Exhibit No.:	
Issue(s):	Fuel Adjustment Clause
Witness:	Gary M. Rygh
Sponsoring Party:	Union Electric Company
Type of Exhibit:	FAC Rebuttal Testimony
Case No.:	ER-2010-0036
Date Testimony Prepared:	February 26, 2010

MISSOURI PUBLIC SERVICE COMMISSION

Case No. ER-2010-0036

REBUTTAL TESTIMONY REGARDING AMERENUE'S FUEL ADJUSTMENT CLAUSE

OF

GARY M. RYGH

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a AmerenUE

St. Louis, Missouri
February, 2010

FUEL ADJUSTMENT CLAUSE REBUTTAL TESTIMONY

OF

GARY M. RYGH

CASE NO. ER-2010-0036

Q. Please state your name and business address.

A. My name is Gary M. Rygh. My business address is 745 Seventh Avenue - 25th Floor, New York, New York 10019.

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

A. I am employed by Barclays Capital Inc. as a Managing Director.

Q. Please describe Barclays Capital Inc.

A. Barclays Capital Inc. (Barclays Capital) is the investment banking division of Barclays Bank PLC, a leading global financial institution with over $2.3 trillion of total assets. Using a distinctive business model, Barclays Capital provides large companies, institutions and government clients with solutions to their financing and risk management needs. Barclays Bank PLC is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services, with an extensive international presence in Europe, the United States, Africa and Asia. With over 300 years of history and expertise in banking, Barclays Bank PLC operates in over 50 countries with over 145 thousand employees.

Q. Please describe your employment history with Barclays Capital.

A. Prior to joining Barclays Capital, I worked in the power and utility area at Morgan Stanley beginning in 1998, was in the global power and utility group at Lehman Brothers starting in July 2007, and have been with Barclays Capital since September 2008, when Lehman Brothers became a part of Barclays Capital.

Q. Please describe your qualifications as well as your duties and responsibilities as a Managing Director.

A. I am currently a Managing Director in the global power and utility group. Our group is responsible for the corporate finance related analysis and strategic and capital markets transactions in the utility and power sectors. I have been in the utility, power and energy investment banking business for approximately 15 years. I have worked extensively on strategic merger and acquisition assignments, debt and equity capital markets transactions and other corporate finance related assignments in the electric, water and gas utility sectors. I have a Bachelors of Science degree in Commerce, with a concentration in Finance from the University of Virginia.

Q. Are you the same Gary M. Rygh who filed rebuttal testimony in Case No. ER-2008-0318?

A. Yes, I am.

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

A. The purpose of my testimony is primarily to rebut the contentions of Missouri Industrial Energy Consumers witness Maurice Brubaker as well as the Office of the Public Counsel witness Ryan Kind, both of whom contend that the current AmerenUE fuel adjustment clause (FAC) should be significantly modified, even though no problem with the FAC has been demonstrated in the review and monitoring process established by the Missouri Public Service Commission (the Commission), and after a very limited amount of time has passed since the FAC was established. My rebuttal testimony focuses on the importance of the FAC AmerenUE currently has as it pertains to capital and financing related issues, which are increasingly important for AmerenUE and utilities in general given the large capital needs they face now and in the coming years. I also address how the establishment of AmerenUE's FAC has had a significant positive impact on the perceived regulatory environment for AmerenUE and the effect of that perception on AmerenUE's overall financial health and credit quality, and most importantly how it has benefited AmerenUE's access to and the cost of financial capital. These financial market and investor perceptions are important to AmerenUE and its ratepayers because it is those financial markets and investors on whom AmerenUE must rely to provide capital for investments in its rate base. My discussion will focus on the importance of maintaining AmerenUE's FAC as-is, and in particular, I will discuss how modifying the 95% pass-through mechanism would cause significant harm to the ability of AmerenUE to secure the lowest cost capital possible. All of these considerations mitigate strongly against the modifications to AmerenUE's FAC proposed by the above-named witnesses.

Q. Please summarize the key points made in your rebuttal testimony?

A. In order to address these topics thoroughly, I will in my testimony:

- Discuss the significant importance for investors of a highly diligent regulatory process as well as the critical need for AmerenUE to maintain a productive relationship with the Commission.
- Discuss how investor and credit rating agency perceptions of the regulatory process affect access to and the cost of new capital for AmerenUE.
- Discuss how keenly aware investors, underwriters, credit rating agencies and researchers are of the importance of balanced, mainstream ratemaking

policy and their ability to discern key differences amongst competing issuers of capital and their associated regulators.

- Describe why investors, credit rating agencies and other market participants view the current AmerenUE FAC as a highly valuable tool for risk management as well as reasonable and timely cost recovery.
- Discuss how establishment of the current FAC in the ratemaking process has affected credit rating agency analysis of AmerenUE as well as the assessments of investors and their views of the regulatory climate in which AmerenUE is operating.
- Discuss the potential for significant and long-term detrimental repercussions to the cost of capital of AmerenUE if significant changes are made to the FAC where no problems in the FAC's operation have been identified in the established review process and after only approximately one year of AmerenUE operating with its FAC.

Q. Is the purpose of your testimony to inform the Commission that financial investors, credit rating agencies and other Wall Street perceptions of the Commission should be its primary concern and their views should be of greater importance than the Commission's duty to ratepayers?

A. Absolutely not. While it can certainly be demonstrated that the financial community had a positive reaction to the establishment of the AmerenUE FAC, it was not because of a perception that AmerenUE had pulled off an investor friendly regulatory coup. The positive reaction was based on the Commission's willingness to diligently address the volatility and financial risk created by the absence of a FAC with such investigation correctly determining the critical need for the establishment of the FAC for AmerenUE. It was also well understood that the FAC was established after an exhaustive regulatory review, was consistent with those previously established in Missouri and largely consistent with those established in other regulatory jurisdictions and that it appropriately balances the concerns of ratepayers and investors.

Q. Do investors value diligent regulation?

A. Yes, they do. There is a common misconception that investors are looking for lackadaisical and weak regulation; this could not be more incorrect. Investors who put capital to work at regulated utilities not only appreciate strong regulators, they rely on them. Investors count on regulators and their staffs to ensure the safety of their capital by consistently monitoring utilities to ensure reliability, performance and prudent risk management. Investors not only place a great deal of significance on the quality of regulation but also to the ability of a utility to maintain a healthy and productive relationship with its regulators, especially in the current challenging economic environment. A well-run utility produces the stability of cash flow, earnings and financial performance that utility investors prize and need to ensure that the risk inherent in their investment is appropriate for the return they are receiving. Since investors lack the technical expertise and oversight capabilities of regulators, they consider diligent regulation critical.

