**AmerenIP Exhibit 16.0**

**ILLINOIS COMMERCE COMMISSION**

**DOCKET NO. 06-0179**

**SURREBUTTAL TESTIMONY**

**OF**

**LEE R. NICKLOY**

**Submitted On Behalf**

**Of**

**Illinois Power Company d/b/a AmerenIP**

**Ameren Illinois Transmission Company**

**December 1, 2006**

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## I. WITNESS IDENTIFICATION

**Q1. Please state your name**.

A. Lee R. Nickloy.

**Q2. Are you the same Lee Nickloy who provided Direct and Rebuttal Testimony in this proceeding?**

A. Yes.

**Q3. What is the purpose of your surrebuttal testimony?**

A. The purpose of my surrebuttal testimony is to respond to Commission Staff witness Hardas regarding the potential impact of Project-related debt on AmerenIP, and summarize the risks and consequences associated with AmerenIP constructing 100% of the Project.

## II. RESPONSE TO STAFF WITNESS HARDAS

**Q4. What is known about the financial implications associated with AmerenIP constructing 100% of the Project?**

A. 1) The total cost of the Project - $89 million – is material for AmerenIP. As a point of reference, AmerenIP's capital expenditures during 2005 totaled $132 million. AmerenIP's proposal in this proceeding would result in the total Project costs for which it would be responsible being a much smaller amount - $8.9 million - which is much less material, if not in fact immaterial.

2) The advances from Prairie State, which will be used to finance Project costs, will be reflected as debt on AmerenIP's balance sheet. Such advances have the economic substance of debt – i.e. they bear interest and have specific terms for repayment. Prairie State is a de facto lender relative to advances it makes to AmerenIP for financing of the Project. Project advances are analogous to a construction loan: proceeds are loaned to fund construction, repayment begins upon project completion and the generation of cash flows from the project (unless refinanced).

3) During the multi-year construction phase of the Project, AmerenIP will not receive any revenues from the Project or other cash flows related to the Project other than the advances (debt funding) from Prairie State.

4) Given AmerenIP will be incurring debt and not benefiting from any offsetting related cash flow during this period, certain key financial measures important for the credit ratings of AmerenIP will decline. This is a credit negative. In other words, this is harmful in terms of the rating agencies' use of financial metrics in their analyses undertaken to determine ratings for AmerenIP.

5) AmerenIP's credit ratings are perilously close to being sub-investment grade. Currently, its issuer ratings from S&P and Moody's are BBB- and Baa3, respectively. These are the lowest ratings considered "investment grade." These ratings are also under negative credit watch (S&P) and under review for possible downgrade (Moody's) signaling that the ratings agencies are poised to lower the

ratings further.  Any further downgrade of these ratings will result in AmerenIP being a sub-investment grade company.

6) AmerenIP is required by statute to be capable of financing the construction of the Project without significant adverse consequences for it or its customers in order to undertake such construction.

7) A decline in AmerenIP's credit ratings, especially a decline which results in AmerenIP becoming a sub-investment grade company, would be significant and adverse.

**Q5. Can Staff witness Hardas conclude that there will not be significant adverse consequences for AmerenIP or its customers if AmerenIP is responsible for 100% of the Project construction?**

A. No.  Mr. Hardas cannot speak for the rating agencies.  He may be able to perform a financial analysis to estimate the effects of the Project-related debt on AmerenIP's financial measures, but this is only his analysis (i.e. not that of any rating agency) and it falls short of considering all of the qualitative and quantitative factors considered by the ratings agencies in the determination of credit ratings.  He cannot alter the fact that the Project-related advances are debt and can't reasonably presuppose any ratings outcome.  Because there is evidence that there could be significant adverse consequences if AmerenIP were responsible for 100% of Project construction, and because there is no evidence that significant adverse consequences would not result, one could not reliably or reasonably conclude that no significant adverse consequences would result.

However, it is notable that Mr. Hardas acknowledges in his rebuttal testimony that anticipated degradation in several key financial ratios is a consequence of the Project. Mr. Hardas points out that one of two financial measures he analyzes is already below investment grade. Mr. Hardas also accepts the fact that this measure becomes weaker as the Project is constructed. It also follows that construction of 100% of the Project places AmerenIP at a greater risk of downgrade since one of the current financial measures is already below investment grade.

**Q6. What is at risk if AmerenIP has to support 100% of Project construction?**

A. 1) AmerenIP's credit ratings and its status as an "investment-grade" company. This risk is especially serious given the significant steps taken by Ameren to restore the financial health of Illinois Power Company after its acquisition by Ameren, by returning it to investment grade status through a recapitalization funded by an $865 million infusion of equity by Ameren into AmerenIP and by providing AmerenIP access to critical short-term working capital funding.

2) AmerenIP's ability to make investment in its utility infrastructure. Debt capacity utilized to support Project-related advances/debt will be debt capacity not available to support funding for other AmerenIP capital investment.

3) The ability of AmerenIP to reliably access capital at reasonable cost.

4) Significant collateral calls from various trade suppliers. As stated in its 3rd quarter 2006 10-Q, if AmerenIP were to have a sub-investment grade rating, at September 30, 2006 it could have been required to post collateral or make prepayments in the amount of $123 million.

5) Potential for delay in Project completion (which would result in AmerenIP carrying the debt obligation longer than originally expected) or increase in Project costs (which would increase the amount of debt carried on AmerenIP's balance sheet).

**Q7. What is the prudent course of action?**

A. Given what is at risk, and given the existence of evidence which indicates significant adverse consequences could result if AmerenIP has to support 100% of Project construction, the prudent course of action is to allow Ameren Transco to support 90% of Project construction while AmerenIP supports the remaining 10%. Ameren Transco is a no-cost option for AmerenIP that removes or mitigates financial risk that AmerenIP can currently ill afford. It does not eliminate the future option of AmerenIP owning 100% of the Project after it is completed and begins to generate revenues/cash flow. Given the facts and circumstances present, and the potential consequences, it is simply the prudent course of action here to err on the side of caution.

**Q8. Does this conclude your surrebuttal testimony?**

A. Yes.