**ILLINOIS COMMERCE COMMISSION**

**DOCKET NOS. 06-0070, 06-0071 & 06-0072**

# REBUTTAL TESTIMONY

**OF**

**MICHAEL G. O'BRYAN**

**Submitted On Behalf**

**Of**

**CENTRAL ILLINOIS LIGHT COMPANY d/b/a AmerenCILCO**

**CENTRAL ILLINOIS PUBLIC SERVICE COMPANY d/b/a AmerenCIPS**

**ILLINOIS POWER COMPANY d/b/a AmerenIP**

**May 26, 2006**

**ILLINOIS COMMERCE COMMISSION**

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**OF**

**MICHAEL G. O'BRYAN**

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

A. My name is Michael G. O'Bryan. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri, 63103.

**Q. Are you the same Michael G. O'Bryan who submitted direct and supplemental direct testimony in ICC Docket Nos. 06-0070, 06-0071, and 06-0072?**

A. Yes I am.

**Q. What is the purpose of your rebuttal testimony?**

A. I am responding to the direct testimony of Commission Staff witness Alan Pregozen regarding the capital structure and related adjustments and issues as well as the cost of debt and preferred stock for AmerenCILCO, AmerenCIPS and AmerenIP.

**Q. Staff witness Mr. Pregozen recommends advancing the capital structure measurement dates for AmerenCILCO and AmerenCIPS in lieu of pro forma adjustments. Please Respond.**

A. I agree with Mr. Pregozen's recommendation to advance the capital structure measurement dates rather than make pro forma adjustments in this instance. However, I

disagree with Mr. Pregozen's use of a June 30, 2005 measurement date for all of the long-term components of AmerenCILCO's and AmerenCIPS' capital structures while using a last twelve months ("LTM") December 31, 2005 measurement period for short-term debt. Mr. Pregozen states in his direct testimony on lines 264-265 that 'advancing the measurement date ensures that all components of the capital structure are measured on a consistent basis. His approach does not achieve that consistency. Mr. Pregozen measures short-term debt over a period which lasts six months beyond the date at which he measures common equity, long-term debt and preferred stock. By doing this he has mismatched the measurement date of permanent capital balances with the ending date for the period for measuring short-term debt balances.

**Q. Please state your recommendations as to the measurement dates for all capital structure components.**

A. I recommend measuring ALL components of the capital structure at 12/31/05, making the measurement period consistent with regard to all components. This eliminates the mismatch between the measurement date of the long-term components (common equity, long-term debt and preferred) with the measurement period of short-term debt. Furthermore, a consistent measurement period eliminates the need for conjecture as Mr. Pregozen undertook in lines 297-300 of his testimony when he chose a twelve month period as 'a better estimator of the amount of short-term debt CILCO has maintained to finance its operation…' This is the sort of subjective speculation that the Commission no doubt sought to eliminate when it drafted its latest capital structure measurement period instructions as part of the filing requirements. Also, the buildup of short-term debt that

Mr. Pregozen refers to is the type of pattern that can precede a replacement by a permanent capital source.

**Q. Do you have any further recommendations related to the capital structure measurement period?**

A. Yes. I recommend measuring all components of AmerenIP's capital structure as of December 31, 2005. Again, for purposes of consistency I would recommend measuring the balance of net short-term debt to LTM ended December 31, 2005. Moving forward the measurement dates for AmerenIP would be consistent with the measurement periods for AmerenCILCO and AmerenCIPS while incorporating the latest data available. Further, Statement of Financial Accounting Standards 141 allows for a period of one year following the closing date of the acquisition to identify, measure and assign amounts to purchase accounting adjustments. Since Ameren's acquisition of AmerenIP was completed on September 30, 2004, a capital structure date of December 31, 2005 would allow us to incorporate final purchase accounting adjustments**,** while avoiding the need for either pro forma adjustments or estimated adjustments**.**

