aware in your position?

9           A.       Yes, I -- well, what I think they're  
10 typically looking for is an overall net effects in  
11 cash flows. So if that was part of the, you know,  
12 another rate case or some other decision that  
13 impacted cash flows overall, it would be incorporated  
14 in their -- their assessments of credit ratings.

15          Q.       Okay. Can you identify anywhere in Exhibit  
16 113 where a credit rating was changed due to the  
17 Commission's change in depreciation regulatory policy?

18          A.       I don't believe in their statements that  
19 the rating agencies made their ratings changes  
20 because of that, although, you know, I don't know  
21 whether or not that was considered in their overall  
22 analysis as part of their ratings.

23          Q.       You also mentioned in response to  
24 Commissioner Applying regarding a possibility that the  
25 Commission issue a return on equity amount of, I

1 believe, 9.8 percent was what he suggested. Was  
2 that -- did I accurately reflect his question?

3 A. Yeah, I believe he mentioned the 9.8.

4 Q. And I think your response is that it was  
5 your estimation that the credit rating agencies would  
6 not view that favorably; is that correct?

7 A. Yeah, that's my opinion.

8 Q. Okay. Can you identify for me on -- on  
9 this chart that's over here what range credit ratings  
10 would view favorably in your opinion?

11 A. You know, I don't represent the rating  
12 agencies. I can't speak for them, so I --

13 Q. In your best judgment as one who deals  
14 with rating agencies on a daily basis and has worked  
15 with rating agencies for, I assume, several years,  
16 what would be your best estimate?

17 A. That's tough for me to answer. I  
18 certainly think that they would look at the company's  
19 recommendation in the case, consider that that -- you  
20 know, the evidence and the analysis behind that, and  
21 then as part of their overall assessment looking at,  
22 you know, the ROE result combined with other  
23 decisions made in the rate case, that would -- would  
24 yield a cash flow effect and they would take that  
25 overall cash flow impact into account.

1           Q.       So let me ask you this question because  
2 this has come up in other cases during my tenure on  
3 the Commission.

4                   Is it the actual dollar amount of cash  
5 flow or revenue requirement that is the most  
6 important factor as opposed to different -- the  
7 ruling on different issues within the case? For  
8 example, ROE or depreciation or perhaps this EEI  
9 contract, is it just a total dollar amount that  
10 they're looking for in increased revenue?

11          A.       No, they look at two things: Certainly  
12 cash flow is important and that's part of their  
13 quantitative analysis, but also very important for  
14 their analysis and which can be a big factor in the  
15 assignment of ratings, are qualitative factors, so  
16 the specific decisions that a commission or a  
17 legislature may make.

18                   But the commission-level decisions  
19 within a rate case such as ROE, they're gonna look at  
20 and sort of, you know, include in their analysis as  
21 part of the -- the constructiveness or sort of the  
22 position or the environment in that state that that  
23 regulatory commission represents, so it is important.

24          Q.       It is important. But -- but they've --  
25 they've made no changes, no positive changes for

1 Ameren's credit rating despite changes in a much more  
2 liberal depreciation policy by this Commission as  
3 well as the possibility of requesting an illegally  
4 authorized fuel adjustment clause, correct?

5 A. No specific rating changes because of  
6 those factors. But I know specifically in the case  
7 of the fuel adjustment clause, that they've  
8 considered that. That's been a helpful factor for  
9 ratings. The depreciation is probably -- I would  
10 imagine that they are aware of it. It could also  
11 have a positive impact on their overall assessment  
12 and is included in their overall analysis of the  
13 companies, the credit rating.

14 Q. Do the rating agencies believe that  
15 Ameren is significantly at risk due to fuel prices,  
16 considering that the majority of -- vast majority of  
17 their generation is based in coal? Have they given  
18 you that impression?

19 A. Can you restate your question?

20 Q. Did the rating agencies think that  
21 Ameren is subject to volatility in fuel prices?

22 A. Yes, I think they would consider that we  
23 are subject to that, that risk.

24 Q. And it's their -- their belief that a  
25 fuel adjustment clause is the only way to mitigate

1     that volatility and risk?

2             A.       I don't know if that's the only way. I  
3     believe that they see a fuel adjustment clause as a  
4     positive factor to address that.

5             Q.       Could you suggest other ways of  
6     addressing that volatility?

7             A.       Certainly through the various hedging  
8     mechanisms that that could be mitigated.

9             Q.       Okay. In terms of ROE policy, I think  
10    you -- I'm not sure if you answered with a zone.  
11    Were you -- did you say you were able to come up with  
12    an idea of what would be considered favorably outside  
13    of the company's request of 12.2 percent, were there  
14    any other figures that you offered?

15            A.       No, I did not.

16            Q.       Is there a rule of thumb in the credit  
17    game, in the credit rating business about how many  
18    basis points a commission should be within to have a  
19    favorable outcome? Say, for example, they want  
20    within 100 basis points or 200 basis points or only  
21    12.2 as a minimum, do you have any insight for me?

22            A.       I don't. I'm not aware of any rule of  
23    thumb that the rating agencies may use in that  
24    regard.

25            Q.       Do you think if this Commission were to

1 choose an average of electric utilities, do you know  
2 whether a rating agency would view that favorably or  
3 unfavorably?

4 A. I can't answer that. I can't speak for  
5 them, so I can't assess whether, you know, how they  
6 would necessarily view that.

7 Q. Okay. So it sounds to me like the only  
8 certainty that you can give me is that credit --  
9 credit rating agencies will look favorably upon 12.2  
10 or I assume 12.0 in ROE; that's the only certainty  
11 that you can give me?

12 A. No. I just was not able to answer  
13 specifically at what point a decision would be viewed  
14 as unfavorably versus favorably.

15 Q. Do you believe that Ameren should be --  
16 should receive -- to be favorably rated, do you  
17 believe Ameren should be given the highest ROE in the  
18 country?

19 A. To be favorably rated?

20 Q. Uh-huh.

21 A. I'm not --

22 Q. To be favorably rated, does it require a  
23 12.2 or 12.0?

24 A. Well, I think the 12.0 is supportive of  
25 maintaining credit worthiness.

1                   COMMISSIONER CLAYTON: Okay. I don't  
2 think I have any other questions. Thank you very  
3 much.

4                   JUDGE WOODRUFF: Commissioner?

5                   COMMISSIONER GAW: Maybe just a few.

6 QUESTIONS BY COMMISSIONER GAW:

7           Q.       Since you've been talking about some  
8 rating agency issues, I'm just curious, how -- do  
9 those -- do those rating agencies have any -- any  
10 oversight in regard to their independence?

11          A.       I'm -- I'm -- I don't know the answer to  
12 that question.

13          Q.       Do you know how they -- how they exist,  
14 how they make their money?

15          A.       Well, the product that they offer, ratings  
16 on companies and the debt that they issue, the  
17 securities that they issue are followed -- the  
18 customers essentially of the rating agencies are  
19 investors who use those ratings as a tool to assess  
20 credit worthiness. The ratings are used as a means  
21 for pricing of debt securities within the capital  
22 markets.

23          Q.       Well, who -- so who are their clients?

24          A.       Investors, people who buy securities.  
25 That's who's using the ratings and relying on the



1 signals of credit worthiness that they contain.

2 Q. Okay. And is there any -- is there any  
3 government agency that ensures the independence of  
4 those -- of those ratings that they give? You may  
5 have already answered that, that you don't know, but  
6 I want to make sure.

7 A. I don't know. That does not mean that  
8 there aren't, I'm just -- I just don't have knowledge  
9 of that subject.

10 Q. And earlier I think the Chair asked you  
11 whether or not Ameren itself did business with the  
12 rating agencies or perhaps something along that line.  
13 Can you tell me whether that's the case?

14 A. We -- as part of their providing rating  
15 for our securities, we pay fees to them but we --  
16 we -- we -- you know, we have to have the ratings in  
17 order to be able to sell the securities that we need  
18 to capitalize the business.

19 Q. Okay. So this is -- this is where I get  
20 a little bit confused. The entities that are seeking  
21 ratings on the securities they issue are paying the  
22 rating agencies, that's one thing, correct?

23 A. That's correct.

24 Q. And then the investors are also paying  
25 the rating agencies; is that correct?

1           A.       Yes, that's correct. The rating  
2 agencies, in order to provide access to reports to  
3 various ratings have -- I know they have various  
4 subscription services including web sites that  
5 investors and other parties can subscribe to in order  
6 to get that information from them.

7           Q.       Are they -- do they get paid a flat fee  
8 or is it on some sort of a percentage, do you know?

9           A.       Subject to check, I think there's a flat  
10 surveillance fee that we pay as an issuer, plus fees  
11 that vary depending on the size of securities issued  
12 or shelf that's filed. With respect to the web site  
13 access that investors and other parties would pay, I  
14 don't know if that's a flat fee, but I would imagine,  
15 depending on the level of access and the information  
16 and the number of industries and segments, that the  
17 access is provided for, that the fees could increase  
18 to the extent more information is made available.

19          Q.       Do you know whether or not the --  
20 whether or not Ameren engages more than one rating  
21 agency in valuing its securities?

22          A.       We do. We have ratings from Moody's,  
23 Fitch and Standard & Poor's.

24          Q.       Okay. Is that pretty much standard  
25 practice?

1           A.       I think that would be very common, if  
2   you looked at other issuers, that they would also  
3   have ratings from those rating agencies.

4           Q.       Why is that?

5           A.       Each of those have longstanding  
6   franchises in the capital markets, they're well known  
7   by investors, they tend to be focused upon  
8   primarily -- I think it's just become, you know,  
9   convention.

10          Q.       What would happen if you only used two  
11   instead of three? What would you be concerned about?

12          A.       Would we still have the same level of  
13   investor demand in interest when we were offering  
14   debt securities to the extent we have more demand and  
15   as much demand and as much interest that provides and  
16   enhances liquidity, lowers the price for the  
17   securities, i.e., it would lower the interest rate  
18   because we have more people wanting and demanding the  
19   securities. So to the extent that we have, you know,  
20   sort of the full slate of rating agencies covering  
21   and issuing ratings on our securities, we enhance the  
22   ability to issue lower cost debt.

23          Q.       Is it an expensive proposition for a  
24   company to get ratings on its securities?

25          A.       I think -- in relative terms?

1 Q. Yes.

2 A. No.

3 Q. Can you give me some sort of an idea? I  
4 don't know if -- I'm trying to avoid HC information,  
5 but if you can give me some sort of a concept of the  
6 cost, that would be helpful.

