Redacted

Direct Testimony

of

Phil A. Hardas

Finance Department

Financial Analysis Division

Illinois Commerce Commission

Illinois Power Company d/b/a AmerenIP

and Ameren Illinois Transmission Company

Application for Certificate of Public Convenience and Necessity

Docket No. 06-0179

July 13, 2006

Q: Please state your name and business address.

A: My name is Phil A. Hardas. My business address is 527 East Capitol, Springfield, Illinois 62701.

Q: What is your current position with the Illinois Commerce Commission ("Commission")?

A: I am presently employed as a Senior Financial Analyst with the Finance Department of the Financial Analysis Division.

Q: Please describe your qualifications and background.

A: In December of 1998, I received a Bachelor of Science degree in Finance from Southern Illinois University at Carbondale. In August of 2001, I received a Master of Business Administration degree from the University of Illinois at Springfield. I have been employed by the Commission since May 1999 as a Financial Analyst.

Q: Please state the purpose of your testimony in this proceeding.

A: On March 3, 2006, Illinois Power Company ("AmerenIP") filed a petition for the issuance of a certificate of public convenience and necessity authorizing AmerenIP to construct, operate, and maintain a new 345-kilovolt electric line in Monroe, Randolph, St. Clair, and Washington Counties, Illinois (the "Project") pursuant to Section 8-406 of the Illinois Public Utilities Act ("Act"). The purpose of my testimony is to present my evaluation of the financial implications of the proposed construction of the new line under Section 8-406(b)(3) of the Act.

Q: Please state the requirements in Section 8-406(b)(3) of the Act.

A: Section 8-406(b)(3) of the Act states that, before issuing a certificate of public convenience and necessity, the Commission must find that the utility is capable of financing the proposed construction without significant adverse financial consequences for the utility or its customers.

Q: Please summarize your findings.

A: Based on my review of AmerenIP's petition and all supporting documents, including data request responses in this proceeding, I believe AmerenIP is capable of financing the proposed construction without significant adverse financial consequences for the utility or its customers.

Q: Describe the proposed construction and estimated cost.

A: AmerenIP proposes to construct, operate, and maintain a new electric transmission line in Monroe, Randolph, St. Clair, and Washington Counties, Illinois. The total estimated cost of the entire project using Plan 6m (the "Primary Route"), is approximately $89 million. [1]

Q: Does AmerenIP propose alternate routes?

[1] AmerenIP Exhibit 5.0, line 26.

A: Yes. After evaluating seven plans, AmerenIP proposes the Primary Route and one alternate route.

Q: What are the costs associated with using the proposed alternate route?

A: The alternate route, using Plan 1, would cost approximately $1 million more than the Primary Route after adjusting for cost updates.[2] The difference in cost between the primary route and the alternate route is relatively small and does not require a separate evaluation.

Q: How will AmerenIP finance the cost of the proposed construction?

A: Prairie State Generating Company, LLC ("Prairie State") will pay AmerenIP up front for the total cost of the Project. AmerenIP will repay Prairie State the amounts advanced, with interest, beginning when the project goes into service. AmerenIP represents it will record all of the upfront payments from Prairie State as debt.

Q: How does the estimated cost of 100% of the Project compare to AmerenIP's existing utility assets and revenue?

A: As reported in AmerenIP's 2005 Form 21 ILCC annual report, total net utility plant as of December 31, 2005, was $2,031.7 million. Total utility operating revenues for the twelve months ended December 31, 2005, was $1,653.3 million. The total estimated cost of the entire Project using the primary route is

[2] AmerenIP Exhibit 1.0, pp. 20-21, lines 453-466.

approximately $89 million, or 4.3805% of net utility plant and 5.3831% of total utility operating revenues.

Q: Have you assessed AmerenIP’s ability to finance 100% of the proposed construction using the primary route?

A: Yes. The estimated cost of the proposed construction under the primary or the alternative route is small in comparison to AmerenIP’s total utility plant and revenue for electric operations. Additionally, the effects on AmerenIP’s financial ratios are minimal. In response to Staff Data Request PH 1.3, AmerenIP provided financial ratios adjusted to include the effect of AmerenIP financing 100% of the Project (using the Primary Route) during the construction phase, as shown on ICC Staff Exhibit 2.01. Below, Tables 1 and 2 present AmerenIP’s adjusted financial ratios for the 2006-2008 construction period and Standard & Poor’s benchmark ratios for A and BBB rated utilities with a business profile score of 4. The financial ratios provided by AmerenIP are consistent with S&P credit ratings of A and BBB. AmerenIP’s calculations demonstrate small declines in its financial ratios. Even with those small declines, AmerenIP’s ratios remain in the A and BBB range for the funds from operations to total debt ratio and funds from operations interest coverage ratio. Therefore, it is reasonable to conclude that AmerenIP is capable of financing the proposed construction without significant adverse financial consequences for the utility or its customers.