Q. Then what is the issue with potential modification to the FAC at this time?

A. The issue with any potential modifications to the FAC at this juncture is that it has the ability to leave investors with several very negative impressions, including: i) the Commission is less concerned with the volatility and operational / financial difficulties created for AmerenUE by operating without a FAC, ii) the Commission has little concern for regulatory stability in Missouri, iii) the Commission does not believe AmerenUE deserves the opportunity to earn a fair return on capital, and most concerning, iv) given the severity of the consequences of altering the FAC in this proceeding just approximately a year after the current FAC was established, the Commission must believe that AmerenUE is not prudently managing its fuel and purchased power costs and off-system sales.

What will be of particular concern to the financial community is the surprising evaluation of the AmerenUE FAC outside of the well established prudency and true-up review process already in place. If AmerenUE were to be found in the normal FAC review process to be violating the terms or even the spirit of the FAC, investors want to know and would punish AmerenUE accordingly by either refusing to provide capital or charging higher costs for capital. As stated above, investors and rating agencies expect the Commission to thoroughly review every aspect of the FAC and report on any issues found on a regular basis. However, if the Commission decides to make significant modifications to the FAC, investors want to be assured that a proper investigation was conducted. Unfortunately, an ad hoc review like this, which has arisen without any of the many parties to this rate case raising any substantive concerns whatsoever about the FAC or about AmerenUE's management of its net fuel costs, and which has arisen after such limited track record, would not be considered by investors to be a properly conducted review of the FAC.

Q. Please elaborate on why consistent and thorough reviews are important.

A. The Commission may question why investors would favor consistent and thorough reviews of the FAC. It simply is a matter of risk and reward. There is little to gain from an investor's perspective by not managing the net fuel costs of AmerenUE in the most effective way possible but considerable risk if these critical obligations are mishandled. The debate over the 95% pass-through provision is not only about dollars at risk but more importantly the operational skills, integrity and core values of AmerenUE. If it is ever the Commission's view that AmerenUE lacks the capability to procure fuel in a cost effective manner or is the type of organization that would risk long-term regulatory stability for minimal short-term financial gain, investors want to be informed because that is not consistent with their views of the AmerenUE they have capitalized.

Given the influence the Commission has on the financial health of AmerenUE, it would seem absurd to assume the presence of a FAC would change the focus of AmerenUE on prudently managing its net fuel costs. In the testimony submitted on this issue, there have been references to having "skin in the game." From a much broader and longer term perspective, there is no more "skin in the game" for AmerenUE if the 95% pass-through threshold is reduced. The stability of AmerenUE's relationship with the Commission is at risk in the event AmerenUE fails to manage its net fuel costs properly with the FAC even if the pass-through mechanism were raised to 100%, like most FACs throughout the country. If there were in fact evidence (e.g., when the first prudence review for the FAC is conducted) that AmerenUE needs more financial incentive to abide by its regulatory mandates or that AmerenUE is not capable of correctly managing its largest operating expense, the entire financial community might understand a change in the FAC in view of such evidence. But if changes are made in the absence of such evidence (and particularly based upon the ad hoc process now under way), it would suggest to investors that the Commission is assuming that AmerenUE would risk the foundation of the regulatory relationship that it has with the Commission by not prudently managing net fuel costs. That would infer a much larger regulatory problem than the percentage pass-through issue, and such a signal would create considerable concern for investors.

Q. Please describe investor, rating agency and other reaction to the Commission granting AmerenUE's request for a FAC.

A. The reaction to the establishment of the FAC was very positive. Beyond the financial stability that is inherent with operating with a properly designed FAC, many in the financial community perceived the FAC approval as a significant event for AmerenUE as it pertains to the quality of regulation in Missouri and AmerenUE's future prospects in the regulatory process. Due to the fact that the large majority of regulated electric utilities in the country benefit from an established FAC, the absence of a FAC for AmerenUE was perceived as a sign that the Commission was not using an important tool to ensure the long-term credit quality and cash flow stability of AmerenUE. The approval by the Commission of a properly designed FAC was the result of a very detailed regulatory investigation (I recall more than a dozen witnesses on this topic, hundreds of pages of pre-filed testimony, and three days of hearings) and the positive outcome was a strong indication to the financial community that the regulatory process in Missouri was rigorous, deliberate and balanced its duties to ratepayers with investor concerns. Recounted below is a sample of the positive reaction by institutions that drive the overall cost of capital for AmerenUE.

- *"[t]he Commission approved a fuel adjustment clause for the utility, which Moody's also views as credit supportive and a positive indication that the regulatory environment for investor-owned utilities may be improving in the state. AmerenUE had long been one of the few utilities without the benefit of a fuel adjustment clause due to Missouri law, although legislation was passed in 2005 permitting the state's utilities to apply for fuel, purchased power, and environmental cost recovery via cost recovery mechanisms. As part of the most* *recent rate case decision, AmerenUE will be able to pass through 95% of fuel and purchased power costs which should provide some additional stability of cash flows going forward and work to reduce regulatory lag . . . The rating outlook is stable due to financial metrics that are expected to remain adequate for its current Baa2 rating assuming continued supportive regulation, a recently constructive rate case decision, and Moody's expectation that the regulatory environment for electric utilities in Missouri will continue to improve." –* Moody's 8/17/2009

- *"Standard & Poor's raised the business profile of AmerenUE to 'excellent' from 'strong' reflecting the recent constructive regulatory order in Missouri that approved an annual electric rate increase of $162 million and also approved a fuel adjustment clause that will allow for the recovery of 95% of the company's fuel and purchase power expenses (after netting for off system sales revenue) . . . we view the overall regulatory environment in Missouri as a credit enhancing situation compared to several years ago."* –Standard & Poor's 2/27/2009
- In discussing the January 2009 AmerenUE rate case order: *"[w]e believe the fuel clause helps to manage volatility for . . . [and] leads to a lower cost of capital. –* Barclays Capital 1/28/09
- *"Ameren . . . received [a]. . . positive rate order in Missouri . . . and, more importantly, a fuel clause at . . . Union Electric Company*"– Goldman Sachs 1/28/2009

Q. Does investor perception of the regulatory process have an effect on the ability of AmerenUE to raise capital? What is the value of a FAC to financial market participants?

A. To address these issues, I have attached as Schedule GMR-FR1 portions of my previously filed testimony in case No. ER-2008-0318, specifically Sections III and IV.