7 A. Yeah, you know, subject to check and  
8 Commissioner Davis did ask for us to supply a number  
9 of the fees we're paying --

10 Q. Yes.

11 A. -- I think those amounts would be in  
12 the -- again, subject to check, and we'll put a  
13 number together -- in the hundreds of thousands,  
14 maybe in excess of a million dollars. But in the  
15 context of a company with hundreds of millions of  
16 interest of expense annually, several billion dollars  
17 of debt outstanding and the enhanced liquidity that  
18 rating -- that the company's securities provide,  
19 especially around the issues of those securities, on  
20 a relative basis and in relative terms, I think the  
21 cost is minor.

22 Q. Okay. Now, in regard to the investors,  
23 on the investor side who are paying, generally what  
24 kind of invest -- we're not talking about an  
25 individual investor, I assume, that goes to work

1 every day? He's not paying the rating agencies  
2 for -- he or she's not paying the rating agencies for  
3 ratings. It's bigger entities than that. Give me an  
4 idea of who it is.

5 A. That's correct. If you look in the  
6 instance of utilities such as Union Electric Company,  
7 a very large buyer of our debt securities would be  
8 insurance companies, other institutional -- large  
9 sophisticated institutional buyers -- funds, mutual  
10 funds, would buy our securities. That's who our  
11 typical audience or investor base would include.

12 Q. Okay. And are those -- are those  
13 entities continuing clients generally of -- of those  
14 rating agencies, or do they just pay to get a  
15 judgment on securities' value when they're  
16 purchasing?

17 A. I think it's ongoing. They would hold  
18 portfolios --

19 Q. Okay.

20 A. -- utility bonds and other corporate  
21 issuer bonds. They would be performing routine  
22 analysis and assessment of the -- sort of the post  
23 issuance or ongoing credit quality of the bonds that  
24 they hold, probably for portfolio valuation and  
25 marketing securities that they're -- you know,

1 getting ratings after the fact. So I would suspect  
2 that they are ongoing routine users of ratings and  
3 not solely focusing on the rating at the time of  
4 issuance.

5 Q. If -- if there is a change in a rating  
6 by one of the rating agencies or more of them, is  
7 that a significant -- is there a significant amount  
8 of money potentially involved in that change?

9 A. There could be.

10 Q. And describe how that would be just very  
11 basically if you would.

12 A. You can change the secondary market  
13 value of outstanding debt securities for an investor  
14 that was not a long-term holder. It would affect the  
15 value of that security and what they could fetch if  
16 they were selling it. Of course, other factors would  
17 influence that as well, you know, including interest  
18 rates. But to the extent a ratings went up or down,  
19 the credit spread component of the yield on that  
20 security would change and affect market value.

21 Q. Okay. And so investors could stand to  
22 lose or gain depending on whether they were holding,  
23 selling, buying millions of dollars, I would assume,  
24 if they had a lot of investment?

25 A. I would agree with that.

1           Q.       It also has significant impact on -- on  
2     the entity who owns or who is issuing the securities,  
3     correct?

4           A.       The credit ratings would affect pricing  
5     of the -- or I should say the interest rate or coupon  
6     on any new securities issued.

7           Q.       Now, what insurance do we have that  
8     these rating agencies, then, are scrutinized to  
9     ensure that their independence is -- and that their  
10    opinion is clearly not being manipulated?

11          A.       You know, I'm not familiar with any  
12    oversight. That doesn't mean that there isn't any.

13          Q.       I understand.

14          A.       But I'm not familiar with what that  
15    would be. But when you look at the rating agencies,  
16    independence is the cornerstone of the quality of  
17    their ratings. Without independence, and if there  
18    was somehow bias introduced into the ratings, that  
19    would seriously compromise the value of that rating  
20    and could compromise investors' view of the quality  
21    of that rating.

22                    These rating agencies have been around  
23    for a number of years, they certainly have a  
24    franchise and a business to protect, their customers  
25    are investors, and so I think it would be a very

1 negative sort of, or -- you know, any -- any concern  
2 of the lack of independence would jeopardize their  
3 ability to, you know, issue that rating and have  
4 investors follow them and pay for their services.

5 Q. Have you -- you noticed in the last few  
6 years any area of the business communities that  
7 have -- had reports of manipulation of values of  
8 stock or securities? Have you seen that?

9 A. You read headlines like that every once  
10 in a while, sure.

11 Q. And -- and would it not be the case  
12 that -- that these rating agencies do not always  
13 agree with one another?

14 A. I think that can be the case. You can  
15 look at ratings being different for different  
16 issuers. I think that, you know, kind of is  
17 indicative of independence, they're making  
18 independent credit decisions, not necessarily relying  
19 on what each other is doing and reaching a consensus  
20 among them.

21 Q. Is it also possible that that  
22 difference, the subtle differences could -- could be  
23 the result of something besides independence, could  
24 be the result -- at least it's possible it could be  
25 the result of manipulation, could it not?



1           A.       I'm not aware of how that manipulation  
2 would work.

3           Q.       Is it possible that -- well, you've  
4 already described the risks at stake in regard to the  
5 amount of money and how much there is to gain and  
6 lose. If a rating agency was to issue a change in  
7 its -- in its rating as a result of something besides  
8 its independent viewpoint, the result could mean  
9 millions of dollars of gains or losses to individuals  
10 as you've described them, correct?

11          A.       Any -- just the rating change itself  
12 could have that result.

13          Q.       And there was a -- there was a change in  
14 the rating of one of the -- one of the companies on  
15 Ameren's ratings just -- just at the beginning or  
16 just prior to this rate case, wasn't there?

17          A.       There was a Moody's change at UE, I  
18 think it was March 13th.

19          Q.       Do you know whether or not that there  
20 are -- that these rating agencies, either directly or  
21 hiring other individuals, have significant  
22 interaction with regulators?

23          A.       I believe that the rating agencies may  
24 talk to Commissioners, may have conversations to  
25 understand sort of events and views and what's

1     happening in the respective states.

2             Q.       Do you think those conversations can  
3     involve more than just inquiries about Commissioners'  
4     viewpoints and actually involve rating agencies  
5     advocating for higher rates of return?

6             A.       I've never been a party to one of those  
7     discussions so I couldn't respond to what -- what  
8     topics are covered.

9             Q.       Is it in the interest of a rating agency  
10    or could it be in the interest of a rating agency or  
11    their clients for commissions to order higher rates  
12    of return?

13            A.       I don't know why it would be in the  
14    interest of a rating agency. They're gonna assign  
15    ratings based on the facts and circumstances.

16            Q.       If they have clients who have millions  
17    of dollars at stake, could it be in the clients of  
18    those rating agencies' best interest to have a higher  
19    rate of return in some cases?

20            A.       I think it's in the best interest of  
21    clients to have higher credit ratings. It reduces  
22    cost of capital, it ensures reliable and ready access  
23    to the capital market so they can obtain the funding  
24    that they require to capitalize their business and  
25    their assets.

1                   COMMISSIONER GAW: I think that's all,  
2     thank you.

3                   JUDGE WOODRUFF: Any recross based on  
4     questions from the bench?

5                   MS. VUYLSTEKE: I have a few.

6                   JUDGE WOODRUFF: All right. I believe  
7     MIEC would be first.

8     RE CROSS-EXAMINATION BY MS. VUYLSTEKE:

9           Q.       Good morning.

10          A.       Good morning.

11          Q.       I'm just gonna ask you a few questions  
12     based on Commissioner Clayton's and Gaw's questions.  
13     Commissioner Clayton asked you about the March 12th,  
14     2007 Moody's rating action. I'm gonna show you a  
15     copy of Moody's report which I think you referred to  
16     in your responses, and I wonder if you could just go  
17     ahead and read that paragraph.

18          A.       "The downgrade of parent company Ameren  
19     considers the challenging political and regulatory  
20     environment facing the company in both of its  
21     jurisdictions and the importance of the three  
22     Illinois utility businesses to its consolidated  
23     financial profile. The Illinois utilities make up  
24     nearly half of Ameren's total utility business, and  
25     any material financial deterioration of those

1 subsidiaries is expected to severely limit upstream  
2 dividends to the parent which will increase the  
3 reliance of the parent on Union Electric Company to  
4 meet parent company interest and dividend  
5 obligations."

6 Q. Okay. Thank you. Based on that report,  
7 would you agree that the Illinois utilities' problems  
8 are the major factor or a major factor in Moody's  
9 downgrade?

10 A. I would not consider them the major  
11 factor or driving factor of Moody's downgrade of UE.  
12 As I indicated in response to one of the  
13 Commissioners' earlier questions, that Moody's cited  
14 a number of very UE-specific factors in their  
15 downgrade action.

16 Q. Would you agree that Moody's report says  
17 that UE's increased reliance on the parent company --  
18 excuse me, that the parent company's increased  
19 reliance on UE to meet interest and dividend  
20 obligations is going -- is a significant factor in  
21 its report?

22 A. They do list that, they make that  
23 statement, they indicate that it's a potential risk.  
24 But as I also pointed out and as the rating agencies  
25 of both Moody's and S&P have acknowledged, that to

1 the extent the Illinois utilities are unable or  
2 limited in their ability to pay dividends, that  
3 dividends could also come out of the unregulated  
4 operations or out of liquidity available at the  
5 Ameren Corporation level.

6 Q. Would you agree it's a significant  
7 factor?

8 A. I don't think it was a significant  
9 factor for the downgrade of UE. Again --

10 Q. Okay. I --

11 A. -- there are very specific UE factors as  
12 part of their downgrade action.

13 Q. Does Ameren comment or provide edits to  
14 reports by credit analysts?

15 A. Could you repeat?

16 Q. Does AmerenUE provide comments or edits  
17 to reports by credit analysts?

18 A. It's common for us to see the report  
19 before it's published, but our -- what we're asked to  
20 respond to is very limited. We're able to correct  
21 errors of fact and we're also able to, you know,  
22 prevent the unintentional disclosure of nonpublic  
23 information. The rating agencies are treated as  
24 insiders and we do share nonpublic information with  
25 them, and so it's their intent that that not become

1 part of their report, but we do not influence their  
2 conclusions or their opinions. We're not allowed to  
3 make comments in that way.

