AmerenIP Exhibit 12.0

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 06-0706

REBUTTAL TESTIMONY

OF

DARRELL E. HUGHES

Submitted on Behalf

of

Illinois Power Company d/b/a AmerenIP

Ameren Illinois Transmission Company

July 20, 2007

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 06-0706

REBUTTAL TESTIMONY

OF

DARRELL E. HUGHES

Q1. Please state your name and business address.

A. My name is Darrell E. Hughes. My business address is 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q2. Are you the same Darrell Hughes who provided earlier testimony in this proceeding?

A. Yes.

Q3. What is the purpose of your testimony?

A. The purpose of my rebuttal testimony is to respond to the direct testimony of Staff of the Illinois Commerce Commission ("Staff") witness Rochelle Phipps, who states that she cannot recommend that the Commission approve the Project because: i) Illinois Power Company d/b/a AmerenIP ("AmerenIP" or the "Company") did not perform a quantitative analysis and therefore it is unclear whether AmerenIP is capable of financing any portion of the Project without adverse financial consequences for the utility or its customers; and ii) Ameren Illinois Transmission Company ("AITC") could not finance the Project without significant adverse financial consequences for the utility. I also respond to Staff witness David Rearden's recommendation that, if AmerenIP can fund the Project without adverse financial consequences, then the Commission should grant the

Certificate to AmerenIP alone. As I will discuss, my analysis shows that AmerenIP and AITC are both capable of financing the Project under the Petitioners' proposal whereby AITC finances 90% of the "Project" as defined and AmerenIP 10%.

Q4. Has the Commission recently approved a substantially similar arrangement?

A. Yes. In Docket No. 06-0179, the Commission approved a financing arrangement whereby AITC financed 90% of the Project in that case and AmerenIP financed 10%. The Commission found that such an arrangement was reasonable. The Commission also granted AITC authority to operate as a public utility.

Q5. Do you think that the Commission's order in Docket No. 06-0179 should change Ms. Phipps' conclusion?

A. Yes. Because the Commission has found that a financing arrangement substantially similar to the one here is reasonable, I think that most, if not all, of Ms. Phipps' concerns are moot. However, I will respond below to the questions she raises in her testimony.

Q6. What is Ms. Phipps' conclusion with regard to AmerenIP's ability to finance the Project?

A. Ms. Phipps concludes that it is unclear whether AmerenIP is capable of financing any portion of the Project without adverse financial consequences for the utility or its customers because AmerenIP did not perform a quantitative analysis for any scenario. She recommends Companies provide financial analyses showing the impact that financing 100% of the Project during the construction phase would

have on the financial measures and credit ratings of AmerenIP and AITC individually.

Q7. Have you prepared the requested analysis?

A. Yes, I have looked at the relative impacts of financing 100% of this Project on key financial measures of AmerenIP that are reviewed by the credit rating agencies. Each rating agency has to assess a variety of business and financial risks, and AmerenIP cannot predict how each financial measure would play ultimately into a specific credit rating. What is possible is to look at relative impacts on these measures and to comment on how these measures are harmed by financing 100% of this Project and, thus, develop a reasonable expectation as to credit rating impacts.

Q8. What does this analysis show?

A. Key financial measures are harmed. A review of these financial measures was requested by Staff as part of data requests FD 5.01 dated June 8, 2007 and FD 6.03 dated July 2, 2007. My analysis was based on year-end 2006 financials for AmerenIP. This analysis can be summarized as follows:

a. Year-end financials give a more accurate picture of year-end debt levels, cash flows and interest obligations. It is a more reliable basis to use when commenting on the relative effects of financing 100% of this Project at AmerenIP.

b. The financial measures look at relative ratios of cash flow, interest obligations, total debt and total capital spending. In all cases, financing 100% of this Project (and others like it), increase interest expense,

decrease cash flow, increase debt and increase capital spending. There is no offsetting positive cash flow until these projects are placed into service, which may be several years due to the long construction nature of building new transmission facilities.

c. Five key measures are harmed by AmerenIP financing 100% of this project. These are discussed in more detail as part of data request FD 5.01 (see AmerenIP Exhibit 12.1).

The point of this analysis is that AmerenIP cannot afford negative impacts on any of its financial ratios. AmerenIP has to seek ways that support and improve its current credit position, and approval of AITC's participation in the Project and financing 90% will help mitigate the effect of constructing 100% of this Project at AmerenIP.

Q9. Ms. Phipps notes that S&P and Moody's currently have AmerenIP under review for further credit rating downgrades because the regulatory uncertainty. Have there been more recent developments with regard to AmerenIP's credit rating?

A. No, current corporate ratings for AmerenIP remain below investment grade. S&P and Moody's still have AmerenIP under "Creditwatch Negative" or "Review for Possible Downgrade". This is a tenuous credit position indicating there are business conditions which could further lower AmerenIP's current ratings. Legislative initiatives concerning rate freezes or other measures remain substantial areas of risk for AmerenIP's credit ratings. In this environment, any

negative impacts on key financial measures could weaken AmerenIP's credit rating further.

Q10. Ms. Phipps asserts that she has read nothing in S&P or Moody's reports that suggest having AITC finance the Project would provide any protection for AmerenIP against further credit rating downgrades by either rating agency. What is your response?

A. I cannot predict what specifically the credit rating agencies will do with regard to AmerenIP's rating. It is true that the approval or disapproval of AITC for this Project pales in comparison to other issues that currently expose AmerenIP to potential downgrades. That does not take away the fact, however, that approval of AITC's financing of 90% of the Project helps eliminate a potentially negative influence when the ratings agencies review AmerenIP's credit rating.