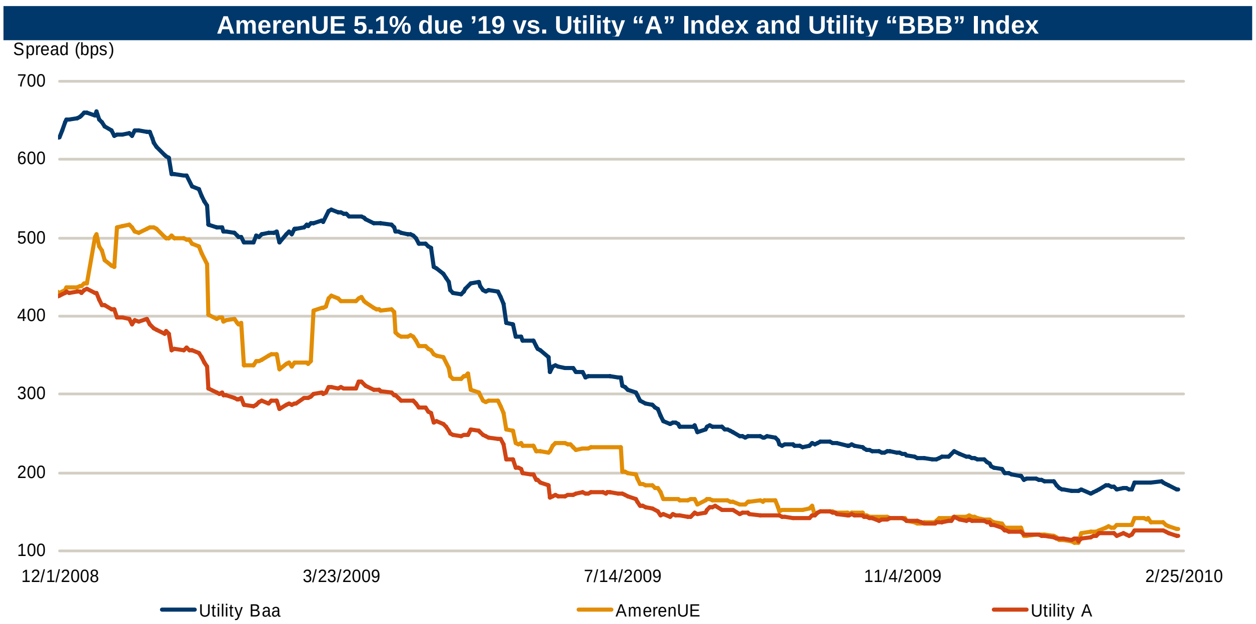
Q. Can it be demonstrated that investors have responded favorably to the January 2009 order which granted AmerenUE a FAC?

A. There is significant evidence that the January 2009 rate case decision has had a materially positive impact on the cost of capital for AmerenUE. The trading levels of AmerenUE debt have significantly outperformed peers since the January Commission order. These secondary trading levels are the basis of the cost investors charge to AmerenUE for new debt capital.

Relevant Security	**Spread**
AmerenUE spread to the 10-year treasury bond on January 26, 2009:	529 basis points
AmerenUE spread to the 10-year treasury bond today:	163 basis points
Reduction in borrowing cost for AmerenUE since January 26, 2009:	366 basis points
Average reduction of borrowing cost from January 26, 2009 to today of similarly rated utility first mortgage bonds:	222 basis points

This data demonstrates the decrease in the cost of capital charged by fixed income investors since the Commission granted the AmerenUE request for a FAC. Since January 26, 2009 (the day before the Commission's order was issued), AmerenUE has experienced a reduction in its 10-year borrowing cost of 366 basis points which is approximately 144 basis points better than comparable issuers. While an improving credit market has reduced the borrowing cost for most utilities, this considerable outperformance is mainly attributable to the perceived reduction of regulatory risk by investors.

AmerenUE bonds had been trading at significantly higher spreads than the A-rated utility index prior to January 27, 2009, but have since begun to trade in line with the A-rated utility index, providing further evidence of the benefits derived from investors' perception that the regulatory environment in Missouri is improving.



The numbers listed are basis points above the relevant U.S. Treasury security. This is the manner in which bonds are quoted by market makers in the secondary corporate bond market. A higher spread indicates a higher risk premium associated with a security and consequently a higher yield or interest rate.

Q. Please describe the potential adverse effects of altering the 95% pass-through mechanism of the FAC, as suggested by Messrs. Brubaker and Kind.

A. The reduction of the established pass-through mechanism in this proceeding would have material negative consequences to investor perception of AmerenUE, the Commission and the quality of the regulatory process in Missouri. Not only would a reduction in the pass-through mechanism represent a major adverse modification to the FAC and make it even more challenging for AmerenUE to earn the return on equity granted by the Commission, it will be a far worse “signaling“ event to the investors whose capital is needed to ensure the continued safe and reliable operations of AmerenUE.

As previously stated, equity and fixed income investors that evaluate allocating capital to AmerenUE are not at odds with the overall goals of the Commission. The financial and operational characteristics that create a safe, reliable and low cost electric power provider the Commission seeks are largely the same as those that produce cash flow stability, prudent risk management and strong regulatory relationships that investors are attracted to.

The reduction of the 95% pass-through mechanism will create major investor concerns, chief among those being:

- The same volatile commodity markets, weak economic outlook and need to attract capital exist today as when the Commission granted the FAC in January 2009. The FAC is in fact more critical to the financial health and credit quality of AmerenUE today then when it was granted. Changes to the FAC would cause investors to be concerned the Commission has reversed course in its belief that a FAC was necessary and would therefore expect the quality of the FAC to continue to erode over time or for the FAC to be removed entirely at some point.
- The need for a properly designed FAC to allow AmerenUE to earn fair returns was crucial to the original FAC approval and design, which was the result of a

very intensive regulatory review. If the Commission were willing to significantly degrade the existing FAC and pass-through mechanism with very little operational track record, under circumstances where there was the lack of any substantive concern expressed by the parties in this case (absent the Commission's recent order and despite many months of audit time and opportunity to express concerns), and in an ad hoc review that appears to be outside the normal review and prudency process, investors would view such a change as capricious and designed to inflict significant harm on AmerenUE.

- The arguments being offered that support a reduction in the 95% pass-through mechanism are little more than recycled testimony, unfounded accusations as to the lack of AmerenUE performing its fiscal duties to ratepayers and irrelevant comparisons to the performance of other utilities who have had FACs granted by the Commission. In addition to a lack of a legitimate reason to reduce the pass-through mechanism after so little experience with the FAC for AmerenUE, the recent finding by the Staff of the Commission (Staff) that AmerenUE has made considerable effort to successfully implement the FAC and its willingness to make changes to the FAC that benefit both AmerenUE and ratepayers would, in investors' minds, call into question the motives of the Commission.
- More than 90% of integrated electric utilities across the country operate with a FAC and the vast majority of those have no sharing mechanism at all. A finding by the Commission that AmerenUE needs greater incentive to prudently manage its largest operating expense leads investors to believe AmerenUE would risk its long-term regulatory stability for the sake of short-term and relatively

insignificant monetary gain, that AmerenUE is held in very little regard by the Commission or worse AmerenUE lacks the competency to implement a tool that the vast majority of other integrated electric utilities have successfully utilized for years.