4 Q. So the answer to that question is yes,  
5 you do provide comments and edits to those reports?

6 A. For the reasons and for solely the  
7 limited purposes in my response.

8 Q. Does Ameren provide financial ratio  
9 analysis to credit analysts?

10 A. No, we do not.

11 Q. Do you comment to analysts regarding  
12 your perspective on regulatory decisions?

13 A. Are you talking about our opinions of  
14 the decisions?

15 Q. Your perspective of regulatory  
16 decisions, your perspective on them.

17 A. No, we may talk about factors present in  
18 a rate case, but, you know, it's more of a factual  
19 type of discussion.

20 Q. But you provide your factual  
21 perspective, you provide your perspective?

22 A. We would -- we talk about -- if they had  
23 questions about issues within a case, we would  
24 respond to that.

25 Q. Okay. Do credit analysts give you draft

1 reports?

2 A. I -- was that not the question that you  
3 asked me a couple of questions ago?

4 Q. I'm sorry. I forgot your answer. Do  
5 they give you draft reports?

6 A. Well, it's -- it's common for us to get  
7 a copy of the report before it's issued, again, for  
8 the purpose of correction of errors of fact or to  
9 prevent the unintentional disclosure of nonpublic  
10 information in those reports.

11 Q. Is it correct to say you are involved in  
12 the drafting of Ameren's credit reports?

13 A. No.

14 Q. But you said that you revised and  
15 provide edits. Isn't that drafting?

16 A. No. The rating agencies are the  
17 drafters of the reports. Those are their reports,  
18 they contain their opinions and their conclusions.  
19 Again, our role is limited to prevention of  
20 disclosure of nonpublic information and correction of  
21 any errors of facts that those reports may contain,  
22 but we're not collaborating with them in the drafting  
23 of the report or involved in their development of  
24 opinions or statements.

25 Q. I asked you if you were involved in the

1 drafting.

2 A. And I would respond no.

3 MR. CYNKAR: Your Honor, I object. It's  
4 been asked and answered.

5 JUDGE WOODRUFF: Overruled.

6 BY MS. VUYLSTEKE:

7 Q. Can you just say yes or no again?

8 A. No, I would not characterize it as us  
9 being --

10 Q. Involved in the drafting?

11 A. -- involved in preparation of the  
12 drafting of a report.

13 Q. Not involved in the drafting even though  
14 you provide edits and revisions?

15 A. I think the implication of the question  
16 is one that requires a no response.

17 Q. Do credit analysts talk to stakeholders  
18 other than Ameren in regulatory proceedings?

19 A. I'm not aware of conversations. If any  
20 party contacted a rating agency, they may answer  
21 questions to the extent they can do so, but I'm not  
22 specifically aware of conversations.

23 Q. So as a general matter, in general, is  
24 it your experience that credit analysts talk to  
25 stakeholders in regulatory proceedings?



1           A.       I would not have information to say yes  
2 to that.

3           Q.       Would you agree that the rate-setting  
4 process should be transparent so that the Commission  
5 can make an informed decision?

6           A.       Yeah, I think transparency is an  
7 important part, but if there are a number of complex,  
8 complicated and technical issues involved in a rate  
9 case, that --

10          Q.       Well, the -- I guess it's a yes or no.  
11 Do you think the rate-setting process should be  
12 transparent?

13          A.       Yes.

14                   MS. VUYLSTEKE: Thank you.

15                   JUDGE WOODRUFF: I believe Public  
16 Counsel wanted to cross?

17                   MR. MILLS: Just a few.

18                   MR. THOMPSON: I'm gonna have a couple  
19 after him, your Honor.

20                   JUDGE WOODRUFF: Okay.

21 RE-CROSS-EXAMINATION BY MR. MILLS:

22          Q.       Good morning, Mr. Nickloy.

23          A.       Good morning.

24          Q.       Commissioner Appling asked you some  
25 questions about the chart here; do you recall those?

1           A.       Right.

2           Q.       And specifically Commissioner Appling  
3 focused in on the 9.8 number; do you recall that?

4           A.       I do.

5           Q.       In the -- the proposed rate of return --  
6 return on equities in this case, is that 9.8 number  
7 the fourth highest out of six?

8           A.       That would be my understanding based on  
9 what's -- yes, what's presented in the chart, that  
10 would be the case.

11          Q.       Have you read the testimony of the  
12 return on equity witnesses in this case?

13          A.       I have, I have read much of that  
14 testimony.

15          Q.       Okay. Is your -- is your understanding  
16 that that number is the fourth highest out of six  
17 based solely on this chart or is it also based on  
18 your reading of the testimony?

19          A.       I would -- well, it's presented very  
20 easily in a readily usable format in the chart, so I  
21 can tell from that chart it's the fourth highest.

22          Q.       But that's not the only way that you  
23 know it's the fourth highest?

24          A.       No, you could discern that from a  
25 reading of the testimony.

1           Q.       And if you -- if you look at the zone of  
2     reasonable concept which is illustrated on that  
3     chart, is the 9.8 the highest of the two ROEs within  
4     the zone of reasonableness?

5           A.       That's what would -- that's what you  
6     could conclude from that chart.

7           Q.       And is the 9.8 that Commissioner Appling  
8     focused in on the highest of all the parties other  
9     than Union Electric?

10          A.       Yes.

11          Q.       Okay. Now, one of your -- your first  
12     answers to a question from Commissioner Appling was  
13     that a number of rating agencies are watching the  
14     outcome of this case; do you recall that?

15          A.       Yes.

16          Q.       How many rating agencies are watching  
17     the outcome of this case?

18          A.       Well, I know specifically Moody's, Fitch  
19     and S&P would be looking at the outcome of this case.

20          Q.       So about three?

21          A.       Yes.

22          Q.       How many Missouri retail customers do  
23     you have?

24          A.       I'm not certain exactly. I think it's  
25     maybe two million.

1           Q.       Do you think some of them are watching  
2 the outcome of this case?

3           A.       Certainly they would be.

4           Q.       Okay. How many state legislative  
5 districts do you serve in?

6           A.       I don't know the answer to that.

7           Q.       Do you think that a number of state  
8 legislators are watching the outcome of this case?

9           A.       I think that's a fair statement.

10          Q.       How many TVs and newspaper are -- have  
11 coverage in the service territories that you serve in  
12 this state?

13          A.       Certainly a number.

14          Q.       Do you think some of those are watching  
15 the outcome of this case as well?

16          A.       Yes.

17          Q.       Okay. Do you think that the rating  
18 agencies watching this case are the most important  
19 observers?

20          A.       I think they are certainly important  
21 observers. They're assigning credit ratings for the  
22 company which impact cost of capital, our ability to  
23 issue securities in the capital markets and  
24 capitalize our rate base assets or the assets used to  
25 provide utility service.

1           Q.       Do you know whether the rating agencies  
2       will directly be paying any of the rates that are set  
3       in this case?

4           A.       I -- no, they're not ratepayers in the  
5       state.

6           Q.       But your customers are?

7           A.       Certainly.

8           Q.       Now, one of the things that you talked  
9       with, I believe both Commissioner Appling and  
10       Commissioner Clayton, is what you do. And your title  
11       is assistant treasurer?

12          A.       That's correct.

13          Q.       Is part of your job to ensure adequate  
14       cash flows to meet obligations?

15          A.       My responsibilities would be funding the  
16       obligations or, you know, coming up with cash or  
17       borrowing resources to meet our obligations. I  
18       can't, you know, determine -- use the general cash  
19       flow level out of our businesses. I can't ensure  
20       that it's at some -- some certain level.

21                   MR. MILLS: Okay. Thank you, that's all  
22       the questions I have.

23                   JUDGE WOODRUFF: For Staff?

24                   MR. THOMPSON: Thank you, Judge.

25       CROSS-EXAMINATION BY MR. THOMPSON:

1           Q.       I bet you thought you'd be talking about  
2 capital structures today. Do you have any reason to  
3 doubt the independence of the rating agencies?

4           A.       I do not.

5           Q.       Now, the things that are going on in  
6 Illinois right now, you're aware of those, right?

7           A.       Yes.

8           Q.       And is it possible that those events  
9 could leave Ameren's subsidiaries in Illinois short  
10 of cash?

11          A.       I -- that would be a potential, although  
12 unfortunate outcome.

13          Q.       And is there anything to your knowledge  
14 that would prevent Ameren Corporation from taking  
15 cash or revenues from UE and using them to prop up  
16 its operations in Illinois?

17          A.       No, I -- I don't think that that's an  
18 appropriate or prudent business decision.

19          Q.       I understand that, but is there anything  
20 to your knowledge that prevents it?

21          A.       There are limitations within credit  
22 facilities that would impact the ability of the  
23 corporation or parties under those credit facilities  
24 to make loans to Illinois entities or infuse capital  
25 into them.

1           Q.       Would you be surprised if I told you  
2       that Missouri law permits this Commission to require  
3       AmerenUE to maintain a cash reserve of a particular  
4       size?

5           A.       I'm not aware of a cash reserve  
6       requirement. I'm not familiar with that.

7           Q.       I didn't say it was a requirement. I  
8       said would you be surprised to learn that Missouri  
9       law authorizes this Commission to require AmerenUE to  
10      maintain a cash reserve?

11          A.       I'm -- I'm not aware of it.

12          Q.       Okay. And assuming for purposes of  
13      these questions that what I've just told you is true,  
14      tell me how much cash does AmerenUE typically have on  
15      hand every day?

16          A.       That will vary from day to day and  
17      depend on the time of the year. There are times of  
18      the year where UE could have more than 100 million, a  
19      couple hundred million of cash, there are times of  
20      the year where UE may not have any cash and has  
21      several hundred million of short-term borrowings  
22      outstanding.

23          Q.       What would be the effect of AmerenUE's  
24      operations if this Commission were to order AmerenUE  
25      to maintain a cash reserve of \$100 million at all

1 times?

2 A. Well, that could prove to be an  
3 inefficient use of cash to the extent that that cash  
4 could be invested in our businesses -- or in UE's  
5 business. It's a better purpose for it. If UE is a  
6 net borrower, i.e., it has a short-term borrowing  
7 need at the time, holding cash balances would  
8 include -- would increase interest costs, could use  
9 up capacity, borrowing capacity under a credit  
10 facility that could otherwise be used for financing  
11 the utility's business.

