

**REBUTTAL TESTIMONY**

of

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Senior Financial Analyst**

**Finance Department  
Financial Analysis Division  
Illinois Commerce Commission**

**Central Illinois Light Company d/b/a/ AmerenCILCO,  
Central Illinois Public Service Company d/b/a AmerenCIPS,  
And Illinois Power Company d/b/a AmerenIP**

**Proposal to implement a competitive procurement process by establishing Rider  
BSG, Rider BSG-L, Rider RTP, Rider RTP-L, Rider D and Rider MV**

**Docket Nos. 05-0160/05-0161/05-0162 (Consolidated)**

**August 10, 2005**

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**INTRODUCTION**

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

A. My name is Rochelle Phipps. My business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

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

A. I am employed by the Illinois Commerce Commission (“Commission”) as a Senior Financial Analyst with the Finance Department of the Financial Analysis Division.

**3. Q. Describe your qualifications and background.**

A. In May 1998, I received a Bachelor of Arts degree in Finance from Illinois College, Jacksonville, Illinois. In May 2000, I received a Master of Business Administration degree from the University of Illinois at Springfield. I have been employed by the Commission since June 2000.

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

A. I will be addressing the credit requirements provided in Article 6 of Respondents Exhibit 11.1, which is the supplier forward contract (“SFC”) proposed by Central Illinois Light Company d/b/a AmerenCILCO, Central

18 Illinois Public Service Company d/b/a/ AmerenCIPS and Illinois Power  
19 Company d/b/a AmerenIP (collectively, "Ameren" or the "Companies").<sup>1</sup>

20 **5. Q. Please summarize your conclusions and recommendations.**

21 A. First, Section 6.1 of Ameren's proposed SFCs allows the Companies to  
22 unilaterally reduce the credit requirements. I recommend that the  
23 Commission reserve the right to conduct an after-the-fact review of any  
24 reduction in credit requirements allowed under Section 6.1 of the SFCs.  
25 Second, the provision in Section 6.4 of Respondent Exhibit 11.1 that  
26 requires notching down the corporate issuer credit rating from Moody's  
27 Investors Service is unnecessary and should be eliminated from Ameren's  
28 proposed SFCs. Finally, Ameren has not shown that its proposed credit  
29 requirements are based on any quantitative analysis of their impact on  
30 auction prices or the degree of protection they provide ratepayers in the  
31 event of a supplier default. This suggests the optimal credit requirements  
32 will only be determined through experience. Therefore, the Commission  
33 should not conclude that Ameren's proposed credit requirements strike the  
34 optimal balance between protection against default risk and bidder  
35 participation. Nonetheless, given that the optimal credit requirements will  
36 only be determined through experience and there are no alternative  
37 proposals to consider, I recommend approval of Ameren's proposed credit  
38 requirements.

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<sup>1</sup> All three of Ameren's proposed SFCs were originally provided as Respondent Exhibits 3.1, 3.2 and 3.3. In rebuttal testimony, Ameren submitted one revised SFC as Respondent Exhibit 11.1 and Ameren witness James Blessing testified that Ameren will make the same changes to its other two proposed SFCs. (Resp. Ex. 11.0 (Revised), p. 19, lines 413-415) My recommendations apply to all of Ameren's proposed SFCs.

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## UNILATERAL REDUCTION IN CREDIT REQUIREMENTS

40 **6. Q. Section 6.1 of Ameren’s SFCs state, “The Companies may establish**  
41 **less restrictive creditworthiness standards under this Article 6 in a**  
42 **non-discriminatory manner”. (Resp. Ex. 11.1) Do you object to this**  
43 **provision?**

44 A. No. In response to ICC Staff data request FD 1.01, Ameren stated the  
45 following regarding this provision of its proposed SFCs:

46 ... This provision was in the New Jersey agreement and  
47 remained in the Companies’ contracts to provide flexibility if  
48 the Companies were forced—in the event of significant,  
49 unforeseen circumstances—to implement less restrictive,  
50 non-discriminatory standards to accomplish objectives such  
51 as ensuring reliability, dampening price volatility, and  
52 maintaining market stability...

53 Nevertheless, as a result of Ameren’s reservation of a right to change the  
54 SFC credit requirements, the Commission must reserve the right to  
55 conduct an after-the-fact review of any reduction in credit requirements  
56 described in Section 6.1 of the SFCs since it would lower the level of  
57 protection against a supplier default. That is, there is no basis to currently  
58 assess the reasonableness of unspecified future changes in credit  
59 requirements. Thus, it should be made clear that the Commission has the  
60 ability to review any such changes after the fact if they do occur.

