Docket No. 06-0800
ICC Staff Exhibit 2.0

DIRECT TESTIMONY

OF

ROCHELLE PHIPPS

FINANCE DEPARTMENT

FINANCIAL ANALYSIS DIVISION

ILLINOIS COMMERCE COMMISSION

Re: ICC Docket Number 06-0800

Central Illinois Light Company

Central Illinois Public Service Company

Commonwealth Edison Company

Illinois Power Company

Investigation of Rider CPP of Commonwealth Edison Company, and Rider MV of Central Illinois Light Company d/b/a AmerenCILCO, of Central Illinois Public Service Company d/b/a AmerenCIPS, and of Illinois Power Company d/b/a AmerenIP, pursuant to Commission Orders regarding the Illinois Auction

MARCH 15, 2007

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

A. My name is Rochelle Phipps. My business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

2. Q. By whom are you employed and in what capacity?

A. I am employed by the Illinois Commerce Commission ("Commission") as a Senior Financial Analyst with the Finance Department of the Financial Analysis Division.

3. Q. Please describe your qualifications and background.

A. I received a Bachelor of Arts degree in Finance from Illinois College, Jacksonville, Illinois. I received a Master of Business Administration degree from the University of Illinois at Springfield. I have been employed by the Commission since June 2000.

4. Q. What is the purpose of your testimony in this proceeding?

A. On December 20, 2006, the Commission initiated an investigation of the "Illinois Auction" process, which was authorized in Docket No. 05-0159, and Docket Nos. 05-0160, 05-0161 and 05-0162 (Consolidated) for Commonwealth Edison Company ("ComEd"), 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,

respectively (collectively, AmerenCIILCO, AmerenCIPS and AmerenIP are referred to as "Ameren"), to determine whether the Commission should order any changes to the Illinois Auction process. I will present three recommendations that would, in my judgment, improve the Illinois Auction application process and the supplier forward contract ("SFC") credit requirements. Moreover, I will address certain proposed revisions to the SFC credit requirements that were included in a document titled, "Issues List," which was filed on e-Docket on February 22, 2007, following workshops held in connection with this proceeding.

5. Q. Please describe the Illinois Auction application process as it relates to your recommendations in this proceeding.

A. An applicant or its guarantor must satisfy certain credit and collateral requirements in connection with the Illinois Auction. Investment grade applicants (or guarantors) are granted an unsecured credit limit, which can be used to satisfy a portion, or all, of pre- and post-auction collateral requirements. The unsecured credit limit equals the lesser of a percentage of Tangible Net Worth ("TNW") or a cap, both of which depend on the applicant's (or the guarantor's) credit rating, as shown in Table A provided in Section 6.4 of the SFCs. The Illinois Auction credit and application team, which includes representatives of ComEd, Ameren, the Auction Manager and Commission Staff, calculates each applicant's unsecured credit limit using financial statements and credit rating

information provided in the part 1 application. Successful part 1 applicants become qualified bidders and are allowed to submit part 2 applications, which require, in part, satisfying pre-auction collateral requirements using a letter of credit. Following a successful auction, winning bidders sign SFCs and may post collateral in the form of a letter of credit or cash with the applicable utility throughout the term of the SFC.

6. Q. Please provide your recommendation regarding the part 1 application.

A. The Part 1 application should be modified to require applicants to provide their calculation of TNW (or the guarantor's TNW, if applicable), to show how they calculated it, and to provide citations to their financial statements for each component of that calculation. The applicant's TNW calculation would supplement the current review process in which the credit and application team calculates each applicant's (or guarantor's) TNW.

7. Q. How would this recommendation improve the application process?

A. The SFCs define TNW as total assets, less intangible assets and total liabilities. Intangible assets (*e.g.*, goodwill, patents, copyrights and trademarks) are not always provided in a uniform format in financial statements. Moreover, the financial statements used to calculate TNW may include information for the supplier (or the guarantor) as well as

affiliated entities. This recommendation would provide an estimate of TNW against which the credit and application team can compare its own estimate. If those two estimates differ, the credit and application team would be able to determine the sources of any differences and assess which estimate is more accurate.

8. Q. Please describe the pre- and post-auction security instruments that may be used to meet collateral requirements in the Illinois Auction.

A. A uniform letter of credit ("LOC") is attached to the part 2 application, which qualified bidders may use to meet pre-auction collateral requirements. Another uniform LOC is attached to the SFC, which winning bidders may use to meet collateral requirements throughout the term of the SFC. ComEd and Ameren will automatically accept the uniform LOCs to satisfy pre- and post-auction collateral requirements. However, the Illinois Auction application process also provides qualified bidders the opportunity to propose non-material changes to the uniform LOCs in advance of the part 2 application deadline. The credit and application team reviews each proposed modification in advance of the part 2 application deadline and the Auction Manager posts all acceptable changes to the LOCs on the Illinois Auction website so that qualified bidders may use any or all of those modifications in the LOCs they submit with their part 2 applications.