12 Q. So you would see that as a bad thing?

13 A. I think it could be an inefficient use  
14 of cash.

15 Q. Okay. And what if Ameren Corporation,  
16 despite your dim view of the practice, were to take  
17 cash out of UE and use it to prop up its operations  
18 in Illinois?

19 A. Again, we've -- you know, that's I don't  
20 think a prudent decision to make. We stated publicly  
21 that Ameren would not infuse capital to support the  
22 Illinois utility operations.

23 Q. Let's just suppose for purposes of my  
24 question that Ameren Corporation nonetheless did  
25 that; what would be the effect on UE?



1           A.       If Ameren Corporation used its own  
2   liquidity to do that, it would not have any impact on  
3   UE.  It wouldn't be a UE cash event or UE resources  
4   wouldn't have been used to do that.

5           Q.       What if it used UE's liquidity to do  
6   that?

7           A.       Well, then, that would be a negative for  
8   UE.

9                   MR. THOMPSON:  Thank you very much.  No  
10   further questions.

11                  JUDGE WOODRUFF:  All right.  Any  
12   redirect?

13                  MR. CYNKAR:  No, your Honor.

14                  JUDGE WOODRUFF:  Commissioner Gaw?

15   QUESTIONS BY COMMISSIONER GAW:

16           Q.       A couple follow-up questions.  It really  
17   is just information.  Can you tell me who your  
18   contacts are at the rating agencies?

19           A.       We would have oftentimes a number of  
20   contacts at the rating agencies.  There are primary  
21   coverage analysts who are, you know, on the -- on the  
22   front line with us or the initial contact, if you  
23   will.

24           Q.       Who are they?

25           A.       By name?

1 Q. Yes.

2 A. At Moody's, Mike Haggarty; at Standard &  
3 Poor's, Barbara Eiseman; and at Fitch, Denise Furey.

4 Q. Okay.

5 A. And there are primary coverage analysts  
6 who, you know, read the reports that are issued on  
7 the various entities. They would be the listed  
8 authors of those.

9 Q. Okay. And where are they located?

10 A. New York.

11 Q. Okay. And are you the only one that  
12 generally has that contact from Ameren, or are there  
13 other individuals that have a significant level of  
14 contact?

15 A. There are others. My management, our  
16 treasurer, VP and treasurer, Jerry Birdsong would  
17 have contact.

18 Q. Okay.

19 A. And our CFO, Warner Baxter would also  
20 have contact with the rating agencies.

21 Q. Okay. Anyone else? Does that pretty  
22 much cover it?

23 A. From time to time a question may come in  
24 or something like that, but on an ongoing routine  
25 basis it would be the three of us.

1           Q.       Okay.  Who actually writes the reports  
2     for the credit -- credit rating agencies?

3           A.       I believe it's through the analysts I  
4     listed.

5           Q.       Those individuals, and those are the  
6     ones you have the contact with?

7           A.       Right.

8           Q.       Okay.

9                    COMMISSIONER CLAYTON:  What was the one  
10    from Fitch again?

11                   THE WITNESS:  Denise Furey.

12                   COMMISSIONER GAW:  How do you spell  
13    that?

14                   THE WITNESS:  I believe it's F-u-r-e-y.

15                   COMMISSIONER GAW:  Thank you very much.  
16    Thank you, Judge.

17                   JUDGE WOODRUFF:  Any other recross or  
18    redirect based on those questions?

19                   (NO RESPONSE.)

20                   JUDGE WOODRUFF:  All right.  Then  
21    Mr. Nickloy, you can step down.  And Mr. Nickloy was  
22    the last scheduled witness for today.

23                   MR. THOMPSON:  Your Honor, I'd like to  
24    let you know and let the Commissioners know that  
25    Staff's witness Mr. Hill is still present in the

1 event that there's any questions from the bench for  
2 him.

3 JUDGE WOODRUFF: All right. Any  
4 other -- Mr. Conrad?

5 MR. CONRAD: Right. I have just a very  
6 quick announcement to make. About 9:25 we were able  
7 to get filed on EFIS, and your Honor may have seen  
8 the EFIS notice come across.

9 JUDGE WOODRUFF: I saw that, yes.

10 MR. CONRAD: A stipulation and agreement  
11 that is a nonunanimous document, does not include all  
12 the parties in the case, but we're at least hopeful  
13 that after some others have an opportunity to look at  
14 it, that they will find it appropriate to join in,  
15 and we've provided a facility for them to do that.

16 I do have ten copies for your Honor  
17 which I can give to you at this time. I have some  
18 limited number of additional copies for others who  
19 may wish it, but it has already been electronically  
20 served to the service list generally.

21 JUDGE WOODRUFF: And is this on class  
22 cost of service?

23 MR. CONRAD: It is. It is on class cost  
24 of service, and I don't know if it is a complete and  
25 comprehensive resolution of all of the, quote, rate

1 design, closed quote, issues, but I believe it's  
2 fairly scoped to cover most of those. There may be  
3 some other issues that some individual parties have.

4 I know one that was specifically put  
5 out was the -- I believe the experimental pilot  
6 with respect to some of the interruptible things  
7 and some of the demand monitoring things that I  
8 think MEG was particularly interested in that is  
9 not -- not addressed here and at least they would  
10 expect.

11 Counsel for MEG is here so she can  
12 certainly speak to that, but I think it's their  
13 expectation that would be presented or subject to  
14 later resolution.

15 JUDGE WOODRUFF: Okay.

16 MS. LANGENECKERT: That's correct.

17 JUDGE WOODRUFF: Thank you. Any other  
18 matters anyone wants to bring up?

19 MR. THOMPSON: I'd just like to get my  
20 chart marked and I'd like to offer it, your Honor.

21 JUDGE WOODRUFF: All right.

22 JUDGE WOODRUFF: It is a wonderful chart,  
23 by the way.

24 MR. THOMPSON: My kids are on break and  
25 they made this. They did a fine job.

1 (EXHIBIT NO. 270 WAS MARKED FOR  
2 IDENTIFICATION BY THE COURT REPORTER.)

3 JUDGE WOODRUFF: All right. Before  
4 anyone leaves, did you wish to call Mr. Hill back up?

5 COMMISSIONER CLAYTON: Yeah. I mean, if  
6 he's available -- if this is the only date he'll be  
7 available --

8 MR. THOMPSON: That is correct.

9 JUDGE WOODRUFF: We'll bring Mr. Hill  
10 back up again.

11 MR. THOMPSON: Judge, if I could, was  
12 the chart received?

13 JUDGE WOODRUFF: It's been offered.  
14 Anybody object to its receipt?

15 MR. CYNKAR: No objection.

16 JUDGE WOODRUFF: Hearing none, it will  
17 be received.

18 (EXHIBIT NO. 270 WAS RECEIVED INTO  
19 EVIDENCE AND MADE A PART OF THE RECORD.)

20 MR. THOMPSON: What's the number on  
21 that?

22 JUDGE WOODRUFF: 270.

23 MR. THOMPSON: 270. Thank you.

24 JUDGE WOODRUFF: All right. Welcome  
25 back, Mr. Hill.

1 THE WITNESS: Thank you, sir.

2 JUDGE WOODRUFF: And we'll come straight  
3 up to questions from the bench.

4 COMMISSIONER CLAYTON: Yeah, can I have  
5 that chart back?

6 MR. THOMPSON: I'll put it right back up  
7 here, your Honor. I do apologize.

8 COMMISSIONER CLAYTON: Very helpful and  
9 you take it away.

10 THE WITNESS: Nice of my attorney to put  
11 me out of the zone there.

12 QUESTIONS BY COMMISSIONER CLAYTON:

13 Q. Does that bother you to be out of the  
14 zone?

15 A. Well, I don't think the zone is quite as  
16 accurate as it ought to be, but no, it doesn't. I  
17 believe my numbers are accurate.

18 Q. When you said the zone wasn't accurate,  
19 what did you mean by that?

20 A. Well, the latest numbers are that the  
21 average is about 10.3, the latest RRA number's now  
22 10.5. The number that came out of my testimony is  
23 just an approximation of what's been happening over  
24 the past couple years. In 2006 it came down 20 basis  
25 points, and if you take out two states, Wisconsin and

1 Missouri, the number drops to 10.2. So if you use  
2 10.2 as a center point, then I'm still in the zone.

3 Q. If you take out Missouri and take out  
4 Wisconsin?

5 A. Wisconsin. And Wisconsin has a policy  
6 of awarding rates of return that exceed the cost of  
7 capital.

8 Q. Why is that, do you know?

9 A. They've always done that. And I was  
10 just in a rate case for a wind generating project up  
11 there last month and had a discussion with the Staff  
12 about that. It's been a policy for 20 years up  
13 there. The Staff ROE recommendation in that case was  
14 eight and a half and they recommended a 10.5 percent  
15 ROE.

16 Q. Then the Commission ultimately ordered  
17 how much?

18 A. They haven't made a decision yet.

19 Q. They haven't made a decision.

20 A. But their most recent order, I think,  
21 for Wisconsin Power was 10.8, so they've come below --

22 Q. That's actually down from what was --

23 A. Yes.

24 Q. -- issued in the past?

25 A. Yes, sir, they've come below the 11 mark



1 for them.

2 Q. Wisconsin's been consistently above the  
3 11.0 mark, hasn't it, for several years?

4 A. They've been the highest, yes, sir.

5 Q. They've been the highest in the country?

6 A. Yes, sir, for many years but they've  
7 begun to change that. The Commissioners believed 20  
8 years ago that if they awarded high returns and got  
9 high bond ratings, they would be rewarded by lower  
10 rates. That has turned out to be not the case, and  
11 so they're reassessing their position on that.

12 Q. Has Wisconsin had any significant  
13 capital projects going on? Have they been building  
14 any power plants?

15 A. They are -- they've built this wind  
16 generating project. It's only a \$150 million project  
17 but they've got a large coal plant, probably a  
18 billion dollar plant coming on the line that's gonna  
19 start within the next couple years. So yes is the  
20 short answer to that question.

21 Q. Okay. Your recommendation ultimately is  
22 9.25; is that correct?

23 A. Yes, sir.

24 Q. And I apologize, I've got all kinds of  
25 paper up here and the schedule's kind of thrown me

1 off. Tell me how you got to that 9.25.