Table 1 - Benchmark Ratios Excluding Proposed Construction

Financial Benchmark Ratio	AmerenIP's Ratios with Prairie State Construction			S&P Financial Benchmark Ratio Targets for Business Profile Score 4	
	AmerenIP 2006	AmerenIP 2007	AmerenIP 2008	BBB Rated Utilities	A Rated Utilities
FFO Interest Coverage	.	.	.	2.5X – 3.5X	3.5X – 4.2X
FFO to Total Debt	%	%	%	12% - 20%	20% - 28%

Table 2 - Benchmark Ratios Including Proposed Construction

Financial Benchmark Ratio	AmerenIP's Ratios with Prairie State Construction			S&P Financial Benchmark Ratio Targets for Business Profile Score 4	
	AmerenIP 2006	AmerenIP 2007	AmerenIP 2008	BBB Rated Utilities	A Rated Utilities
FFO Interest Coverage	.	.	.	2.5X – 3.5X	3.5X – 4.2X
FFO to Total Debt	%	%	%	12% - 20%	20% - 28%

Q: Do the financing terms, as described in paragraph 20 of the Amended Petition, affect the riskiness of the project obligations relative to conventional debt?

A: Yes. The project obligations would be less risky than conventional debt because payment of the interest and repayment principal is deferred until the Project goes into service. Further, the amount of principal and interest payments will be repaid through credits to Prairie State for transmission service. AmerenIP forecasts suggest an annual repayment in transmission credits to Prairie State of $ and average annual Project revenue of $ from 2009 through 2015.[3]

Q: Do the ratios calculated by AmerenIP reflect the mitigation of the risk associated with the terms of the project obligations?

A: No. The ratios AmerenIP calculated effectively imply that the project obligations are equivalent in risk to conventional debt.

Q: Does AmerenIP propose an alternative method to finance the proposed construction?

A: Yes. AmerenIP proposes financing 10% of the Project and creating an affiliate, Ameren Transco, to finance the other 90% of the Project ("Alternative Method").

Q: How will Ameren Transco finance 90% of the cost of the proposed construction using the Alternative Method?

A: Prairie State will pay up front 90% of the cost of construction of the Project to Ameren Transco and 10% of the cost to AmerenIP. Ameren Transco will repay Prairie State the amounts advanced, with interest, beginning when the project goes into service. Ameren Transco represents it will record all of the upfront payments from Prairie State as debt.

[3] AmerenIP response to Staff data request PH 1.2.

Q: Does Ameren Transco have a greater ability than AmerenIP to meet the requirements in Section 8-406(b)(3) of the Act?

A: No. Ameren Transco does not have existing assets or revenue. Ameren Transco's current financial ratios are nonexistent and would be much weaker than the financial ratios for AmerenIP.

Q: What is your recommendation?

A: In my judgment, the proposed transaction meets the requirements of Section 8-406(b)(3) of the Act. Therefore, I recommend the Commission find that AmerenIP is capable of financing 100% of the proposed construction without significant adverse financial consequences for the utility or its customers. Additionally, I believe that the Alternative Method for financing the Project is unnecessary.

Q: Does this conclude your direct testimony?

A: Yes.

AmerenIP's Response to
Illinois Commerce Commission Data Request
ICC Docket No. 06-0179

AmerenIP Petition for Certificate of Public Convenience and Necessity and Approval of Affiliate Agreement

PH 1.3: Referring to the AmerenIP's Exhibit 4.0, page 4, lines 75 – 78, Mr. Nickloy states "The absence of incremental cash flows has the effect of negatively pressuring key financial measures which are important for the rating agencies' quantitative analyses of AmerenIP's financial condition and the assignment of credit ratings." Please provide the following with regards to AmerenIP Exhibit 4.0:

a. All schedules and work papers used to determine the effects of financing 100% of the Project during the construction phase on the AmerenIP's financial measures and credit ratings;
b. All schedules and work papers used to determine the effects of financing 10% of the Project during the construction phase on the AmerenIP's financial measures and credit ratings;
c. Any indication from the rating agencies that AmerenIP's credit ratings would be negatively impacted by the financing of the Project.

Response:

a. See attached.
b. None prepared.
c. Although the rating agencies have not informed Ameren that AmerenIP's ratings would be lowered specifically as a result of the financing of the Project, it is well known that a reduction in financial performance, as measured by certain financial measures, can place negative pressure on ratings.

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Date: June 29, 2006

IP Metrics
excludes Prairie State

	2005	2006	2007	2008
cash flow from operations (CFO)				
TFN principal amortization				
adjusted CFO				
non-TFN interest				
adjusted CFO interest coverage				
non-TFN debt at year end				
average outstanding debt				
adjusted CFO / debt				
capex				
dividends				
free cash flow				

IP Metrics
add Prairie State
Prairie State capex
prime rate

	2005	2006	2007	2008
cash flow from operations (CFO)				
TFN principal amortization				
adjusted CFO				
non-TFN interest				
adjusted CFO interest coverage				
non-TFN debt at year end				
average outstanding debt				
adjusted CFO / debt				
capex				
dividends				
free cash flow				

IP Metrics Comparison

	2006	2007	2008
adjusted CFO interest coverage:			
without Prairie State			
with Prairie State			
adjusted CFO / debt:			
without Prairie State			
with Prairie State			
free cash flow:			
without Prairie State			
with Prairie State			