Q. What would be the likely result of a reduction of the 95% pass through mechanism from a cost of capital perspective?

A. The result would be that ratepayers would be burdened with excessive costs each time AmerenUE must access the capital markets. The reason for this will be that the ability of investors to rely on the two most important tenets of utility regulation, <u>fairness</u> and <u>consistency,</u> in Missouri will be irreparably harmed.

Issues Concerning Fairness	Issues Concerning Consistency
- No filed testimony in this matter even begins to approach the level of proof an investor would expect necessary to make a drastic change to the FAC such as a reduction in the pass through percentage. - The Commission has established a rigorous process to ensure AmerenUE continues to perform its duties to ratepayers and implements the FAC in a manner that is consistent with the rationale for its creation. There has been no showing in that review process that AmerenUE has operated imprudently under the FAC. - In the absence of any evidence, arguments that AmerenUE needs greater incentive to act in a prudent manner with regards to net fuel costs are unfounded and lack any merit or substance. - Without the 95% pass through mechanism, AmerenUE will find it significantly more challenging to earn its allowed returns on capital invested. - If AmerenUE's risk is substantially higher	- Just over a year ago the Commission found that a FAC and the 95% pass through mechanism was necessary for AmerenUE to have the opportunity to earn fair returns and compete for capital, and that investor sentiment is important to procuring low cost capital. All of those findings are just as accurate today, and in fact the current environment makes the FAC even more critical to the financial health of AmerenUE than it was previously. - AmerenUE has complied with the directives of the Commission, cooperated with its Staff and demonstrated its desire to implement the FAC correctly. A major reduction in the effectiveness of the FAC without any reasonable cause calls into question the criteria by which AmerenUE is judged and investors' ability to foresee the future of Missouri utility regulation. - If the criteria used by the Commission to establish that AmerenUE is "imprudent" or lacks the proper incentives to procure the lowest net fuel costs for customers can be based merely on the conclusory arguments

due to the lack of consistent regulation, then investors are not being properly compensated.	submitted by Mr. Kind and Mr. Brubaker, then there has been a significant change in the Commission's views on the importance of AmerenUE's credit quality, or worse yet possible questions have arisen regarding the competency of AmerenUE.

My previous testimony regarding the FAC last year focused on the perception of the Commission by credit rating agencies, investors, financial institutions and researchers and on what criteria was used to evaluate the caliber of regulation from an investor perspective. The key focus of my testimony was the aspects of Missouri regulation that were thought to be lacking by investors, which primarily was the absence of a FAC. What I failed to elaborate on was that fairness and consistency were the foundation of investors' evaluation of regulators and that any criteria used to judge the level of risk and associated capital cost assumed that these core principles existed. From an investor perspective, any investment in a utility that lacked the benefit of regulatory fairness and consistency is essentially not much of a lower risk regulated investment.

In summary, the Commission's prior order regarding AmerenUE's FAC, coupled with its approval of quite similar FACs for the other Missouri electric utilities that are eligible to utilize one, suggested that the Commission was building on its track record of consistent, thoughtful and high quality examination of key issues that affect AmerenUE and the ratepayers it serves. The establishment of the FAC was critical to investors, and the Commission's position in granting it was highly visible. A reduction in the 95% pass-through mechanism via this ad hoc process, without the lack of significant justifiable cause, would create negative perceptions of the regulatory climate in Missouri and financial stability of AmerenUE that would cause significant harm to the ratepayers over the long-term. Investors expect and rely on the Commission to hold AmerenUE accountable when it does not perform or does not act prudently. However, from an investor perspective, it is my opinion that making a significant adjustment to the sharing mechanism in the FAC in the absence of any performance issues would be viewed as lacking in sufficient cause and doing so would create a much less favorable environment in which to consider deploying capital to AmerenUE.

With such challenging times ahead for AmerenUE, it would be better for its resources to be concentrated on fulfilling its obligation to ratepayers, not recovering from the significant issues that would arise if the Commission modified its FAC in this proceeding.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a AmerenUE's Tariffs to Increase its Annual Revenues for Electric Service.	) Case No. ER-2010-0036) Tracking No. YE-2010-0054) Tracking No. YE-2010-0055

AFFIDAVIT OF GARY M. RYGH

STATE OF NEW YORK)
) ss
COUNTY OF NEW YORK)

Gary M. Rygh, being first duly sworn on his oath, states:

1. My name is Gary M. Rygh. I am employed by Barclays Capital Inc. as Senior Vice President.

Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony regarding AmerenUE's Fuel Adjustment Clause on behalf of Union Electric Company, d/b/a AmerenUE, consisting of 16 pages and Schedules GMR-FR1, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.

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

Gary M. Rygh

Subscribed and sworn to before me this 26 day of February, 2010.

Notary Public

My commission expires: December 17, 2013

MEREDITH LEMMON
NOTARY PUBLIC-STATE OF NEW YORK
No. 01LE6131263
Qualified in New York County
My Commission Expires December 17, 2013

Exhibit No.:	
Issue(s):	Capital Access and Costs and Fuel Adjustment Clauses
Witness:	Gary M. Rygh
Sponsoring Party:	Union Electric Company
Type of Exhibit:	Rebuttal Testimony
Case No.:	ER-2008-0318
Date Testimony Prepared:	October 10, 2008

MISSOURI PUBLIC SERVICE COMMISSION

Case No. ER-2008-0318

REBUTTAL TESTIMONY

OF

GARY M. RYGH

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a AmerenUE

St. Louis, Missouri
October, 2008

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REBUTTAL TESTIMONY

OF

GARY M. RYGH

CASE NO. ER-2008-0318

I. INTRODUCTION AND SUMMARY

Q. Please state your name and business address.

A. My name is Gary M. Rygh. My business address is 745 Seventh Avenue - 25th Floor, New York, New York 10019-6801.

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

A. I am employed by Barclays Capital Inc. as a Senior Vice President.

Q. Please describe Barclays Capital Inc.

A. Barclays Capital Inc. ("Barclays Capital") is the investment banking division of Barclays Bank PLC, a leading global financial institution with over $2.5 trillion of total assets. Using a distinctive business model, Barclays Capital provides large companies, institutions and government clients with solutions to their financing and risk management needs. Barclays Bank PLC is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services, with an extensive international presence in Europe, the United States, Africa and Asia. With over 300 years of history and expertise in banking, Barclays Bank PLC operates in over 50 countries with over 150 thousand employees.