2 A. Well, I used four analyses, primarily  
3 the DCF and three corroborative analyses. The  
4 CAPM --

5 Q. Start -- start with the DCF and then  
6 we'll work through those just very quickly.

7 A. You want the actual numbers?

8 Q. Yeah, could you?

9 A. Sure, no problem. Hang on a second.  
10 And these are summarized in my testimony. I'm trying  
11 to flip to the page here.

12 Q. At this point I'm not even sure where  
13 your testimony is.

14 A. Okay. It's on page 252 of Exhibit 214.  
15 A DCF for both electric and gas companies, and we'll  
16 just talk about the electric since we've settled the  
17 gas case, is about 9.25, it's right on the money  
18 there. And I don't always use the DCF number.  
19 That's just the way it worked out in this case.

20 The CAPM estimate range is from about  
21 9.2 to about 10.6. The modified earnings price ratio  
22 analysis ranges from 8.3 to 8.6. And then the  
23 market-to-book ratio analysis ranges from 9.1 to 9.2.  
24 So using the 9.25 as an estimate of the DCF, the  
25 corroborative methodologies range from 8.8 to 9.37.

1 In other words, they tend to confirm the  
2 reasonableness of the DCF.

3               So my estimate is that a reasonable cost  
4 of equity for a utility similar in risk to AmerenUE  
5 ranges from 9 to 9.75. The midpoint of that, of  
6 course, is 9.375. And the reason that my  
7 recommendation winds up to be 9.25 is because  
8 AmerenUE has a higher equity ratio of 52 percent than  
9 the average of all the companies that I use, the  
10 average of all the companies that Dr. Van Der Weide  
11 used, and the average of all the companies that  
12 Ms. McShane used, all of which have a common equity  
13 ratio of around 45 percent.

14               So Ameren, with a ratemaking common  
15 equity ratio of 52 percent, has a lower financial  
16 risk, and therefore, 9.375, which is the midpoint of  
17 my range, comes down to 9.25 and that's how I wound  
18 up there.

19           Q.       Now, if we were to -- if we were to  
20 grant your request of a 9.25 ROE, would that make  
21 Ameren having the lowest ROE in the country?

22           A.       I think there have been lower ROE awards  
23 than that, but --

24           Q.       Let's talk about 2006 or the last --  
25 last year.

1           A.       The short answer to that is yes.

2           Q.       Okay. And does that mean that --  
3       that -- that Ameren would pose less risk than -- than  
4       any other electric utility in the country?

5           A.       No, it doesn't mean that. It means that  
6       this Commission would have adopted a cost of equity  
7       that I believe is accurate, and the -- as I explain  
8       in my testimony, I believe that cost of equity awards  
9       are coming down, that they're lagging behind the  
10      actual cost of equity. They're approaching it,  
11      though. The cost of equity has been pretty constant  
12      for about three or four years and allowed returns  
13      have been coming down slowly. They're -- they're  
14      lagging but they're headed toward the cost of equity.

15          Q.       Okay. Where do you -- where are you  
16      from, Mr. Hill?

17          A.       I grew up in Alabama. I live now in  
18      West Virginia.

19          Q.       You live now in West Virginia,  
20      Charleston or --

21          A.       Near Charleston.

22          Q.       Okay. And in how many states have you  
23      testified before Public Service Commissions?

24          A.       I've testified in over 230 cases and,  
25      you know, frankly I don't know the number of

1 jurisdictions. I would say 35 to 40.

2 Q. 35 or 40 states?

3 A. Yes, sir.

4 Q. So you've testified in both restructured  
5 and traditionally regulated states?

6 A. Yes, sir.

7 Q. Okay. Is it possible for me to say, all  
8 things being equal, do you generally look at a state,  
9 a traditionally regulated state as being more or less  
10 risky than, say, a restructured state?

11 A. I think it's -- I think it's pretty  
12 clear that it's less risky.

13 Q. It's less risky --

14 A. Yes.

15 Q. -- in a nonrestructured state?

16 A. Yes, sir, I believe it is. I believe  
17 the move in the industry since California, since the  
18 beginning of this decade, has been, quote, unquote,  
19 back to basics, doing the way -- getting rid of their  
20 unprofitable unregulated operations in China and Peru  
21 and wherever, getting back to running a utility doing  
22 what they did well, and coming in for rate cases.  
23 That's how to make money.

24 Q. Okay. And has your opinion always been  
25 that way? For example, right after the restructuring

1 began but there wasn't ten years of experience, did  
2 you always feel that way or has your position  
3 modified over time?

4 A. I have to say I was skeptical, but it  
5 was unclear what was -- what was gonna happen with  
6 the deregulation of generation. It seemed to be a  
7 good idea, and from an economic theory standpoint it  
8 seemed fine. I mean, the flow of electrons is about  
9 as close to a perfect market as one could get. You  
10 know, it's infinitely divisible and all the things  
11 you want in an economic-theory-perfect market. The  
12 problem is, there are big players that are able to  
13 control the flow of electrons to their benefit as we  
14 saw with Enron.

15 So I think there are real problems with  
16 that. You know, once again, on an economic theory  
17 basis, it makes sense but I think there are practical  
18 problems with the implementation of it, and I'm not  
19 sure quite how we get around that. And FERC still  
20 buys into the free market idea and I don't know where  
21 that's going, frankly.

22 Q. Okay. Can you think of any states -- it  
23 sounds like you've been in 35 to 40 was your  
24 statement -- any states that are restructured that  
25 would be considered less risky, all things being

1 equal, to Missouri?

2 A. Well, I don't think you can destroy or,  
3 you know, the risk by separating operations. The  
4 operation of risk of generation remains. If you  
5 remove the regulatory guard, it's more risky.  
6 Unregulated generation is clearly more risky than  
7 regulated generation.

8 But -- so when you say a state that's  
9 deregulated, let's take Texas, for example. They  
10 have, I believe, a unique situation down there.  
11 First of all, they're a electric zone unto  
12 themselves. They've separated their transmission  
13 operations to be only transmission with no provider  
14 of last resort responsibility whatsoever. There are  
15 retail electric providers, quote, unquote, that do  
16 that job. There's been problems in that area.

17 Then there's unregulated generation that  
18 supplies -- supplies the state with power. And TXU,  
19 for example, was -- was gonna build 11 brand new coal  
20 plants. They saw great money-making opportunities on  
21 regulated generators. Well, that's been changed now  
22 since they've -- may be properly bought out. So it's  
23 difficult to say.

24 That state, I would say, in answer to  
25 your question, would be one that I would point to

1     that seemed to be going pretty well to certainly a  
2     regulated entity, transmission only that was less --  
3     less risky than an integrated, let's say, standard  
4     regulated operation. But now, with what's happening  
5     with TXU and potential generation supply in Texas,  
6     I'm not sure you can say that.

7             Q.     Okay. You've had an opportunity to --  
8     well, I guess, how many days have you been in  
9     Missouri? Did you just get here today or have you  
10    heard any of the testimony?

11            A.     I got here last night about 11 o'clock.  
12    I've been here on and off all day.

13            Q.     I'm surprised we weren't in that late  
14    last night. We've been going late. You have had an  
15    opportunity to review all the prefiled testimony --

16            A.     Yes, sir.

17            Q.     -- relating to this issue?

18            A.     Yes, sir.

19            Q.     There is a significant difference on  
20    this chart between your recommendation and the  
21    highest recommendation; would you -- would you agree  
22    with that?

23            A.     Yes, sir. I think in dollar terms it's  
24    about \$130 million.

25            Q.     In your experience, is it that common to



1 have a 300-basis-point spread among competing experts  
2 in a rate case?

3 A. It's a little high. 200 would be more  
4 usual.

5 Q. How do you -- how do you account for  
6 that 300-basis-point spread in your opinion?

7 A. Well, I think it's pretty simple.  
8 There's 100 basis points that I think is unreasonably  
9 added to the company's recommendation that has to do  
10 with the use of market value capital structures which  
11 I think runs counter to 50 years of regulatory  
12 history and flies in the face of the whole gas  
13 decision. I think it's just simply wrong.

14 Q. And that's the 100 basis points from, I  
15 guess, 11.2 to 12.2?

16 A. Yes, sir. Dr. Van Der Weide's average,  
17 I think, was 11 and a half, Ms. McShane's was a  
18 little bit lower than that. Ms. McShane adds 100  
19 basis points for this market value adjustment,  
20 Dr. Van Der Weide is just a little less because he  
21 doesn't use the current market value capital  
22 structure of his companies; he uses something else to  
23 mitigate the increase.

24 Q. Okay. How does your -- how does your  
25 analysis in the DCF and his analysis compare?

1           A.       Very well.  They're both -- if you take  
2     the -- his median DCF number which is the middle  
3     value which eliminates the influence of very high or  
4     very low results, his median DCF estimate is about  
5     9.6, 9.8, something in that range.  Mine's 9.25.  In  
6     fact, all of the witnesses in this case have DCF  
7     estimates below 10 percent, every single one.

8           Q.       How about the other -- the other methods  
9     of calculation, CAPM, for example?

10          A.       The CAPM methodology as presented by the  
11     company witnesses are -- produce the highest results  
12     that they produce.  It's the top of their range.  The  
13     CAPM estimate, in my case, is both below and above  
14     the DCF, and the difference rests primarily --  
15     because we all use the same betas pretty much and we  
16     all agree that long-term treasury bonds are the  
17     risk-free rate, the difference resides in the choice  
18     of market risk premium.

19                   And I've got quite a bit of testimony in  
20     my -- in both my direct and rebuttal and surrebuttal  
21     about what that ought to be, what the proper market  
22     risk premium ought to be.  And it's 4 to 5 percent  
23     versus this 6 to 7 percent that the company uses, and  
24     that's the primary difference in the CAPM.

25                   The other methodologies are risk

1 premium, same issue with the risk premium. It's --  
2 the difference between the equity return and the bond  
3 return historically is extremely volatile. And if  
4 you just look at it on a statistical basis, a  
5 95 percent confidence interval gives you a very  
6 wide -- very wide range of possible results for ROE  
7 from negative 20 percent to positive 40 percent. So,  
8 you know, it's kind of like a dart board methodology  
9 as far as I'm concerned.