61 Furthermore, Ameren should clarify whether the SFCs permit Ameren to  
62 restore the credit requirements to their initial level as circumstances  
63 permit.

64 I also recommend that in the event that Ameren changes the credit  
65 requirements for any of the SFCs, it file a report with the Commission that  
66 identifies the effective date, explains the reason for the change and  
67 summarizes any facts and analyses on which the decision to change the  
68 credit requirements was based. The report should be provided to the  
69 Manager of the Finance Department and filed with the Chief Clerk of the  
70 Commission within 15 days of the changes in credit requirements.

71 **7. Q. Are you suggesting that any increase in energy costs associated**  
72 **with an Ameren decision to alter its credit requirements pursuant to**  
73 **Section 6.1 of the SFCs would indicate that decision was imprudent?**

74 A. No. An increase in energy costs associated with an Ameren decision to  
75 alter its credit requirements does not necessarily mean that decision was  
76 imprudent. Nevertheless, the Commission should have the opportunity to  
77 assess Ameren's actions to alter the credit requirements pursuant to  
78 Section 6.1 of the SFCs, given that such actions would alter Illinois  
79 ratepayers' exposure to the potential costs of a supplier default.

80 **8. Q. How should Ameren's proposed Rider MV be modified to incorporate**  
81 **the Commission's ability to conduct an after-the-fact review of any**  
82 **reduction in credit requirements described in Section 6.1 of the**  
83 **SFCs?**

84 A. ICC Staff witness Dr. Eric Schlaf proposes adding language to the  
85 Limitations and Contingencies section of Ameren's proposed Rider MV,

86 through which the Commission could investigate whether the Companies'  
87 decision to modify its credit requirements was prudent. (ICC Staff Exhibit  
88 13.0)

89 **“NOTCHING DOWN” CORPORATE ISSUER CREDIT RATINGS**

90 **9. Q. Each of Ameren’s proposed SFCs state the following:**

91 **For the ... Supplier to be granted an unsecured line of credit,**  
92 **the ... Supplier: (1) must be rated by at least two of the**  
93 **following rating agencies: S&P, Moody’s or Fitch, and (2) must**  
94 **have a minimum senior unsecured debt rating (or if**  
95 **unavailable, a corporate issuer credit rating discounted by one**  
96 **notch) of at least “BBB-“ from S&P, “Baa3” from Moody’s or**  
97 **“BBB-“ from Fitch (each a “Minimum Rating”). (Section 6.4 of**  
98 **Respondent Exhibit 11.1)**

99 **Please describe what is meant by “notching down” corporate issuer**  
100 **credit ratings.**

101 A. Credit ratings are assigned different notations to reflect the relative  
102 creditworthiness of companies or securities that have the same credit  
103 rating. Standard & Poor’s (“S&P”) and Fitch Ratings (“Fitch”) use a “+” or  
104 “-“ to distinguish the relative creditworthiness of companies or securities in  
105 the same credit rating category whereas Moody’s Investors Service  
106 (“Moody’s”) uses numbers (i.e., 1, 2 or 3). For example, S&P may assign  
107 an entity a BBB+, BBB or BBB- credit rating or Moody’s may assign an  
108 entity a Baa1, Baa2 or Baa3 credit rating. Notching down a corporate  
109 issuer rating refers to discounting a corporate issuer rating by one  
110 “degree.” That is, if S&P has assigned an entity a corporate issuer credit

111 rating of BBB but no senior unsecured credit rating, then under the  
112 Ameren's proposed SFCs, the BBB issuer credit rating would be "notched  
113 down" to BBB- to establish that entity's allowable credit limit. Similarly, for  
114 a supplier that has a Baa2 corporate issuer rating from Moody's but no  
115 senior unsecured credit rating, then under Ameren's proposed SFCs, that  
116 Baa2 issuer credit rating would be notched down to a Baa3 credit rating to  
117 establish that entity's allowable credit limit.

