Ameren Exhibit 3.0

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 06-0448

DIRECT TESTIMONY

OF

JERRE E. BIRDSONG

Submitted On Behalf

Of

AMEREN ILLINOIS UTILITIES

August 17, 2006

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 06-0448

DIRECT TESTIMONY

OF

JERRE E. BIRDSONG

Q. Please state your name, position, and business address.

A. I am Jerre E. Birdsong, and my position is that of Vice President – Risk Management and Treasurer of Ameren Corporation ("Ameren") and its subsidiaries. Ameren is the parent corporation of 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 (the "Ameren Illinois Utilities"). My business address is 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. Please describe your educational background.

A. I graduated Phi Beta Kappa with a Bachelor of Arts degree in Economics and Mathematics from Southwestern at Memphis (presently, Rhodes College). In 1977, I received a Master of Science degree in Management from the Krannert Graduate School of Management at Purdue University. My area of concentration in the Master's program was Managerial Applications of Mathematical Modeling.

Q. Please describe your professional experience and qualifications.

A. I was employed by Union Electric Company (which is now a subsidiary of Ameren) in August 1977 as an economist in the Economic Research department. In this position, I conducted various economic, financial, and statistical studies. In

October 1979, I began reporting to the Vice President-Rates and was responsible for the determination of the company's cost of capital, marginal cost of service by customer class, and economic forecasts. While in this position, I also assumed responsibility for coordinating the company's load research activities and assessing alternatives for the collection of monies to cover the decommissioning expenses which will arise at the end of the operating life of the Callaway nuclear plant owned by Union Electric Company. In November 1984, I was appointed Assistant Treasurer with primary responsibility for the investment of the company's employee benefit and nuclear decommissioning funds. I was promoted to the position of Manager of the Financial Planning and Investments Department in August 1989, at which time the responsibilities of planning the company's long-term capital structure and of administering the justification of capital expenditures were added. I was elected Treasurer of Union Electric Company effective July 1, 1993, of Ameren Corporation effective April 23, 1996, and of Ameren's other operating companies on various dates thereafter. I was elected Vice President of Ameren Corporation and its operating subsidiaries effective October 12, 2001 and added risk management to my areas of responsibilities effective January 1, 2003. I am a member of the Financial Executives Institute, the National Association of Corporate Treasurers, and the CFA Institute. I previously served three terms on the Economics Committee of the Edison Electric Institute. I am on the Board of Directors of the Greater St. Louis YMCA and its Finance Committee, on which I previously served as Chairman and past-Chairman of its Investment Subcommittee. I also serve as trustee on the Episcopal-Presbyterian Health Foundation, Treasurer of the Episcopal Diocese of Missouri, and Chairman of the Tuttle Trust.

Q. Please describe your duties and responsibilities as Vice President – Risk Management and Treasurer.

A. In my current position, my principal duties involve the planning of the Ameren subsidiaries' long-term capital structures; negotiation and completion of financings; securing sufficient short-term liquidity for the day-to-day operation of the subsidiaries; and the management of the subsidiaries' employee benefit and nuclear decommissioning trust funds. In addition, the companies' cash management, dividend reinvestment stock purchase program, risk management, first mortgage bond transfer and paying agency, investor services, and capital budgeting are under my direction and supervision. In the performance of these duties, I have on-going contact with investment bankers, commercial bankers, pension fund investment managers, security analysts, rating agencies, institutional investors, and corporate insurance brokers and carriers.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to discuss the financial strength and ratings of Ameren's Illinois utilities; to discuss the effect on the Illinois utilities of a potential weakening balance sheet and credit ratings; and to explain how the utilities' securitization proposal will prevent such weakening. I also discuss some mechanics of securitization. In addition, I sponsor as exhibits certain releases issued by Moody's Investor Services ("Moody's) regarding the Ameren Illinois Utilities.

Q. What exhibits are you sponsoring?

A. I am sponsoring the following exhibits:

Ameren Ex. 3.1	Moody's September, 2005 release
Ameren Ex. 3.2	Moody's December, 2005 release
Ameren Ex. 3.3	Moody's July, 2006 release

Q. What are the Ameren Illinois Utilities' credit ratings?

A. As discussed by Mr. Scott Cisel, Moody's recently again downgraded both AmerenCILCO and AmerenCIPS after downgrading all three Illinois utilities last December. Moody's now rates the senior secured notes/first mortgage bonds of AmerenCIPS and AmerenIP at Baa2, and of AmerenCILCO at Baa1. All of these ratings have a negative rating outlook. In its December 2005 report (Ameren Ex. 3.2), Moody's stated that its action was taken because of what it characterized as "the increasingly contentious political and regulatory environment in Illinois." In its most recent action (Ameren Ex. 3.3), Moody's stated the downgrades occurred because of "a difficult political and regulatory environment for electric utilities in the state of Illinois."