10 Q. Mr. Hill, to be consistent, I want to  
11 ask you about your compensation if that's okay?

12 A. Sure.

13 Q. You are a Staff witness?

14 A. Yes, sir.

15 Q. Okay. And Staff has hired you. Now,  
16 does that mean you're an employee of the Commission  
17 now?

18 A. Well --

19 Q. They put you on the health plan or --

20 A. That would be great since I don't have  
21 one of those. I'm a subcontractor with the  
22 Commission.

23 Q. And can you generally give me an idea of  
24 what your contract is? I mean, how much? Is it  
25 hourly, is it by product?

1           A.       It's hourly, sir. My hourly fees are  
2     \$150 an hour. The total estimate for my services  
3     originally was right at \$20,000. When I got to the  
4     surrebuttal stage of the case, I realized I was  
5     coming up short and requested another \$5,000  
6     extension, and it was -- fortunately was granted  
7     that. So if I spend every dollar of which I will  
8     likely do in this case, it will be 25,000.

9           Q.       And over how many months' worth of work  
10    would you say that is?

11          A.       Oh, let's see. I did the analysis in  
12    November. There were data requests that went out  
13    earlier than that. Maybe probably October would be  
14    my guess.

15          Q.       About five months, six months?

16          A.       Yes, sir, something like that. There  
17    will still be the brief-writing phase and I'll be  
18    helping with that as well.

19                   COMMISSIONER CLAYTON: I don't think I  
20    have any other questions. Thank you.

21                   THE WITNESS: Yes, sir.

22                   JUDGE WOODRUFF: Anything else from the  
23    bench? Commissioner Appling?

24                   COMMISSIONER GAW: I do have a few  
25    questions. I'll wait, though.

1 JUDGE WOODRUFF: Okay. Commissioner  
2 Appling?

3 COMMISSIONER APPLING: Thank you, Judge.

4 QUESTIONS BY COMMISSIONER APPLING:

5 Q. Good morning, Mr. Hill.

6 A. Good morning, sir.

7 Q. Three questions: You're recommending  
8 the 9.25?

9 A. Yes, sir.

10 Q. What's the average in this country for  
11 return on equity?

12 A. In 2006 the average was 10.3.

13 Q. Or 10.5, something in that neighborhood?

14 A. 10.5 over the past two or three years,  
15 yes, sir.

16 Q. Okay. And you were saying that Ameren's  
17 risk factor is above average, below average, in  
18 between?

19 A. Ameren's risk factor both in terms of  
20 business risk and financial risk is below average.  
21 The companies that I analyzed had a Standard & Poor's  
22 business risk index of six, AmerenUE's risk index is  
23 five which is lower. The regulatory capital  
24 structure for AmerenUE is 52 percent equity, the  
25 average equity ratio of the companies I analyzed was

1 about 44 percent equity.

2 So AmerenUE has less financial risk, and  
3 it's -- they have both less financial and business  
4 risk but that's not the entirety of the difference  
5 between the average ROE and the 9.25.

6 Q. It just seems to me and maybe I'm  
7 completely wrong, but it does seem to me that a good  
8 starting point for these guys would be what the  
9 average is, which is a 10.3.

10 A. Well, I certainly respect that position.  
11 I don't really agree with it, but I certainly respect  
12 your position and I understand why you think that the  
13 average equity return awarded in the U.S. is a  
14 reasonable thing to look at, and I don't disagree  
15 with that.

16 Q. Uh-huh.

17 A. But I think that there are other  
18 companies with other risks. For example, included in  
19 that 2006 number which is 10.3, 10.5, is an 11.9  
20 percent ROE for a wind generator in Iowa. And the  
21 order in that case makes very clear that that's an  
22 incentive ROE, that they wanted to provide monetary  
23 incentive to the company to build green power. So  
24 there's a bump in their fuel -- let me use that  
25 term -- for incentive and included in that 11.9.

1                   And 11.9 gets added into the 10.2  
2   number, but it doesn't really relate, I don't think,  
3   to the risk of AmerenUE. It's very different. So  
4   that's the problem I have with using a national  
5   number to -- to set ROE in a case where you have --  
6   and admittedly, there's about a million pages of  
7   testimony on ROE in this case, and it's pretty dense  
8   material, very theoretical.

9                   But I think you have evidence before you  
10   that there are other indicators -- objective  
11   indicators of equity costs that show that the cost of  
12   equity for utilities is below 10 percent.

13            Q.       Yeah. But this Commission is sure to  
14   look at -- further into the well than you are looking  
15   into the well as far as how this company fits into  
16   this state and all this other stuff --

17            A.       Yes, sir. You have a much more  
18   difficult task than me. You have to weigh lots more  
19   information than I do.

20            Q.       Your 9.25, does that include an FCA  
21   or -- with a fuel adjustment?

22            A.       It takes into account the fact that --  
23   the differences in fuel adjustment clauses because as  
24   I mentioned a moment ago, AmerenUE has a lower  
25   business risk ranking, even with no fuel adjustment

1 clause, than the other companies that I analyzed.

2 Q. You have followed Ameren's headlines  
3 over the last 12 months, haven't you?

4 A. Yes, sir.

5 COMMISSIONER APPLING: Okay. Thank you  
6 very much.

7 JUDGE WOODRUFF: Commissioner Gaw?

8 QUESTIONS BY COMMISSIONER GAW:

9 Q. You said a little earlier something that  
10 was conclusory, and I think that was generally a  
11 vertically integrated utility has less risk than a  
12 utility that's engaged in business in a restructured  
13 state? I think -- something to that effect.

14 A. Yes.

15 Q. Do you recall that?

16 A. Yes, sir.

17 Q. I want you to explain that a little bit  
18 more than just reaching the conclusion because I  
19 think we've -- we've heard some that have a different  
20 opinion, and it would be helpful to get a little bit  
21 of an analysis.

22 A. Well, let's look at -- let's look at  
23 generation. Generation is the factor that gets  
24 deregulated, it's not transmission distribution.  
25 Rate-based generation has the advantage of having



1 cost reviewed by a board regulatory body being  
2 allowed to recover those costs in taxes and  
3 depreciation with a -- with a profit, an appropriate  
4 profit, and they roll those costs into prices. They  
5 charge those prices to monopoly customers who buy  
6 from that one company.

7           If you -- if you take the generation out  
8 of the -- the protection of regulation and put it on  
9 the open market, you've got the same costs, you've  
10 got the same depreciation, you've got the tax issues  
11 and you've got -- you can only sell it at the market  
12 price. You don't necessarily recover your costs.  
13 You are -- you may recover more of your costs if  
14 you're lucky. If the price goes up and your costs  
15 are low, that's great, you make a ton of dough.

16           But if something happens and your fuel  
17 costs go up, or if you have an outage, you have  
18 something happen to one of your generating plants,  
19 you've got to pay for that and you're not able to  
20 charge anybody for it because the market's only gonna  
21 pay what they're gonna pay. So it's -- it's very  
22 clear -- let's go back to Standard & Poor's business  
23 risk ranking index.

24           Q.     All right.

25           A.     At the low end are transmission

1 distribution utilities. In the middle are fully  
2 integrated electric utility operations. At the very  
3 top are unregulated generators, very heavily capital-  
4 intensive operations with no guaranteed return. And  
5 not to say that a utility return is guaranteed; you  
6 get the opportunity to earn a return.

7 But Calpine, all those companies that  
8 are -- that are pure generators, very difficult  
9 financial situation. They're near -- several are  
10 near bankruptcy. So that's why I say that when you  
11 take apart a fully integrated utility and you make  
12 the generation subject to the whims of the market, it  
13 becomes more risky.

14 Q. Okay.

15 A. And if you look at the whole thing in  
16 that case, then the whole package you have is riskier  
17 than if you kept it all under the umbrella of a  
18 regulation.

19 Q. You mentioned transmission companies.  
20 What about distribution companies in -- in the  
21 unregulated marketplace? They're still under --  
22 under the guise of regulation --

23 A. Yes.

24 Q. -- in that -- in that restructured  
25 setup, correct?

1           A.       Yes, sir. There are definitely  
2 economies of scale with distribution and transmission  
3 that -- I don't know of any unregulated distribution  
4 companies.

5           Q.       Well, I'm not really -- that's not what  
6 I was asking you.

7           A.       Oh.

8           Q.       Was -- in the setting of a restructured  
9 state, a distribution company, how would it rank  
10 in -- in regard to their risk factors? Would it be  
11 similar to what you were -- when you mentioned  
12 transmission companies, is that the -- basically the  
13 same -- same kind of a situation that a distribution  
14 company would be in?

15          A.       Yes, sir. I meant to say transmission  
16 and distribution companies.

17          Q.       Okay.

18          A.       But they're pretty much lumped together.

19          Q.       All right.

20          A.       And they're --

21          Q.       I just wanted to make sure I was  
22 following.

23          A.       Yes, sir. They're less risky still if  
24 there's -- like Texas, if they were -- they're  
25 relieved of the responsibility of provider of last

1 resort.

2 Q. Because -- because of why?

3 A. Well, if you don't have the  
4 responsibility for procuring the power for your  
5 customers, then that's -- that's a business risk that  
6 you don't have to face.

7 Q. Okay. Now, in these cases we get into  
8 on a regular basis this idea that there should be an  
9 adjustment to some initial calculation under one of  
10 the models because of risk factors going up or down.  
11 I wondered if you might give me your explanation of  
12 how you determine or what's appropriate to consider  
13 in determining how much of an adjustment there should  
14 be. Obviously you made one in this case.

15 A. Yes, sir.

16 Q. But I'd like to hear how you process  
17 doing that, and not just in regard to the adjustment  
18 that you have here.

19 A. Can I get a little more specific from  
20 you --

21 Q. Yes.

22 A. -- about -- what risk factor are you  
23 talking about?

24 Q. I'm not giving you one specifically --

25 A. All right.

1           Q.       -- but I'd be glad for you to give me  
2 one and explain how you -- you would go through that  
3 process, because it comes up here regularly from --  
4 from most of our witnesses that come -- that come  
5 here, and then we get into discussing it later on.  
6 It looks to be more art than science sometimes.

7                    So why don't you -- why don't you give  
8 me a little bit of your perception on how that should  
9 be done.

10          A.       All right. I'll talk just a bit what I  
11 did, and it has to do with financial risk. And I  
12 want to make sure that I distinguish what I did in  
13 this case from what the company witnesses did which I  
14 believe is incorrect. I'm not gonna talk about that,  
15 but just focus on what I did.

16                   Ameren -- let me back up. After --  
17 after doing my market base analysis, I determined  
18 that a reasonable range of cost of equity would be  
19 from 9 to 9.75. Midpoint is 9.375.