Q. Please describe your employment history with Barclays Capital.

A. I have been employed by Barclays Capital since July of 2007. I have worked in my current position since July 2007, when I joined the Global Power and Utility Group at Lehman Brothers; our group became part of Barclays Capital on September 22, 2008. Prior to joining Barclays Capital I served in a similar role at Morgan Stanley beginning in 1998.

Q. Please describe your qualifications as well as your duties and responsibilities as a Senior Vice President.

A. I am a Senior Vice President in the Global Power and Utility Group. Our group is responsible for the corporate finance related analysis and strategic and capital markets transactions in the utility and power sectors. I have been in the utility, power and energy investment banking business for over 13 years. I have worked extensively on strategic merger and acquisition assignments, debt and equity capital markets transactions and other corporate finance related assignments in the electric, water and gas utility sectors. I have a Bachelors of Science degree in Commerce, with a concentration in Finance from the University of Virginia.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to rebut the contentions of Staff witness Lena Mantle, Noranda Aluminum, Inc. (Noranda) witness Donald Johnstone, and State of Missouri (State) witness Martin Cohen, each of whom contend that AmerenUE does not need a fuel adjustment clause (FAC). My rebuttal testimony focuses on the importance of an FAC for AmerenUE as it pertains to capital and financing related issues, which are increasingly important for AmerenUE and utilities in general given the large capital needs they face now and in the coming years. I also address how the treatment of AmerenUE's FAC request relates to the overall impact of the perceived regulatory environment for AmerenUE and the effect of that perception on AmerenUE's overall financial health, potential changes in credit quality, and access to and the cost of financial capital. These financial market and investor perceptions are important to AmerenUE and its ratepayers because it is those financial markets and investors on whom AmerenUE relies upon for investments in its rate base. All of these considerations mitigate strongly against the opposition expressed by the above-named witnesses to AmerenUE's request for an FAC. In fact, I believe these witnesses' opposition to an FAC for AmerenUE suggests that these witnesses do not fully appreciate the significance of these considerations.

Q. What items do you address in your rebuttal testimony?

A. In order to address these topics thoroughly, I will in my testimony:

- Briefly describe the current state of and outlook for the financial markets as it pertains to AmerenUE's ability to access capital on a cost competitive and reliable basis over the next several years for rate base investments.

- Discuss how investor and credit rating agency perceptions of the regulatory process can affect access to and the cost of new capital for AmerenUE. I will provide an overview of how keenly aware investors, underwriters, credit rating agencies and researchers are of the importance of balanced, mainstream rate making policy and their ability to discern key differences amongst competing issuers of capital and their associated regulators.
- Describe why investors, credit rating agencies and other market participants would view the proposed FAC as a highly valuable tool for risk management as well as reasonable and timely cost recovery.
- Discuss how inclusion of a reasonable FAC in the rate making process may affect credit rating agency analysis of AmerenUE as well as the assessments of investors that shape their views of the regulatory climate in which AmerenUE is operating.

Q. Please summarize your key conclusions and observations.

- AmerenUE and its regulators must recognize that challenges lie ahead in procuring reasonably priced capital from investors (both equity and debt), particularly given the state of the capital markets today and for the foreseeable future.
- Utilities, including AmerenUE, have extremely large capital needs and will be competing for the capital they need in difficult

capital markets. Utilities that are perceived by investors to be operating in a supportive regulatory environment, including in particular utilities with an FAC, will have a distinct advantage over utilities that are perceived to be operating in a more challenging regulatory environment.

- The Commission can, in this rate case, support AmerenUE's ability to access the capital markets on reasonable terms by approving AmerenUE's FAC request, granting AmerenUE a fair and reasonable ROE, and otherwise providing reasonable rate treatment for AmerenUE's cost of providing service, with particular attention to the challenges being faced by AmerenUE and utilities generally in the current rising cost environment.
- The lack of an FAC for AmerenUE has already contributed to an erosion of AmerenUE's credit quality. Failure to approve an FAC in this case would likely cause investors to be even more negatively predisposed to deploy capital at AmerenUE because they have trouble comprehending why a reasonable FAC for AmerenUE could not be implemented.

II. CAPITAL MARKET AND FINANCING ISSUES

Q. What is the current and foreseeable future environment for the capital markets in the United States that AmerenUE must have access to?

A. Both the credit and equity markets have been extremely volatile over the last eighteen months with sharply increasing risk premiums. The cost of capital has risen dramatically in many sectors and access to capital and credit has been severely limited. Investment grade utilities, while having fared comparatively well, have not been immune from broader financial market issues and turmoil. The robust credit markets that had prevailed until the summer of 2007 will likely not be experienced for some time (if ever again). AmerenUE and its regulators must recognize that challenges lie ahead in procuring reasonably priced capital from investors (both equity and debt). With the current turbulence in the financial markets not likely to subside in the near future, AmerenUE, its regulators and other concerned parties should be proactively addressing key investor and credit rating agency concerns such as regulatory lag, needed rate relief, the rising cost of procuring fuel and volatile and increasing costs to ensure access to the lowest cost capital available.

While recent government action has stemmed a complete collapse, a quick economic turnaround is unlikely. With so many momentous things happening in the U.S. financial system in such a short period, market participants could be forgiven for being dumbstruck. In the space of just a few weeks, here are just some of the things that have happened:

- The government bailed out Fannie Mae and Freddie Mac, committing up to $200 billion.
- The Treasury announced that it would buy government sponsored entities' mortgage backed securities, and the Federal Reserve announced that it would begin purchasing short-term debt of Fannie Mae, Freddie Mac and the federal home loan banks.
- The Federal Reserve announced emergency support for financial markets, including expanding collateral eligible for its Primary Dealer Credit Facility and providing non-recourse loans to banks to finance their purchase of asset-backed commercial paper from money markets mutual funds.
- Lehman Brothers Holdings filed for Chapter 11 bankruptcy, Bank of America announced that it would purchase Merrill Lynch, and Goldman Sachs and Morgan Stanley received approval from the Federal Reserve to become bank holding companies.
- The Federal Reserve threw an $85 billion lifeline to the American International Group.
- The Federal Reserve and the Treasury announced a treasury bill issuance program to provide cash to the Federal Reserve to use to purchase assets from the banking system and expand its balance sheet, something it then did aggressively.

- The Securities and Exchange Commission halted short selling of 799 financial stocks.
- The Treasury announced a guarantee program for money market funds to prevent net asset values from falling below $1 and has also announced it will begin to buy commercial paper directly from issuers.
- The Congress adopted and the President signed into law legislation that will allow the Treasury to buy from banks up to $700 billion of illiquid assets, which were "weighing down our financial institutions and threatening our economy." In response, the Dow Jones Industrial Average has since lost nearly an additional 20% of its value as investors failed to gain confidence that the legislation would prevent further economic and financial deterioration.

