Respondents'
Exhibit 34.0

ILLINOIS COMMERCE COMMISSION

DOCKET NOS. 06-0070 / 06-0071 / 06-0072 (CONSOLIDATED)

SURREBUTTAL TESTIMONY

OF

LEE R. NICKLOY

Submitted On Behalf

Of

AMEREN COMPANIES

July 14, 2006

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LEE R. NICKLOY

Q. Please state your name and business address.

A. My name is Lee R. Nickloy. My business address is 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. Are you the same Lee R. Nickloy who provided earlier testimony in this proceeding?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my surrebuttal testimony is to respond to Staff witness Freetly, IIEC witness Gorman and CUB witness Bodmer by addressing 1) the use of S&P's financial ratio guidelines in the context of utility rate-setting and 2) the ratings of Ameren's Illinois utilities and the reasonableness of their respective capital structures.

Q. What are some of the shortcomings associated with the use of S&P's published financial ratio guidelines in the context of setting cost of service rates for regulated utilities?

A. In my rebuttal testimony I addressed the use of these ratio guidelines for this purpose, but given analyses and conclusions reached by others in this case (in

their recent rebuttal testimonies) I feel further discussion of this issue is warranted. First, the S&P ratio guidelines should not be used as a substitute for traditional cost of service rate-making principles. The cost of service elements in a given utility's revenue requirement/rates should be determined to be just and reasonable on their own merits and not because it could be argued that a certain rating should result. For example, would a 5% ROE become reasonable simply because some party was able to demonstrate that, if adopted, the ratings result would be still be investment grade based on an analysis of S&P's ratio guidelines? I am not saying that such an analysis could indeed yield this ratings result; rather, I am only pointing out the weakness in this approach. A 5% ROE is clearly unreasonable in today's conditions, and it cannot be rescued by reference to ratings or ratings criteria.

Second, this approach naturally leads to a discussion of what is the "right" rating for a given utility. A utility's credit rating should be deemed "reasonable" for regulatory purposes if that rating is reasonably consistent with ratings of other similar utilities and enables the utility to reliably attract capital at reasonable cost among other factors. There may not be a singular correct answer here (e.g.. such as A-/A3). Again, what should be determined is: is the assigned rating reasonable for a public utility?

Third, the use of ratios alone ignores the analytical process by which the rating agencies assess credit quality and assign ratings. By focusing on ratios alone, critical qualitative factors used in the ratings process are ignored. For example, CUB witness Bodmer recommended in his direct testimony equity ratios for

Ameren's Illinois utilities in the range of 27-38% and a recommended ROE of 8%. If the Commission were to accept such unreasonably low proposals, the rating agencies could likely view the Illinois regulatory environment as being much riskier and much less constructive, thus placing negative pressure on the ratings for the utilities that do business there, increasing business profile scores, requiring the achievement of stronger financial ratios for a given rating, etc.

It is true that the S&P ratio guidelines are in some ways transparent. Thus, they can be quite alluring to an analyst because they so readily adapt themselves to a financial analysis attempting to demonstrate the reasonableness of a given proposal. However, the underlying premise — the assumption that ratio analysis defines the credit ratings process — is flawed. As I pointed out in my earlier testimony, such an analysis is incomplete. Ratios are important, but not the entirety of the assessment of the credit quality of the subject entity.

Q. Are the credit ratings of Ameren's Illinois utilities reasonable?

A. Yes. Not only are the current ratings reasonable, the ratings of these companies prior to the recent downgrades were reasonable as well. In my rebuttal testimony (at lines 152-157), I discussed the reasonableness of AmerenCIPS' and AmerenCILCO's A- senior secured debt ratings through comparison with the significant number of other similarly or higher rated T&D utilities.

Q. Are the capital structures of Ameren's Illinois utilities reasonable?

A. Ameren witness Ms. Kathleen C. McShane has demonstrated the reasonableness of these utilities' respective capital structures in her testimony in this case by comparing these to the capital structures of a proxy group of other utilities with

comparable risk. I should also point out that the equity ratio approved by the Commission in AmerenIP's last gas rate case (Docket No. 04-0476) was 53.09% — very similar to the equity ratio of 53.07% for AmerenIP proposed by Ameren witness Michael G. O'Bryan in this proceeding. I would also reiterate here, as I discussed in my rebuttal testimony at lines 249-259, that unless it can be demonstrated that AmerenIP's ratings are unreasonably high, it would be inappropriate to argue that its equity ratio is too high. AmerenIP's equity ratio is just one of the number of factors considered by the rating agencies in their assignment of AmerenIP's credit ratings.

Q. If the capital structures of Ameren's Illinois utilities are reasonable is it necessary to derive hypothetical capital structures for these companies?

A. No. The fact that a given utility's capital structure is reasonable obviates the need to derive a hypothetical capital structure. If an entity's actual capital structure is reasonable, it can and should be used. In this case it is unnecessary to engineer or derive some other capital structure the result of which would fit within in some ratings category (based on S&P's ratio guidelines) which the analyst has determined is the "right" ratings category. The utility's actual capital structure directly represents the actual manner in which the utilities assets have been financed. It is therefore most appropriate to use this capital structure unless it can be shown that this capital structure is unreasonable.

Q. Should AmerenIP's TFNs be included in its capital structure?

A. This has been Commission precedent, and accordingly, Ameren's financing decisions with respect to AmerenIP have balanced this, along with the rating

agencies' treatment of this indebtedness, for purposes of determining the relative amounts of debt and equity funding at this utility which would include the amount of long-term debt issuance, amount of infusion of common equity, and the specific transactions completed as part of the recapitalization of AmerenIP and restoring its investment grade ratings.

Q. At lines 176-188 of his rebuttal testimony, IIEC witness Gorman criticizes you for not calculating certain S&P financial ratios that would demonstrate the harmful effects of a reduction of AmerenIP's common equity ratio. Is this criticism warranted?

A. No. As I stated in my rebuttal testimony, reducing AmerenIP's equity ratio would imply a trade of debt capital for equity capital, resulting in a net increase of debt. Increased debt would result in increased interest obligations. As I pointed out in my response to the data request he references, and as anyone even casually familiar with credit ratios and the assessment of creditworthiness would know, increasing debt, and the resulting increase in interest obligations, without any offsetting incremental cash flow benefit would reduce key credit protection measures. The negative effect on these measures, such as FFO (cash flow) interest coverage and FFO to debt, is mathematically evident and does not require rigorous financial analysis to discern that this proposal is a credit negative. Of course, only the rating agencies would be in a position to respond (via a change in the ratings) to any attempt by AmerenIP to replace equity with debt. But, at Baa2 (Moody's) and having ratings under review for possible downgrade, any action that negatively impacts AmerenIP's credit protection measures could prove

harmful, especially given how close this entity's ratings are to being sub-investment grade once again.

Q. Does this conclude your surrebuttal testimony?

A. Yes.