20                   Now, if AmerenUE had the very same risk,  
21 financial and business risk, as the group of  
22 companies that I analyzed, then it would be -- the  
23 midpoint, 9.375, would be appropriate.

24          Q.       Uh-huh.

25          A.       So I looked at the -- the business risk

1 is similar, six versus five, that's pretty close.  
2 I'm not gonna try to make an adjustment for that.  
3 The financial risk, however, was different. It's --  
4 we're setting rates for Ameren with a 52 percent  
5 common equity ratio. That has lower risk than the  
6 average for the group of companies that I analyzed,  
7 which was 44 percent common equity ratio.

8 And this is book value common equity.  
9 Let's be clear about that. This is what we use in  
10 regulation, book value.

11 So Ameren has less risk financially than  
12 the companies. Therefore, something -- an ROE below  
13 the midpoint is reasonable. Now, your question is  
14 how do I get the 9.75 -- 9.25. In this case I didn't  
15 do a statistical or an analytical analysis. Those  
16 were available and I've done those in other cases.

17 In this case I made a judgment. It's  
18 simple. It's based on my experience and my judgment,  
19 of moving it down to 9.25. I thought 9.0 is too low  
20 for this company. I selected 9.25. That's purely a  
21 judgment call.

22 But I have experience and there are  
23 methodologies based on economic theory that use the  
24 capital asset pricing model to gauge how much beta  
25 would change if you changed the equity ratio. And

1   there are stochastic ways of doing that. In the past  
2   I've done this sort of analysis when the change has  
3   been larger, and I had to actually quantify it. I  
4   didn't do that in this case.

5           Q.       When you -- what's the biggest extreme  
6   that you've -- that you've done in an adjustment  
7   from -- in a case?

8           A.       My -- my cost of equity range is --  
9   generally is from 50 to 75 basis points. This is --  
10   I think we all know that it's simply not that  
11   accurate analysis. I mean, 9.137 is not a meaningful  
12   number for a cost of equity. 9 percent is fine, 9.25  
13   is fine, 9.5 is fine. 25 basis points is about as  
14   accurate as you could possibly be. So my ranges are  
15   50 basis points, 75 basis points.

16                   And once those ranges are set, I won't  
17   adjust out of that range, even if there's a -- I feel  
18   there's a really substantial adjustment or  
19   likelihood. Say the ratemaking equity ratio for  
20   Ameren were 65 percent and everybody else was at 40  
21   with a huge adjustment. You know, that would  
22   probably be -- be that stochastic analysis I  
23   mentioned earlier. You'd probably come up with a  
24   150-basis-point reduction. I wouldn't make that -- I  
25   wouldn't make that adjustment.

1 Q. Why not?

2 A. Because I don't think that those --  
3 those theoretical adjustments, even though they're  
4 used numbers and they look, you know, look very  
5 accurate, the basis for them is beta, which is not a  
6 very accurate measure to begin with. So I just don't  
7 trust them to be that accurate to that degree. So I  
8 wouldn't go below -- I might put a number at the  
9 bottom of my range.

10 I did that in the -- in the Wisconsin  
11 case, I put a number at the bottom of the range  
12 because I didn't want to go below it.

13 Q. Okay. Now --

14 JUDGE WOODRUFF: Commissioner Gaw,  
15 before we go into the area, we're way past for a  
16 break.

17 COMMISSIONER GAW: Oh, I'm sorry.

18 JUDGE WOODRUFF: Let's go ahead and take  
19 a break. We'll come back at 11:00.

20 (A RECESS WAS TAKEN.)

21 JUDGE WOODRUFF: All right. Let's come  
22 to order, please. All right. We're back from break,  
23 and Commissioner, if you'd like to continue your  
24 questions?

25 COMMISSIONER GAW: Thank you.



1 BY COMMISSIONER GAW:

2 Q. Let's see, we were talking about  
3 adjustments, weren't we?

4 A. Yes, sir.

5 Q. The adjustments -- were there  
6 adjustments made by other witnesses in this case?

7 A. Yes, sir, there were.

8 Q. Because of risk or other things?

9 A. Well, I don't believe it's because of  
10 risk. That's the way it was presented. Both company  
11 witnesses made an adjustment based on the differences  
12 between market value capital structures and book  
13 value capital structures, which is not meaningful.

14 Q. Tell me why you say that.

15 A. Because the differences between market  
16 value and market value capital structures or book  
17 value and book value capital structures are  
18 meaningful. But comparing market capital structure  
19 to a book value capital structure is not meaningful  
20 because financial risk is really -- it's not a  
21 balance sheet issue. It shows up in the balance  
22 sheet, but what generates financial risk is the  
23 income statement.

24 Now, if you have -- say -- and I  
25 explained this in my testimony, but if you have a

1 certain amount of debt that creates an interest  
2 expense, okay, that's a fixed cost, and to the extent  
3 that your revenue stream is variable, any fixed cost  
4 you have is gonna make your bottom line more variable  
5 than your revenue stream, okay?

6                   If you increase those fixed costs, if  
7 you add debt, then the variability of your bottom  
8 line increases. That is -- that's the definition of  
9 financial risk, okay? So we all agree that if you  
10 add debt, your financial risk goes up.

11                   Okay. Now, the problem with the  
12 company's position, one of the problems, is that  
13 there's not a financial risk difference when you  
14 measure the capital structure with -- with book value  
15 or with market value, because the amount of debt is  
16 the same in either case.

17                   Even though Ameren has a 52 percent  
18 common equity ratio on a book value basis and  
19 whatever it was, let's say 65 percent on a market  
20 value basis, the amount of debt in both cases and the  
21 amount of interest expense -- interest expense,  
22 excuse me, in both cases is exactly the same.  
23 There's not a financial risk difference there.

24                   Now, that -- there -- that adjustment  
25 is also wrong because it really tries to base rates

1 on fair value, market value. And the Hope case says  
2 very clearly that that's improper. That's putting  
3 the cart before the horse. You can't start out with  
4 fair value and hope to come up with fair value. So  
5 what they're doing is really trying to, I think,  
6 reverse 50 years of regulatory history beginning with  
7 the Hope case which sort of put the kibosh on fair  
8 value regulation, said no, no, that's -- fair value's  
9 not correct, that's not the correct standard.

10 But this tries to reinstitute that by  
11 looking at market value and trying to base rates on  
12 market value which is effectively fair value, and I  
13 think that's wrong.

14 Q. So your suggestion, then, is the  
15 adjustment in that case is -- you disagree with.  
16 Were there any other adjustments made that you can  
17 recall?

18 A. There were -- I can't remember if  
19 there was a flotation cost adjustment in  
20 Dr. Van Der Weide's discounted cash flow. He  
21 usually does that and I would have to look at his  
22 testimony to be sure he did that. That amounts to  
23 about 30 to 40 basis points in his DCF. So that  
24 was an adjustment that I don't do.

25 But the primary one that causes an

1 additional -- that would cost an additional  
2 \$50 million every year to be levied on Missouri  
3 ratepayers is this market value capital structure  
4 which I think is wrong on many levels.

5 Q. Okay. The other adjustment that you  
6 said that you don't do, why -- why is that?

7 A. I give -- I'll explain it to you but I  
8 just want to point in my testimony --

9 Q. Where it is that you explain it?

10 A. Yeah, where it is so you can find it.

11 Q. If you want to do that for the sake of  
12 moving this along, that's fine.

13 A. Page 54, 55 I give you about six reasons  
14 why that's not the case.

15 Q. Okay.

16 A. Basically, that kind of information is  
17 already included in stock prices.

18 Q. Okay. Now, your -- the difference  
19 between your outcome here and let's -- and say,  
20 Gorman's outcome, can you tell me the reason why you  
21 end up in different places? I know the difference is  
22 much -- much narrower than between the company's  
23 witnesses, but as far as -- as far as the outcomes  
24 are concerned, give me a little bit of an idea.

25 A. I think -- I think the primary

1 difference between myself and Mr. Gorman is his risk  
2 premium results are a little bit higher than mine.

3 Q. Do you know why that is?

4 A. And I couldn't pinpoint that reason for  
5 that right now.

6 Q. Okay. We seem to -- in my -- just my  
7 observation, we seem to be hearing more and more in  
8 these cases as we go along about what the credit --  
9 credit agencies want, what they expect, what -- to  
10 the -- to the point that we -- we get a tremendous --  
11 it seems to me like we get a lot of discussion on --  
12 on their opinions anymore in these -- in this part of  
13 the case. Can you give me your perspective on -- on  
14 the importance of what credit agencies think in  
15 regard to what we ought to be doing with ROEs?

16 A. Well, I think credit rating agency  
17 opinions are important. And in fact, I test my  
18 recommendation of 9.25 and common equity ratio of 52  
19 percent against published guidelines for Standard &  
20 Poor's. Standard & Poor's is the only rating agency  
21 that publishes their -- their benchmarks.

22 And on schedule 12, pages 1 and 2, I  
23 look at pretax interest coverage, funds from  
24 operations, interest coverage, debt ratio and funds  
25 from operations total debt, all of which are

1 benchmarks that Standard & Poor's uses. And for a  
2 company with a business position five rating which is  
3 that of AmerenUE, my recommendation affords the  
4 company a bond rating of between A and triple B,  
5 right where they are now. So I think it's reasonable  
6 on that basis, and I think -- I think that we have to  
7 give them, "them" being the bond rating agencies,  
8 their due. They -- they're important. They have an  
9 impact on investor opinion, there's no question about  
10 that. And I go to the trouble to try to see what my  
11 recommendations will produce in their eyes.

12               That said, I think that there are --  
13 there are questions about -- and you raised this  
14 earlier with Mr. Nickloy, questions about the  
15 independence of their opinion. I don't know of a  
16 regulatory body that oversees their opinion. They  
17 got -- they got embarrassed pretty badly in that  
18 whole Enron debacle when the company went what  
19 appeared to be solvent and the next day was  
20 insolvent. And you know, their -- Enron bond rating  
21 were solid A, and suddenly their book -- we don't  
22 have any money, you know. So that made them look  
23 pretty bad.

24               And they -- all the bond rating agencies  
25 got a whole lot tougher with their requirements to

1     that point, Standard & Poor's, more so than Fitch and  
2     Moody's. Standard & Poor's ratings are generally  
3     lower than Fitch and Moody's.