In short, the financial system has been rocked, the investment banking map has been redrawn, and the government and the Federal Reserve have foreshadowed a dramatic expansion of their purchases of problem assets and direct investments to stem the crisis.

Q. What appears to be the near term prospects for the U.S. capital markets and investor appetite?

A. I would make three observations. First, at the risk of stating the obvious, there is an inordinate amount of downside risk in the outlook at the moment, which greatly complicates both forecasting and investing. Most notably, it is not clear whether the financial turmoil has reached its crescendo or whether there are further major downside surprises in store.

Second, whichever of the above is the case, given the scale of the financial system dysfunction that has been revealed and the shocks that have been delivered to business and household confidence, it seems fairly clear that it will take considerable time for capital markets to return to normalcy. A sustained period of anemic or even negative growth and suppressed spirits can be expected.

Third, downside tail risks appear to have been somewhat contained. If there was any doubt about the willingness of the Federal Reserve and the Treasury to do whatever it takes to counter threats to financial stability, the cumulative actions of the past several weeks should provide some relative comfort.

As the authorities prepare to implement the myriad of announced initiatives, the question for investors is not so much “will the government act?,” as it is “will the actions work?” I like the idea of policymakers taking action to “unclog” the financial system to improve the potential supply of credit, but I believe that the shocks to confidence have resulted in some of the problem being transferred to the demand side of the economy. If so, more rate cuts will be needed and the ability for AmerenUE to access credit will continue to be challenged.

Q. What is the environment like for utilities to access the short-term and longer term credit they need?

A. Utility issuers have experienced more limited market access to address their working capital and short-term funding needs due to a number of issues impacting the market for short-term credit, including:

- Flight-to-Quality – during the credit crisis investors have become more sensitive to lower-rated entities and have reduced their participation in non-A1/P1 names, the highest rated commercial paper.
- T-Bill Rally – 3-month Treasury Bills have gained significantly as investors look to the highest credit quality short-term investments, while A2/P2 commercial paper rates have increased considerably.
- The A2/P2 (lower credit quality than A1/P1) market has mostly closed, although it may be available on case-by-case basis. Risk aversion remains a key theme in the credit markets.
- Companies are more willing to draw on revolving bank lines of credit in order to avoid having to issue new commercial paper, given the current cost for A2/P2.
- In evaluating funding sources, companies are still generally focused on funding cost (commercial paper, bank credit lines) when evaluating alternatives but are beginning to worry about access to commercial paper and are looking for alternative

For longer term credit, utility issuers still have approximately $10 billion left to finance in 2008, while we expect significant new issue supply in 2009 which will put additional pressure on the cost going forward.

- The secondary trading market has been under intense pressure as well, with spreads widening significantly since August.
- The hybrid market has been even more adversely affected by the market volatility as secondary levels have been quoted at their widest spreads in recent weeks amidst limited trading volume.
- Utility new issues that have accessed the market recently have priced at higher spreads to treasuries than similar transactions priced in August. BBB rated utilities have had limited access recently and are much more challenged to issue new capital given the significant increase in cost and limited market appetite.

Q. What are some of the major trends that you expect to affect the utility industry in 2008 and beyond that will shape the environment in which AmerenUE operates?

A. The significant increase in capital expenditures in the utility sector planned over the next several years as well as the rising cost environment will create an extended era of increasing need for utilities to access external capital. Investors and credit rating agencies are highly focused on the strains created by meaningful rate increases and its effects on the utilities' ability to recover on a timely basis the capital deployed on behalf of ratepayers. The significant amount of external funding necessary will strain investor appetite for the utility sector for both debt and equity for an extended period of time.

2007 marked the first year since 1983 that the regulated utility sector has posted a pre-dividend free cash flow deficit. Our capital spending and cash flow forecasts indicate this will prevail for years to come. Based on lessons from the last major investment period (1973–1984), we believe that risks will rise for investors due to the need for external debt and equity funding, meaningful rate increases which could cause regulatory strain, and the potential for construction-related mishaps.

The regulated utility sector is entering a major capital expenditure (CapEx) cycle, driven by required transmission, infrastructure, and generation upgrades and new build needed to meet growing electricity demand requirements. In addition, the promise of more stringent environmental regulation is driving environmental CapEx spend to upgrade generation portfolios.

- We forecast $309 billion of regulated utility CapEx through 2012. This is, on average, 16%–18% greater than we forecast last year, and 55%–65% higher than we anticipated in 2006. Inflation has been a major factor.

- We expect regulated utilities will need $119 billion of external financing, split between $93 billion of debt, and $26 billion of equity, to fund their capital plans. The market to access this capital will be highly competitive, with the key differentiator amongst utilities being the perceived quality of their regulation.
- Electricity prices, as a percentage of consumer spending, could rise 7.5% per year, and approach all-time highs by 2013.
- In our opinion, successful implementation of capital plans will likely be influenced by balance sheet strength, quality of regulatory jurisdiction, timing of rate case activity, and access to low cost capital.

Both equity and fixed income investors' ever increasing aversion to risk, coupled with the anticipated amount of supply of utility related financing, will create a highly competitive market for capital. AmerenUE will be attempting to access the same investor dollars that other utilities will be competing for. The associated cost of this capital in a competitive market will be highly correlated to the perception of risk at AmerenUE, which is predominantly regulatory related.

Q. What are some of the major issues associated with the significant increases in capital expenditures? Why does this CapEx cycle have significant risks associated with access to financial capital?

A. Materials costs are up dramatically over the last five years which creates a difficult environment to forecast capital expenditures and the associated rate relief needed. Various raw commodity inputs and skilled labor are necessary to construct the various types of plant in the backlog. These commodities include steel, cement, copper, aluminum, and inputs that impact steel production such as nickel, tungsten, and iron ore. There have been various reasons for the increase in these commodity prices but they have largely been driven by international demand, as infrastructure development continues at a rapid pace in the emerging economies. Furthermore, the decline in the U.S. dollar since peaking in 2001 and 2002 has also contributed to rising costs for U.S. utilities as a significant portion of their equipment and commodity needs are sourced internationally. Moreover, costs of labor in general continue to increase, especially for skilled construction labor. Unfortunately, it may take quite some time for the U.S. to retool its craft and heavy construction labor force due to the shift to a largely service based economy since the early 1980s and the resulting lack of trade schools and apprentice programs. Most likely, this spells more inflation in labor costs to come.

Another key issue is that credit quality has deteriorated significantly since the last CapEx cycle. One key difference between the CapEx cycle today and the cycle of the late 1970s and early 1980s is that in the earlier cycle the utilities held an average credit rating of strong single A. The current average rating is BBB. The utilities did not exit the last CapEx cycle as strong as they entered it and given that the average rating is now much lower, we are concerned about where they will shake out this time. The debt portion of the $119 billion of external funding we forecast over the next five years is roughly $93 billion. In light of this burden, we examined the relative ratings of electric balance sheets over time. In 1970, just prior to the last CapEx cycle, 97% of utilities had a credit rating of single A or better, by 1980 only 76.7% did. Going into this cycle, only 30.6% are A or better.