Q11. Ms. Phipps also states that AmerenIP has not discussed with the ratings agencies whether AmerenIP is capable of incurring new debt in connection with the Project. Is this relevant to the question of whether AmerenIP can finance 100% of the Project?

A. No. The capability to incur debt is not the critical issue for the ratings agencies, but rather the impact of incurring more debt in relation to cash flow. Approval of AITC keeps debt at lower levels than they would be otherwise. It also helps improve cash flow because it lowers the amount of interest expense necessary to fund the debt. This helps support ratings metrics. In addition, the relevant question is whether AmerenIP can meet the statutory test of Section 8-406 of the Public Utilities Act, 220 ILCS 5/8–406, requiring a finding that the utility is

capable of financing the Project without adverse financial consequences. If AmerenIP finances 100% of the Project, the effect on ratings metrics are negative and therefore could have adverse consequences on credit ratings.

Q12. Can you expand on the consequences of further credit downgrades or the inability of Ameren IP to improve its current ratings?

A. The consequences could be significant and adverse. The consequences of low ratings could include, but wouldn't necessarily be limited to, higher borrowing and financing costs, more restrictive debt covenants, limited and/or restricted access to capital, and suppliers of power and natural gas requiring credit enhancement/collateral in the form of cash deposits/margin and letters of credit. All of these events could have significant adverse financial consequences to both AmerenIP and its customers. As the Commission stated in its order in Docket No. 06-0179, the "effects of a credit downgrade would be potentially serious in magnitude" and AmerenIP should not be forced to take a risk of further downgrades when reasonable alternatives are available.

Q13. Is there any basis to conclude that a downgrade would not occur?

A. No. Ms. Phipps simply cannot conclude that the credit ratings of AmerenIP would not be lowered as a result of financing 100% of the Project cost, and thus cannot conclude that significant adverse financial consequences would not result. She cannot change the fact that adding debt without offsetting that debt with incremental cash flow will result in degradation of key ratings measures. Ms. Phipps cannot speak for the rating agencies and thus cannot guarantee any ratings outcome. The fact that AmerenIP's ratings are under review for possible

downgrade and negative credit watch tells us that there is little in the way of "cushion" at AmerenIP.

Q14. Ms. Phipps states financial projections for AITC show that it will not have the assets or revenues on hand to support financing any portion of the Project and therefore it is not capable of financing the proposed construction without significant adverse financial consequences. Is this correct?

A. No, it is not. AITC will have assets under construction, but the magnitude or strength of its balance sheet and income statement is not relevant. This entity is unique in that regard. It is important to keep in mind that AITC is a special purpose entity formed to construct a portion of the Prairie State transmission project, for which AmerenIP and AITC have received approval in Docket No. 06-0179, and, during the construction phase of this Project, AITC would not have any customers. Currently, it has no other service obligations; it provides no other service but to construct transmission projects (which, in the case of Prairie State, is financed through advances from that project's sponsor); it has no need to make or fund other capital expenditures to maintain other assets. AITC has no outstanding public securities and/or is not rated. In other words, there aren't any adverse consequences to AITC resulting from the levels of debt, revenue or size of assets on its balance sheet or income statement. This entity's funding will be provided by project sponsors (like Prairie State), or under Ameren's non-state-regulated subsidiary money pool and/or other sources of financing available to Ameren Corporation as described in Notes 5 and 6 to the financial statement contained in Ameren's 2006 10K.

Q15. Would there be any affect on AmerenIP's customers of weak financial ratios at AITC?

A. No, there would not be such an effect. As I explained in my direct testimony in this proceeding, AITC is a separate legal entity from AmerenIP. AmerenIP will not be obligated in any manner to support the payment or legal obligations of AITC. The obligations of AITC will be non-recourse to AmerenIP. AmerenIP will not be obligated to lend to or provide any form of capital support to AITC. AITC does not have any outstanding public securities.

Q16. Staff witness Rearden concludes that if AmerenIP can fund the Project without adverse financial consequences, then the Commission should grant the Certificate to AmerenIP, alone. What is your response?

A. As my direct and rebuttal testimonies show, I cannot conclude that AmerenIP is capable of financing 100% of the Project without adverse financial consequences. AITC is capable of financing 90% of the Project without adverse financial consequences. Dr. Rearden states that the only scenario under which AITC should be granted a Certificate is if it can fund the Project without adverse financial consequences and AmerenIP cannot. Since this is in fact the case, AmerenIP and AITC should be permitted to finance the Project as Petitioners have proposed. I also note that, because AITC was granted a Certificate to operate as a public utility in Docket No. 06-0179, many of Dr. Rearden's concerns (as discussed by Mr. Gary Weiss in more detail) are now moot.

Q17. In summary, what is the effect of the Staff's recommendations?

A. The effect of the Staff's proposal is to put AmerenIP and its customers at significant risk of adverse financial consequences in order to avoid the use of AITC as a financing vehicle, which, by contrast, would hold no meaningful risk of adverse consequences for AmerenIP or its customers. There is no "cost" to AmerenIP by approving the use of AITC. In fact, there are only potential benefits, both in terms of enhancing the ability of AmerenIP to maintain its credit ratings and to avoid higher borrowing costs (or worse) which could result from further decline of its ratings. Accordingly, I believe Staff's recommendation should be rejetced, because it places risk on the utility and its customers when that risk is easily avoided.

Q18. Does this conclude your rebuttal testimony?

A. Yes, it does.