**Q. Please identify the exhibits to your rebuttal testimony.**

A. I am sponsoring the following exhibits to my rebuttal testimony:

| | |
|---|---|
| Respondents' Exhibit 15.2 | Cost of Capital Summaries for AmerenCILCO, AmerenCIPS and AmerenIP |
| Respondents' Exhibit 15.3 | Embedded Cost of Long-term Debt for |

| | |
|---|---|
| | AmerenCILCO, AmerenCIPS and AmerenIP |
| Respondents' Exhibit 15.4 | Cost of Short-term Debt for AmerenCILCO, AmerenCIPS and AmerenIP |
| Respondents' Exhibit 15.5 | Embedded Cost of Preferred Stock for AmerenCILCO, AmerenCIPS and AmerenIP |
| Respondents' Exhibit 15.6 | Embedded Cost of Transitional Funding Trust Notes for AmerenIP |

**Q. Please explain any notable adjustments made to the 12/31/05 common shareholders' equity balances of AmerenCILCO, AmerenCIPS and AmerenIP shown in Respondents' Exhibit 15.2.**

A. As I noted above, in response to Mr. Pregozen's testimony, I am recommending that all capital structure components be measured at 12/31/05. The common shareholders' equity balances of AmerenCILCO, AmerenCIPS and AmerenIP were adjusted from reported balances to remove the 12/31/05 balance of total other comprehensive income ("OCI") from the common shareholder's equity balance.

AmerenIP's common shareholder's equity balance was further adjusted to account for revised and updated purchase accounting items in connection with Ameren's acquisition of Illinois Power Company. As discussed in my direct and supplemental direct testimonies, Ameren agreed to remove certain items related to purchase accounting in connection with the acquisition, including some items not reflected in AmerenIP's Form

21 ILCC report. As discussed earlier in this testimony, accounting rules dictate that purchase accounting items be finalized twelve months after an acquisition is made. Ameren's acquisition closed on September 30, 2004, thus all purchase accounting items were finalized on September 30, 2005. My 12/31/05 common shareholder's equity balance shown in Respondents' Exhibit 15.2 reflects the final purchase accounting adjustment of $139.7 million which includes $46.4 million of adjustments not reflected in AmerenIP's 12/31/05 Form 21 ILCC report. This $139.7 million is subtracted from AmerenIP's common shareholder's equity balance to arrive at the balance shown in Respondents' Exhibit 15.2.

**Q. Do you oppose Mr. Pregozen's removal of total OCI from the common shareholder's equity balances of the utilities, rather than just the pension equity portion of OCI?**

A. I will not oppose Mr. Pregozen's position with regard to this matter and in response have adjusted the AmerenIP common shareholder's equity to account for the change.

**Q. Please explain notable adjustments made in the process of developing the AmerenCILCO, AmerenCIPS and AmerenIP embedded cost of long-term debt schedules shown in Respondents' Exhibit 15.3.**

A. In conjunction with moving the capital structure measurement date to 12/31/05 to properly accommodate Mr. Pregozen's concerns, all unamortized balances were reflected as of that date in the embedded cost of long-term debt schedules. Bonds that had matured during 2004 were taken off the schedule and all unamortized loss on reacquired debt balances were adjusted as of 12/31/05 on all reacquired issues. Also, all variable auction

rate securities were updated as of their prevailing rate as of May 19, 2006. These rates are more reflective of current market rates than the prevailing auction rates as of February 8, 2006 incorporated in Mr. Pregozen's testimony.

**Q. Mr. Pregozen suggests that the AmerenIP Transitional Funding Trust Notes ("TFTN") coupon rate should not be calculated using a monthly compounded methodology. Please respond.**

A. Mr. Pregozen argues that by compounding monthly, I am overstating the cost of AmerenIP's TFTNs. He supports his claim by comparing the TFTNs to "most bonds" while ignoring the fact that they are far different from most bonds. Mr. Pregozen's argument to annualize the monthly discount rate by multiplying the rate by twelve assumes that the IFC collections are remitted by AmerenIP to the indenture trustee on a monthly basis, which is not true in this case. In fact, AmerenIP remits funds to the trustee on a daily basis, and those funds are unavailable to the company once remitted. The trustee makes interest and principal payments to bondholders quarterly, but this is irrelevant to AmerenIP's cost of debt.