Investors are highly focused on the utilities' need for significant external funds to finance the pending CapEx cycle. It looks like fixed income investors are going to be providing the up-front financing for the CapEx program, considering the regulatory lag on recovery and the fact that most companies are hesitant to issue equity at this stage. Hybrids and other more esoteric structures are replacing pure equity as a means to receive equity credit in a company's capital structure when these products are available and cost competitive. Our equity team anticipates that beginning in 2009, we will see an average of five to 10 formal equity offerings per year versus just two to three for the past 10 years, further increasing the competition for limited investment dollars.

With the significant rise estimated in capital expenditures over the next several years, almost every company in the utility sector is in need of external financing. With the considerable spread concession of new issues in the past several months, the market will likely continue to have a difficult time absorbing the new issue supply that is expected in the near future.

III. THE IMPORTANCE OF INVESTOR PERCEPTIONS

Q. Does investor perception of the regulatory process have an effect on the ability of AmerenUE to raise capital?

A. Investors are very cognizant that AmerenUE is operating in a highly challenging environment:

- Significant need for new capital to service customer needs ($1 billion in 2008, $750 million to nearly $1 billion per annum thereafter of CapEx);
- Rising cost environment;
- Highly volatile commodity markets;
- Need for continued rate relief to ensure the timely recovery of capital spent; and
- A difficult economic environment for ratepayers.

Most of these key challenges manifest themselves in the ratemaking process as AmerenUE requires regulatory approval to recover invested capital. Given the high degree that the form of regulation plays in the perception of risk, investors, credit rating agencies, equity and fixed income analysts as well as others have become highly educated on the ratemaking process and the differences of one regulatory body versus another. It is universally recognized that the challenges noted above and the need for continued rate increases to customers create difficulties in balancing the needs of customers with utilities and those who provide them with needed capital. A high degree of analytical thinking is being done to help investors and credit rating agencies differentiate amongst regulatory bodies to better assess what impact risk and the perception of risk has on the cost that should be charged for capital.

In a difficult economic environment with a high degree of competition for investors' dollars, AmerenUE may find itself disadvantaged as compared to its peers that enjoy regulation that is thought to expose them to less risk and volatility in recovering their expenditures and costs and earning their allowed returns.

Q. What are the key focus areas of investors as it pertains to regulation?

A. Because the majority of the forecasted capital expenditure budget will be spent by the regulated utilities like AmerenUE, having a clear understanding of the regulatory and political environment in which a utility operates will be critical to making profitable investment decisions for investors.

Regulation is a key aspect that our team focuses on here at Barclays Capital. Frequently, we publish material which provides an overview of important regulatory trends, the regulatory climate and a ranking of each of the state regulatory commissions. We attempt to evaluate some of the key factors that we consider part of a constructive regulatory environment so that when we are looking at a particular company we consider the likelihood that they will receive fair and adequate treatment of their investment. This becomes increasingly important in a CapEx cycle.

The political pressure that regulators and politicians experience from their constituencies when power prices are rising is very difficult in the face of major rate increase decisions. Electricity prices are expected to continue to rise as the price of CapEx inputs continues to rise (cooper, steel, turbines, employee costs, etc.).

Q. What are some of the major factors that you look for when you review a regulatory environment?

A. A state's political and regulatory environment and its state laws and regulatory policies can affect the credit quality and cash flow stability of the utility company operating in its jurisdiction. We use several key factors to assess whether a regulatory environment is supportive of credit quality. Chief amongst these factors include:

- Legislative policy that ensures the stability of cash flow, earnings and coverage ratios. We must be convinced that state commissions are cognizant of how their decisions affect a company's credit quality. Constructive regulators consistently aim to adopt legislative policy that results in the stability of cash flow, earnings, and coverage ratios. We analyze rate case outcomes in order to ascertain that the rates of return (ROEs) and equity ratios that are authorized in the state commission's orders are fair and reasonable, and consistent with the industry average. We believe that it is no accident that the state commissions that authorize reasonable ROEs and are aware of how their decisions will affect the credit quality of the utility, also have the highest rated utilities in the country.

- We give significant weight to regulatory rules/laws that allow the adoption and implementation of adjustment clauses for the recovery of fuel, purchased power, and environmental expenses. We examine whether the adjustment clauses permit rate adjustments that are frequent enough that there is not a significant build-up of deferral balances. The more frequent the adjustments are allowed, the less working capital that the utility has to use to finance the deferral and the more assurance investors have that the company will be able to recover prudently incurred costs on a timely basis.
- We are encouraged by regulations that allow companies to actively engage in resource planning: the pre-approval of major capital expenditure programs enables companies to add generation, improve infrastructure or purchase power. Several states have implemented resource planning programs requiring

the utilities to provide on a regular basis a forecast of resource requirements and how they plan to meet the demand growth. The regulatory commissions review and pre-approve the capital program in stages, which reduces the likelihood that large expenditures will be denied recovery when completed.

- We place a tremendous amount of value on commissions that can act quickly on a rate request from a company. The shorter the time between a rate request and a final rate order, the better for the company. We believe that the speed with which a commission acts is key to providing timely recovery and we benchmark commissions against one another.
- We value a commission that has the ability to introduce rate increases on an interim basis. The ability of a commission under law to allow a company to put rates into effect on an interim basis subject to refund is key because it allows the commission to respond quickly to a company's request if there are acute cash flow needs. In addition, interim rates provide some comfort to utility investors until a final order is issued.
- There is tremendous value attributed to state commissions that use current or forecasted costs to set base rates. The use of historical base rates can result in rates that do not reflect a company's current costs or situation. We examine whether a

state commission uses an historical/current or forecasted test year in its rate cases.

- We also favor commissions that facilitate the recovery of Construction Work in Progress (CWIP), essentially capitalized interest during the construction process. With all of the capital expenditure programs that we expect over the next few years, many coming at the regulated utility level, CWIP reduces the risk that recovery of the plant will not take place once the plant is completed.

Q. You mentioned a number of legislative and regulatory policies that are supportive of credit quality, which as you note is even more important today given the highly challenging and competitive credit environment faces by utilities generally, and AmerenUE in particular. What can this Commission do, in this rate case, to support AmerenUE's ability to effectively compete in the credit markets to obtain the capital it needs to invest in its infrastructure at the most reasonable cost possible?