Standard and Poor's ("S&P") rates the same securities of AmerenCIPS and AmerenCILCO at A- and those of AmerenIP at BBB+. S&P has placed all of these ratings on negative watch with the following explanation: "the regulatory climate in Illinois has suddenly become exceptionally politicized and uncertain, and may lead to debilitating rate decisions should a constructive settlement that allows the timely recovery of all costs of providing service not be achieved."

A more detailed table of our current credit ratings is as follows:

	S&P		Moody's	
CIPS:				
Senior secured/FMBs	A-	Negative credit watch	Baa2	negative outlook
Issuer	BBB+	Negative credit watch	Baa3	negative outlook
Preferred stock	BBB-	Negative credit watch	Ba2	negative outlook
CILCO:				
Senior secured/FMBs	A-	Negative credit watch	Baa1	negative outlook
Issuer	BBB+	Negative credit watch	Baa2	negative outlook
Preferred stock	BBB-	Negative credit watch	Ba1	negative outlook
IP:				
Senior secured/FMBs	BBB+	Negative credit watch	Baa2	negative outlook
Issuer	BBB+	Negative credit watch	Baa3	negative outlook
Preferred stock	BBB-	Negative credit watch	Ba2	negative outlook

Q. How would you characterize the Ameren Illinois Utilities' ratings?

A. I would characterize the ratings of the Ameren Illinois Utilities as "weakened", and note that AmerenCIPS and AmerenIP have marginal investment grade ratings – with issuer ratings only a single notch above sub-investment grade. The Moody's issuer credit rating, as opposed to the senior secured notes/first mortgage bonds rating, at both AmerenCIPS and AmerenIP is Baa3. This is the lowest investment grade rating. If their credit ratings were to be lowered by only one notch, their issuer credit ratings and any unsecured debt which they issued would be rated non-investment grade by Moody's. I also note that the preferred stock ratings are sub-investment grade for all the Ameren Illinois Utilities.

(S&P rates Ameren affiliates on a consolidated basis. Thus, their ratings are not meant to be indicative of the stand-alone credit quality of the individual subsidiaries.)

Q. What is the significance of "negative credit watch" and "negative outlook"?

A. These descriptions of the ratings at the Ameren Illinois Utilities communicate to investors that the rating agencies have concerns or that there are circumstances present which could cause them to lower the ratings, quite possibly in the near term. There is no indication to what extent the ratings could be lowered (one notch versus two or more), causing considerable uncertainty in the minds of investors and potential investors.

Q. Why is financial strength so important to utilities?

A. In order to provide reliable power to our customers on a continuous basis, utilities need such ready and reliable access to credit and capital. Other industries may postpone their capital spending and purchasing decisions until markets for their products are more favorable or when capital markets improve from a difficult situation. However, such a moratorium is not an option in providing adequate, safe, and reliable electric service. We need constant access to financial markets.

Q. What would be the impact of a prolonged rate phase-in period and deferral of significant power costs in the absence of securitization?

A. The utility's credit condition would begin to deteriorate. This deterioration would be manifest in the accumulation of debt used to pay for purchased power, negative free cash flow, and deterioration in all of the primary cash flow metrics considered by the rating agencies among many other quantitative and critical qualitative factors in assessing creditworthiness and assigning ratings.

In general, the first impact on a utility as its credit condition deteriorates is that credit and capital remain available – but only at a higher cost. This negatively affects the utility's customers who pay rates based on the utility's cost of service. Also, vendors and suppliers become reluctant to provide unsecured trade credit. Cash or letters of credit may have to be provided to purchase even the basics necessary for providing electric service. This also increases costs to customers. But then, after creditworthiness deteriorates further, or as uncertainty increases, or as financial market conditions become tighter, credit and capital can become unavailable. This lack of access to credit and capital markets may last anywhere from a few days to indefinitely into the future.

Q. Can the securitization of deferred power costs in conjunction with a rate phase-in plan help mitigate the weakening financial condition of the utility in a phase-in situation?

A. The ultimate impact from deferred power costs and a rate phase-in plan on a utility's credit condition will depend on the amount of power costs being deferred, the period of deferral, the recovery period of deferrals, how the deferrals are financed until recovered, the accrual of capital costs on the deferred amounts, and whether the deferrals are securitized.