9. Q. What is your recommendation relating to modifications to pre-and post-auction security instruments for the next Illinois Auction?

A. I recommend that all modifications to the pre-and post-auction LOCs that were accepted for the 2006 auction should also be accepted in the next auction so that only new revisions will be considered during the application process for the next auction.

10. Q. How would this recommendation improve the application process?

A. This proposal would streamline the application process by eliminating the need for qualified bidders to re-submit proposals to modify pre- and post-auction LOCs that were already reviewed and accepted by the credit and application team. However, qualified bidders would still need to submit any new proposals to revise the LOCs during the application process for the next auction.

11. Q. Do you have any other recommendations for modifying the SFC credit requirements?

A. Yes. The SFCs limit ratepayers' exposure to risk of loss arising from a supplier default by limiting the amount of unsecured credit granted per supplier or per financial guaranty (if applicable). However, the SFCs do not limit the amount of unsecured credit granted per ***guarantor.*** That is, if a single entity provides financial guarantees to more than one supplier,

then the guarantor could circumvent the unsecured credit limits provided in the SFCs, which would reduce the amount of protection to ratepayers in the case of a supplier default. Thus, to correct this deficiency in the credit requirements, I recommend revising the first paragraph of Section 6.4(i)(b) of the SFCs as follows:

> If the CCP-B Supplier chooses to rely upon a Guarantor to satisfy the requirements of this Section 6.4(i) the requirements of this subsection 6.4(i)(b) shall apply. If the CPP-B Supplier has a Guarantor, the Guarantor (1) must be rated by at least two of the following rating agencies: S&P, Moody's or Fitch, and (2) must have a minimum senior unsecured debt rating equal to the Minimum Rating. In the event that senior unsecured debt ratings are unavailable from S&P and Fitch, the corporate issuer rating, discounted by one notch will be used. In the event that senior unsecured debt ratings are unavailable from Moody's, the issuer rating will be used. The Company will only rely on senior unsecured debt ratings, or if unavailable, issuer or corporate issuer ratings. If the Guarantor does not have a senior unsecured debt rating and does not have an issuer rating from a rating agency, it will be deemed by the Company not to be rated by that rating agency. If the Guarantor is rated by only two rating agencies, and the ratings are split, the lowest rating will be used. If the Guarantor is rated by three rating agencies, and the ratings are split, the lower of the two highest ratings will be used; provided, however, that in the event that the two highest ratings are common such common rating will be used. A Guarantor will be granted a single Credit Limit to be applied to all CPP Supply agreements for which it guarantees payment obligations on behalf of one or more CPP Suppliers. The maximum level of the Credit Limit to cover the Total Exposure Amount that could be provided to the Guarantor ~~through the financial Guaranty~~ will be determined in accordance with Table A.

12. Q. Please comment on the other proposals to modify the SFC credit requirements that are provided on the Issue List.

A. Generally, I would not object to any proposals that would reduce the risk to suppliers as long as they produce a net benefit to Illinois ratepayers. The Issues List includes three proposals that represent material changes to the SFC credit requirements: (1) make the collateral requirements bilateral; (2) reduce the required credit rating one notch for all levels of unsecured credit specified in Section 6.4 of the SFCs, which would lower the minimum eligible credit rating for unsecured credit to one notch below investment grade; and (3) eliminate or reduce the 10% adder currently included in the mark-to-market calculation. The proposal to make the collateral requirements bilateral is distinguishable from the other two proposals mentioned above because it would likely cause ComEd and Ameren to incur costs in connection with posting collateral, which could be passed onto Illinois ratepayers through the utilities' tariffs. Although the other two proposals mentioned would benefit suppliers by reducing the collateral requirements, they would also reduce the degree of financial protection afforded ratepayers in cases of supplier default. All three proposals to modify the SFC credit requirement are similar in that they would reduce the level of risk suppliers face, which should reduce the level of any risk premium that may be reflected in the Illinois Auction price (hereafter, referred to as the "contract risk premium") to the benefit of Illinois ratepayers. Nevertheless, the cost in connection with those proposals - either a direct cost due to imposing collateral requirements on the utilities or increasing the risk to ratepayers due to lower collateral

requirements for suppliers - might exceed any reduction in the contract risk premium, which would harm Illinois ratepayers. At this point, the impact of those proposals on the contract risk premium has not been quantified. In my judgment, quantitative analysis of those proposals demonstrating the benefits that will accrue to ratepayers will exceed any costs or risks associated with those proposals is imperative in order to recommend approval of those proposals for use in the next Illinois Auction.

13. Q. Does this conclude your direct testimony?

A. Yes, it does.