A. It is my understanding that rates in this case will be set using an historic test year, and that CWIP cannot be recovered in Missouri. Regardless, there are things the Commission can do in this case to support AmerenUE's need to access reasonably priced capital. Stated simply, the Commission can approve an FAC on reasonable terms, grant AmerenUE a fair and reasonable ROE, particularly in view of the risks faced by AmerenUE in this rising cost environment, and otherwise provide reasonable rate treatment for other items in AmerenUE's cost of service, again particularly in consideration of the fact that costs are continuing to rise.

IV. <u>FINANCIAL AND CREDIT CONSIDERATIONS AND FACS</u>

Q. You noted earlier that the financial and credit considerations about which you have testified above mitigate strongly against the opposition to AmerenUE's FAC request, as expressed by Ms. Mantle, Mr. Johnstone, and Mr. Cohen. Please elaborate more specifically on the value of an FAC to investors and other financial market participants.

A. As discussed in other testimony, the volatility and rise in fuel costs recently is significant, will likely persist for some time and threatens the financial health of AmerenUE. Fuel and purchase power expenses are a substantial amount of AmerenUE's cost structure and have a significant impact on financial performance and the ability to achieve the returns allowed to AmerenUE. As noted in other testimony, the degree to which fuel costs are rising is almost unprecedented in a historical context and the regulatory lag associated with recovering fuel costs is creating substantially more financial burden on AmerenUE today and in the future than it has historically.

As also noted in other testimony, AmerenUE, while an important market participant for fuels, has increasingly declining control over the costs of the market prices for the fuels it needs. Global economic, environmental, and financial issues well beyond the control of AmerenUE are the primary reasons for the present commodity environment. AmerenUE is being asked to bear the risk for markets over which it has increasingly less control and less ability to manage its risk.

Investors and credit rating agencies are increasingly vocal that ratemaking policy needs to adapt to the new environment where substantial financial risk is being imposed on utilities that lack the regulatory authority to timely recover fuel and purchased power costs from ratepayers. The traditional means for recovery, the filing of a rate case, is considered far less than optimal by investors and credit rating agencies. The time needed to complete a rate case, the difficult political and economic environment for rate increases and the prospect of continued under-recovery make traditional rate case recovery of fuel expenses an increasingly greater threat to the financial health of AmerenUE. In addition, off-system sales prices are also becoming increasingly volatile and at the same time less correlated to key fuel price inputs for AmerenUE, providing a much less optimal off-set to rising fuel costs. Investors and credit rating agencies do not view off-system sales as a useful hedge against the potential for financial distress caused by procuring fuel for regulated operations and the associated time needed to recover these costs in a rate case. As has been stated in other testimony, the majority of utilities with which AmerenUE has to compete for capital benefit from the inclusion of an FAC in their ratemaking process. As I address earlier, that competition for capital now and in for the foreseeable future will be difficult and intense, and will be even more difficult for AmerenUE if it must compete for capital without the benefit of an FAC.

Indeed, investors, credit rating agencies and others will likely penalize AmerenUE for the risk associated with the inability to better manage the burden associated with procuring fuel for customers unless an FAC is approved for AmerenUE. In a good environment these penalties would be visible, in the current environment and the environment we expect for the foreseeable future, they could be severe. This will likely cause an increase in the cost of capital which will create a longer term and greater cost for customers. The lack of inclusion of a reasonable FAC will continue to keep AmerenUE in the minority of its peers who have these procedures in place and will also be going to the market to raise capital.

Investors will be negatively predisposed to deploying capital at AmerenUE if they believe that its regulators do not share the view that the current and likely future environment for the procurement of fuel is substantially different than what has been experienced historically. Investors are looking for responsive and mainstream regulation that balances the need for prudent fuel procurement and sensitivity to continued rate increases with the need for investors to achieve comfort in the financial viability of AmerenUE. Since fuel adjustment mechanisms are so widely in place in other jurisdictions, it will be difficult for investors to comprehend why a properly functioning fuel cost adjustment framework could not be implemented for AmerenUE.

Q. What have the credit rating agencies, the most visible of parties who grade the financial health of AmerenUE and its peers stated about AmerenUE's proposed FAC and FACs in general?

A. The credit rating agencies have been critical of AmerenUE's inability to use an FAC. In downgrading AmerenUE, Moody's recently stated:

> *The downgrade also reflects the challenging regulatory environment for electric utilities operating in the state of Missouri, as Union Electric is one of the relatively few utilities in the country operating without fuel, purchased power, and environmental cost recovery mechanisms. The lack of such automatic cost recovery provisions creates uncertainty regarding the timely recovery of the higher costs and investments being incurred and leads to significant regulatory lag*.
>
> – Moody's on May 21, 2008 upon downgrading AmerenUE

In November of 2007, Standard and Poor's listed the top ten credit issues facing U.S. utilities. Volatility of fuel prices, rising costs, regulatory lag, and recovery deferrals were chief among these concerns. Specifically as it pertains to FACs, Standard and Poor's stated: "*In our view, states that have fuel adjustment mechanisms to smooth out the effect on cash flow and steer utilities toward mitigating risk through hedging and supply procurement are best poised to ride* *out a turbulent journey.*" Fitch Ratings has stated with regard to FACs: "*effective and timely commodity cost-adjustment mechanisms provide utilities with greater assurance of ultimate recovery in a rising energy price environment*."

Specifically, as it pertains to Ameren UE, Moody's has also said recently "*Ratings are constrained by significant regulatory lag for the recovery of costs and investments and a challenging regulatory environment in the state of Missouri.*" Moody's went on to state the ratings outlook for AmerenUE is stable, *assuming* the company receives adequate rate relief and cost recovery mechanisms, *including the implementation of a fuel adjustment clause*. Moody's then goes on to specifically cite the inability to implement a fuel adjustment clause as a key issue for potentially lowering the credit ratings of AmerenUE. Standard and Poor's has also listed the proposed FAC as a key factor for determining future credit quality at AmerenUE. In addition, the proposed FAC is routinely referenced in equity research material as a key driver of the financial health of AmerenUE and its ability to earn its allowed returns.

Given AmerenUE's current issuer credit ratings of Baa2/BBB-, any downgrade, especially to non-investment grade, would have severe negative consequences. Not only would the cost of capital rise dramatically, the capital that AmerenUE needs over the next several years may not be available at any price.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

AFFIDAVIT OF GARY M. RYGH

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

Gary M. Rygh, being first duly sworn on his oath, states:

1. My name is Gary M. Rygh. I am employed by Barclays Capital Inc. as Senior Vice President.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Union Electric Company, d/b/a AmerenUE, consisting of 27 pages, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.

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

Gary M. Rygh

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

Notary Public

My commission expires: 8/1/2009

MEREDITH LEMMON
Notary Public, State of New York
No. 01LE6131263
Qualified In Albany County
Commission Expires August 1, 2009