Although securitization is no panacea which automatically keeps a utility creditworthy regardless of the other variables listed in the previous paragraph, it is extremely beneficial in aiding the utility's creditworthiness and reducing costs to customers. With securitization, a utility can defer a greater amount of power costs and retain its creditworthiness and credit ratings than it could absent securitization. Even with securitization, there are limits on the total amount of power costs than can be deferred and still have the securitized bonds rated at

AAA. With securitization, a utility can recover its deferred power costs over a longer time period than it otherwise could and still retain its creditworthiness and credit ratings than it could absent securitization. Yet, the lengthened recovery period is limited to one which is marketable to asset-backed obligation investors. With securitization, deferrals can be financed with debt to a greater extent and better allow a utility to retain its creditworthiness and credit ratings than it could absent securitization. All of these benefits which arise from securitization directly benefit the utility's customers. The recovery of securitized power costs at a "AAA" corporate interest rate will definitely be beneficial to consumers on both an absolute dollar amount and a net present value basis as compared to recovery at the utility's weighted average cost of capital over a similar time period.

Once we know our power prices and DST rates, we are confident we can construct a phase-in/securitization plan which will significantly lessen their impact on our customers without weakening the utilities financially or damaging their credit ratings. However, this is not possible without the ability to securitize deferred power costs.

For example, under an assumption of a revenue requirement consistent with the ICC Staff recommendation in our current delivery service tariff cases and resulting power prices of $60/MWh from the power auctions, the following phase-in/securitization plan would benefit consumers, and, while the ratings agencies have the final say, I believe that would maintain the current ratings at the Ameren Illinois Utilities:

<u>AmerenCIPS and AmerenIP</u>

- Rate increase of 10% at each of January 2, 2007 and January 1, 2008
- Issuance of $68 million securitized bonds at AmerenCIPS and $109 million at Ameren IP in Spring 2008, with an expected debt service cost of $8.7 million at AmerenCIPS and $13.8 million at AmerenIP to be included in rates immediately upon issuance of bonds
- Rates beginning January 1, 2009 to reflect the full cost of service, including power costs (an additional increase of 10% is expected under these assumptions) plus securitization debt service cost
- Issuance of $34 million securitized bonds at AmerenCIPS and $56 million at Ameren IP in Spring 2009, with an expected debt service cost of $4.3 million at AmerenCIPS and $7.1 million at AmerenIP to be included in rates immediately upon issuance of bonds

AmerenCILCO

- Rate increase of 14% at each of January 2, 2007 and January 1, 2008
- Issuance of $52 milion securitized bonds in Spring 2008, with an expected debt service cost of $6.6 million to be included in rates immediately upon issuance of bonds
- Rates beginning January 1, 2009 to reflect the full cost of service, including power costs (an additional increase of 14% is expected under these assumptions) plus securitization debt service cost
- Issuance of $28 million securitized bonds in Spring 2009, with an expected debt service cost of $3.5 million to be included in rates immediately upon issuance of bonds

Further detail on the impact on Ameren Illinois Utilities' customers under this example is given in Mr. Robert Mill's testimony and exhibits.

Q. Please describe how securitization would take place.

A. As is clear in the Petition and in the testimony of our other witnesses, the specifics of the procedure will depend on the exact language and terms of any legislation adopted. In general, however, securitization would be expected to work as follows. The utility would book some portion of its power supply expenses as a deferred asset during the deferral period. Then, at a time specified in the legislation (for example, at the end of each year in the deferral period), the utility would file a petition with the Commission, seeking a "financing order." The petition would request that the Commission issue an order authorizing the sale of bonds in an amount equal to the amount of the deferral and associated carrying and financing issuance charges, approving the creation and sale of "bondable property", and approving a "bond charge." The bondable property is an interest in revenues to be collected in the future from customers, and the bond charge is a monthly charge added to customers' bills that funds that the payment of principal and interest on the bonds.

After the Commission issues its financing order, which should be within a few months from filing, the transaction unfolds as follows. The utility sells the bondable property to a special purpose entity ("SPE") created for the transaction in exchange for cash (i.e., the utility gets cash up front). The SPE issues bonds for cash pursuant to an underwriting agreement. The underwriters then sell the bonds to investors for cash. This cash from investors is the ultimate source of the up front cash paid to the utility for the bondable property. The utility then collects the bond charge from customers over time on behalf of the SPE to repay principal and interest on the bonds.

Q. Is this approach common in the industry?

A. Yes. Securitization is a well-established financing vehicle in the financial community, and as Mr. Curtis Probst explains, it has been used with increasing frequency elsewhere in the utility industry.

Q. Does this conclude your direct testimony?

A. Yes.