**Q. Please identify any differences between your calculation and Mr. Pregozen's calculation of the amount of short-term debt at AmerenCILCO.**

A. Moving forward the measurement period of the calculation of short-term debt negated the need for the pro forma adjustment relating to the September 2004 $75 million equity infusion at AmerenCILCO. However, given that the calculation of short-term debt at AmerenCILCO involves an average of the net short-term debt balances over the twelve months ended December 31, 2005, a pro forma adjustment for the May 2005 equity

infusion of $100 million remains a necessity. Mr. Pregozen errored by not making this adjustment for the months of January, February, March and April of 2005. The AmerenCILCO cost of short-term debt schedule, shown in Respondents' Exhibit 15.4, correctly accounts for this adjustment. By accounting for this equity infusion, the correct balance of net short-term debt at AmerenCILCO is reflected during those four months and results in a proper LTM average short-term balance.

**Q. Please discuss your disagreement with Mr. Pregozen's use of the 1-Month "AA" Nonfinancial Commercial Paper Index as a proxy for the utilities' cost of short-term debt.**

A. Ameren tracks its cost of short-term debt internally based on a formula disclosed in data request CS 1.21. I updated the cost of short-term debt for all of the utilities based on the rate charged on overnight internal utility money pool loans as of May 19, 2006 (4.96%). It does not make sense to use a proxy to calculate a cost when proper actual cost data is readily available.

**Q. Mr. Pregozen eliminated the expense associated with the AmerenCILCO $4.64 and $5.85 Series preferred stock and the premium and expense on all AmerenCIPS preferred stock. Please respond.**

A. Mr. Pregozen eliminated the premium and expense items related to the AmerenCILCO and AmerenCIPS preferred stock citing lack of documentation. This argument has not been brought forth by Staff nor have these balances been contested in the latest AmerenCILCO DST case (Docket Nos. 01-0465/01-0530/01-0637 (Cons.), the latest AmerenCILCO gas case (Docket No. 02-0837), the latest AmerenCIPS DST case

(Docket No. 00-0802 (Cons.)), or the latest AmerenCIPS gas case (Docket No. 03-0008/02-0798 (Cons.)). In fact, in AmerenCIPS' latest DST case, Staff witness Mr. McNally included the issuance expense of $34,665 associated with the $5.16 Series even though it was not included in the company's embedded cost of preferred schedule in direct testimony. This expense is one of the very same items that Mr. Pregozen is arguing to exclude. The exclusion of these items also goes against the Commission's final ruling all of the aforementioned dockets.

**Q. Mr. Pregozen also adjusted the balances of the premium and discount on the AmerenCILCO $4.50 and $4.64 Series preferred stock for the gain realized on the reacquisition of a portion of their shares. Please respond.**

A. Mr. Pregozen cites a CILCO 1985 Form 21 ILCC as evidence of gains on reacquisition of AmerenCILCO $4.50 and $4.64 Series preferred shares. Our research has found these gains in pre-acquisition Form 21 reports as recent as the late 1990s. However, my research has also uncovered losses on reacquired preferred shares in the amount of $816,000. In response to this, I have replicated the premium/discount, issue expense and losses on reacquired preferred stock schedule that was sponsored in the most recent DST case (Docket Nos. 01-0465/01-0530/01-0637 (Cons.)) and AmerenCILCO's latest gas case (Docket No. 02-0837) by both Company and Staff witnesses. I made two notable changes, however. I included the gains on reacquired preferred stock cited by Mr. Pregozen and updated the schedule for the lower principal amount outstanding of the $5.85 Series and the resulting lower amount of issue expense remaining, resulting from the mandatory redemption feature of the shares. Again, the Staff and Company schedules

in I relied on were identical, uncontested and the resulting carrying value and cost or preferred stock included in the Commission's order in both cases.

**Q. Mr. Pregozen makes adjustment to CIPS' long-term components of capital structure based on an AFUDC formula. Please respond.**

A. Mr. Pregozen makes an argument that since CWIP accruing AFUDC is larger than short-term debt in AmerenCIPS' case, CWIP is being financed by long-term capital. He in turn makes small adjustments to AmerenCIPS' long-term capital structure components based on the proportion of each component in his recommended capital structure. I disagree with his approach, but given the negligible affect on the capital structure and cost of capital of AmerenCIPS, I accept his position for the purpose of this case. However, Ameren reserves the right to argue against this methodology in future rate proceedings.

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

A. Yes, it does.