118 **10. Q. In direct testimony, Staff witness Dr. David Salant stated, "Ameren**  
119 **should explain why it is necessary to 'notch down' corporate issuer**  
120 **credit ratings from Moody's Investor's Service, Inc. to determine**  
121 **suppliers' (and guarantors') creditworthiness under Article 6 of its**  
122 **supplier forward contracts". (ICC Staff Exhibit 1.0, Appendix 2.0, p. 7,**  
123 **lines 143-146) Did Ameren explain why it proposes "notching down"**  
124 **corporate issuer credit ratings from Moody's?**

125 A. Yes. In response to ICC Staff data request FD 1.04, Ameren stated the  
126 following regarding this provision of its proposed SFCs:

127 ... The Ameren Companies' preference is to use ratings  
128 specifically for senior unsecured debt, as we cannot be  
129 certain that an issuer rating will, in all cases, be the  
130 equivalent of a senior unsecured debt rating. If a senior  
131 unsecured debt rating is not specifically available from  
132 Moody's or S&P, but a corporate issuer rating is available  
133 from Moody's or S&P, the Ameren Companies believe  
134 applying a one-notch discount to the issuer rating is a  
135 conservative and prudent approach that is designed to  
136 safeguard the interests of the utilities and their respective  
137 ratepayers...

138 **11. Q. Why do you disagree with Ameren’s proposal to “notch down”**  
139 **corporate issuer credit ratings from Moody’s?<sup>2</sup>**

140 A. According to Moody’s, “[i]ssuer credit ratings are opinions of the ability of  
141 entities to honor senior unsecured financial obligations and contracts”.  
142 (*emphasis added*, Moody’s Investors Service, “Moody’s Rating Symbols &  
143 Definitions,” August 2003, p. 8 and Ameren’s response to ICC Staff data  
144 request FD 1.04) That is, Moody’s issuer ratings are already equivalent to  
145 unsecured credit ratings. Consequently, Ameren’s SFCs should be  
146 modified to eliminate the notching requirement with respect to Moody’s  
147 issuer credit rating.

148 **CREDIT REQUIREMENTS**

149 **12. Q. In direct testimony, Staff requested that Ameren provide calculations**  
150 **justifying its choices with respect to the proposed credit**  
151 **requirements in rebuttal testimony. (ICC Staff Exhibit 1.0, p. 103,**  
152 **lines 2333-2335) Did Ameren provide those calculations?**

153 A. No. Ameren has not shown that its proposed credit requirements are  
154 based on any quantitative analysis of their impact on auction prices or the  
155 degree of protection they provide ratepayers in the event of a supplier  
156 default. This suggests the optimal credit requirements will only be  
157 determined through a trial and error process.

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<sup>2</sup> Staff does not object to “notching down” either S&P’s or Fitch’s issuer credit ratings for the purpose of establishing the amount of suppliers’ unsecured credit lines.

158 **13. Q. Ameren’s proposed credit requirements differ from those proposed**  
159 **by Commonwealth Edison Company in Docket No. 05-0159 (“ComEd**  
160 **proceeding”). Do the credit requirements proposed by Ameren in**  
161 **this proceeding need to be identical to those proposed by ComEd in**  
162 **Docket No. 05-0159?**

163 A. No. Currently the precise level of credit requirements that would strike the  
164 optimal balance between providing adequate protection against default  
165 risk and adversely affecting participation by qualified bidders is unknown.  
166 Consequently, there may be an advantage to Ameren proposing different  
167 requirements for unsecured lines of credit than proposed in the ComEd  
168 proceeding in that the Commission will have the opportunity to  
169 simultaneously evaluate the impact of two variations of credit limit  
170 proposals – those proposed by Ameren in this proceeding and those  
171 proposed by ComEd in the ComEd proceeding.

172 The credit requirements included in Ameren’s proposed SFCs and those  
173 proposed in the ComEd proceeding are more alike than different. Similar  
174 to ComEd, Ameren proposes to only offer unsecured lines of credit to  
175 investment grade suppliers and suppliers with investment grade  
176 guarantors. Similar to ComEd, Ameren proposes to offer unsecured credit  
177 lines that equal the lesser of a percentage of tangible net worth or a dollar  
178 cap, based on a sliding scale according to the supplier’s (or guarantor’s)  
179 credit rating. The difference between Ameren’s and ComEd’s proposals is  
180 in the amount of the dollar caps. The dollar cap for an unsecured line of  
181 credit for suppliers with the lowest investment grade rating (*i.e.*,

182 BBB-/Baa3) is \$20 million under Ameren's proposal and \$15 million in the  
183 ComEd proceeding whereas the dollar cap for suppliers that fall within the  
184 highest credit rating category (*i.e.*, A- and above/A3 and above) is \$80  
185 million under Ameren's proposal and \$60 million in the ComEd  
186 proceeding. Given the similarity between Ameren's and ComEd's  
187 proposed credit requirements and the fact that the optimal level of credit  
188 requirements is unknown at this point in time, I do not object to Ameren's  
189 proposed credit requirements differing from those proposed in the ComEd  
190 proceeding.

191 **14. Q. Does this conclude your rebuttal testimony?**

192 A. Yes.