4                     And there was an incident in Oregon with  
5     Portland General late last year where it was  
6     discovered that not only were bond rating agencies  
7     supplying drafts of their opinions, but the utility  
8     company was allowed to do more than provide factual  
9     information. They were allowed to use adjectives and  
10    other emphasis to say that this is a serious  
11    regulatory problem or a crucial regulatory problem.

12                    So there were -- it was found in  
13    discovery there were red-lined copies of the reports  
14    going back and forth between the company and the bond  
15    rating agency -- rating agency. And I'm not saying  
16    that it happened here. I have no knowledge of that  
17    and I wouldn't expect it would happen here but it has  
18    happened.

19                    Q.     How is it that we're supposed -- what  
20    kind of transparency exists to allow those who are --  
21    those of us who are looking at those -- those ratings  
22    or having evidence put in front of us about those  
23    ratings so that we know what went into making those  
24    ratings other than what's stated as an opinion in  
25    those -- in some of those reports issued by the

1 companies?

2           A.       I think that the one thing that  
3 certainly the Staff can do, and I generally request  
4 in my data request in doing a case like this, that  
5 the company provide their most recent bond rating  
6 agency presentation.

7                   And not just a slide show, but they  
8 generally -- they generally provide a book about the  
9 size of this testimony book which goes over their --  
10 in detail all the qualitative aspects of their  
11 service territory, their generation, the quality, you  
12 know, the heat rate of all the plants, purchased  
13 power, the situation, you know, pension fund  
14 situations, all of those things that have an impact  
15 on the financial capability of the firm.

16                   And they do it in very significant  
17 detail including financial projections and  
18 expectations for -- for the bottom line in a rate  
19 case. They have to -- they have to know those. They  
20 have to roll those into their financial projections  
21 because the bond -- bond rating agencies -- agencies,  
22 excuse me, will tell you that their ratings are  
23 prospective. In other words, they're not based on  
24 what happens this week, they're looking out years in  
25 the future see what happens and they depend on the



1 company's own financial projections for that. They  
2 rely heavily on what the company tells them is gonna  
3 happen.

4 And so it's a -- they know each other,  
5 they deal with each other all the time. It's not  
6 strictly an independent relationship, but -- and yet  
7 those ratings are very important. They change a  
8 rating from A to triple B plus and it has an impact.  
9 There's no question about that.

10 And I think it's important that a  
11 commission -- and I've said this before and under  
12 oath many times -- that a commission strive to avoid  
13 having a utility fall to below investment grade.  
14 That's not a good situation, but it's not avoidable  
15 in all circumstances. You can't put all of the  
16 weight and just make ratepayers pay for it. If the  
17 company does something that's improper, then, you  
18 know, unfortunately they have to pay the price for it.

19 Q. Do you know whether or not there was  
20 enough concern regarding the independence of those  
21 rating agencies that are out there for the -- for  
22 there to be a -- at least some new regulation from  
23 the SEC on those rating agencies last fall?

24 A. I think -- I think there is -- there is  
25 something underway at the SEC about the bond

1 rating -- bond rating agencies. It hasn't taken  
2 effect yet --

3 Q. Okay.

4 A. -- the SEC hasn't gotten around to it,  
5 but I think that's in the works.

6 Q. So there is at least some -- someone  
7 taking a look at whether or not there needs to be  
8 some more oversight of these rating agencies based  
9 upon what's occurred over the last several years?

10 A. Yes, sir.

11 COMMISSIONER GAW: I think that's all I  
12 have. Thank you, Judge.

13 JUDGE WOODRUFF: Does anyone wish to  
14 recross based on those questions from the  
15 Commissioners?

16 (NO RESPONSE.)

17 JUDGE WOODRUFF: Any redirect?

18 MR. THOMPSON: No.

19 JUDGE WOODRUFF: Then Mr. King (sic),  
20 you can step down.

21 THE WITNESS: Thank you.

22 JUDGE WOODRUFF: And that will complete  
23 the testimony for today.

24 MR. MICHEEL: King of the hill.

25 JUDGE WOODRUFF: Before we adjourn, I do

1 want to clear up exactly which issues remaining have  
2 been settled. Now, for tomorrow we've got  
3 Pinckneyville and Kinmundy, Peno Creek and Metro  
4 East, and those are still active, I believe.

5 MR. MILLS: Those are still active, but  
6 it's my understanding that the company has -- and I  
7 haven't talked to them probably for a couple of weeks  
8 on this -- has waived cross on the Metro East  
9 issue --

10 JUDGE WOODRUFF: Okay.

11 MR. MILLS: -- and we are willing to  
12 waive cross on the Metro East issue as well. There's  
13 testimony on it. There's really no point in going  
14 through a lot of cross-examination so --

15 JUDGE WOODRUFF: Okay.

16 MR. MILLS: Although it's still a live  
17 issue, we probably will have no cross, and if we do  
18 have cross, it will be very, very limited.

19 JUDGE WOODRUFF: Okay. So tomorrow will  
20 go quickly as well. On Monday, then, we've got the  
21 SO2 allowances and I assume they're still -- still  
22 active?

23 MR. THOMPSON: That's my understanding  
24 from Mr. Meyer.

25 JUDGE WOODRUFF: Okay. Several of the

1 depreciation issues have been settled but not all of  
2 them; is that right?

3 MR. MILLS: Well, your Honor. That  
4 brings up kind of an interesting point, that the  
5 nonunanimous stipulation and agreement between the  
6 Staff and the company purports to settle issues on  
7 which the Staff didn't file any testimony and --  
8 and -- and we did, so --

9 MR. THOMPSON: That's why we were able  
10 to settle.

11 MR. MILLS: Well, exactly. And then,  
12 while, you know, it's certainly a novel approach --

13 MR. CYNKAR: It's a devilish deed,  
14 actually.

15 MR. MILLS: -- and interesting, but  
16 we're gonna have some problem with that.

17 JUDGE WOODRUFF: So is that -- is that  
18 the stipulation that it has not, in fact, been filed  
19 yet or is that --

20 MR. MILLS: No, that was filed Monday.

21 JUDGE WOODRUFF: Okay.

22 MR. MILLS: And under the Commission's  
23 rules we have seven days to file an objection.

24 JUDGE WOODRUFF: Yes.

25 MR. MILLS: And since we may have

1 actually some time out of the hearing room this  
2 afternoon, I plan to file that today.

3 JUDGE WOODRUFF: Okay.

4 MS. VUYLSTEKE: Judge, we're in the same  
5 position that the Office of Public Counsel is as well  
6 on that issue.

7 JUDGE WOODRUFF: Okay. Class cost of  
8 service was the stipulation that was just filed this  
9 morning and there will be a few remaining issues with  
10 that, right?

11 MR. CONRAD: The -- right. There --  
12 well, I think -- I'd like to think that the revenue  
13 allocation issue has been -- has been addressed here  
14 in some areas, and your Honor can take a look at it  
15 as you --

16 JUDGE WOODRUFF: I glanced at it a few  
17 minutes ago.

18 MR. CONRAD: -- have the opportunity to  
19 do so. As I said before, with respect to the rate  
20 design aspects, that may be a -- that may be a  
21 complete list, may not be. I think we'll just have  
22 to kind of peck our way through those.

23 I did want to ask, though, if your Honor  
24 would -- would note on page 14 carrying -- I guess  
25 there's one person over to page 15, Mr. Swogger has

1    been here and testified, and I'm asking this question  
2    on behalf of Noranda, Mr. Cooper, Mr. Baker and  
3    Mr. McPheeters are scheduled witnesses on the rate  
4    design -- or excuse me, on the class cost of service  
5    from Noranda's perspective.

6                    They're -- the nature of their  
7    testimony, though, is specific to that issue and to  
8    Noranda's impact in the community in the area there  
9    in southeast Missouri.

10                   I would like to ask your Honor, you  
11   don't certainly have to make a response now, but if  
12   you would please inquire with regard obviously to the  
13   stipulation, and if that were to be approved, then  
14   those -- those people would be -- would be waived,  
15   but if it is not, I guess I would like to have some  
16   indication whether members of the Commission or even  
17   other parties if they're able to respond at this  
18   point had questions for Mr. Cooper, Mr. Baker or  
19   Mr. McPheeters.

20                   As I've said, Mr. Swogger has been here  
21   and gone, Mr. Johnstone who is the technical witness  
22   on that, I would expect -- obviously, if people  
23   wanted to waive him, that would be fine, but there  
24   may be questions for him with respect to some other  
25   aspects of the case that are not covered by this

1 stipulation, mainly a fuel adjustment issue structure  
2 that I think --

3 JUDGE WOODRUFF: But if the Noranda  
4 people don't need to come up --

5 MR. CONRAD: Yeah, exactly. And  
6 Mr. Johnstone is expected to be here.

7 JUDGE WOODRUFF: All right. I'll --  
8 I'll inquire on that.

9 MR. CONRAD: Thank you.

10 JUDGE WOODRUFF: That brings up another  
11 related question as well. Back on the overview and  
12 policy issue, Mr. Eishir and Mr. Desmond didn't  
13 testify initially on that, and on my notes here it  
14 moved to the 19th, which, of course, is now past.  
15 Are the parties expected to call them at some point,  
16 and if so, when?

17 MR. MICHEEL: Yes, we are, your Honor,  
18 next week, and Mr. Byrne was firming something up. I  
19 want to say he told me the 29th. We don't have  
20 extensive cross-examination for those individuals,  
21 but they filed some testimony and we have some  
22 questions.

23 JUDGE WOODRUFF: Okay. All right.  
24 Anything else anyone wants to bring up?

25 (NO RESPONSE.)

1 JUDGE WOODRUFF: With that, then, we are  
2 adjourned until 8:30 tomorrow morning.)

3 (EXHIBIT NO. 262NP WAS MARKED FOR  
4 IDENTIFICATION BY THE COURT REPORTER.)

5 (WHEREUPON, the hearing of this case was  
6 recessed until March 23, 2007.)

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I N D E X

ISSUE: RETURN ON EQUITY

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20	Exhibit No. 706		
21	Michael Gorman's Surrebuttal testimony	*	2931
22	Exhibit No. 716		
23	Corrections to Gorman's schedule 13	2928	2931

24 \* Marked in a previous volume or not yet marked.

25 \*\* Not yet received into evidence.