

REDACTED DIRECT TESTIMONY

of

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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

Proposed General Increase in Electric Rates
and
Proposed General Increase in Gas Rates

Docket Nos. 07-0585 – 07-0590 (Cons.)

March 14, 2008

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CENTRAL ILLINOIS LIGHT COMPANY (CILCO)

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CENTRAL ILLINOIS PUBLIC SERVICE COMPANY (CIPS)

Schedule 4.01 CIPS – Cost of Capital Summary

Schedule 4.02 CIPS – Short-Term Debt Balance

Schedule 4.03 CIPS – Embedded Cost of Long-Term Debt

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Schedule 4.03 IP – Embedded Cost of Long-Term Debt

Schedule 4.04 IP – Embedded Cost of Preferred Stock

Schedule 4.05 IP – Embedded Cost of Transitional Funding Notes

1 **WITNESS IDENTIFICATION**

2 **Q. Please state your name and business address.**

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

5 **Q. What is your current position with the Illinois Commerce Commission?**

6 A. I am a Senior Financial Analyst in the Finance Department of the Financial
7 Analysis Division.

8 **Q. Please describe your qualifications and background.**

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

13 **INTRODUCTION AND SUMMARY OF RECOMMENDATIONS**

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

15 A. I will present the overall cost of capital and recommend a fair rate of return on
16 rate base for Central Illinois Light Company ("CILCO"), Central Illinois Public
17 Service Company ("CIPS") and Illinois Power Company ("IP").¹ The overall cost

¹ CILCO, CIPS and IP are collectively referred to as the "Companies" or "Ameren utilities". Individually, CILCO, CIPS and IP are each referred to as the "Company".

18 of capital I present for each company incorporates the cost of common equity
19 Staff witness Janis Freetly (ICC Staff Exhibit 5.0) recommends.

20 **Q. Please summarize your cost of capital findings.**

21 A. The overall cost of capital for CILCO's gas and electric delivery services equals
22 7.95% and 7.96%, respectively. The overall cost of capital for CIPS' gas and
23 electric delivery services equals 8.13% and 8.15%, respectively. The overall cost
24 of capital for IP's gas and electric delivery services equals 8.70% and 8.68%,
25 respectively. The overall costs of capital for the Companies are shown on
26 Schedules 4.01 CILCO, 4.01 CIPS and 4.01 IP.

27 **Q. How is your testimony organized?**

28 A. First, I define cost of capital and explain how capital structure affects cost of
29 capital. Second, I describe and explain the methodological adjustments I made
30 to the balance and cost of the capital structure components that are, or would be,
31 applicable to all three Ameren utilities. Third, excepting the cost of common
32 equity, which Staff witness Janis Freetly addresses, I present my
33 recommendations for the balances and costs of the components of the capital
34 structure for each Ameren utility. Finally, I summarize the rates of return on rate
35 base that I recommend for the Companies and present my analysis of the cost
36 and financial strength inherent in the Companies' capital structures.

37

COST OF CAPITAL CONCEPTS

38 **Q. Why must one determine an overall cost of capital for a public utility?**

39 A. Under the traditional regulatory model, ratepayer and shareholder interests are
40 balanced when the Commission authorizes a rate of return on rate base equal to
41 the public utility's overall cost of capital, as long as that overall cost of capital is
42 not unnecessarily expensive.² If the authorized rate of return on rate base
43 exceeds the overall cost of capital, then ratepayers bear the burden of excessive
44 prices. Conversely, if the authorized rate of return on rate base is lower than the
45 overall cost of capital, the financial strength of the utility could deteriorate, making
46 it difficult for the utility to raise capital at a reasonable cost. Ultimately, the
47 utility's inability to raise sufficient capital would impair service quality. Therefore,
48 ratepayer interests are served best when the authorized rate of return on rate
49 base equals the utility's overall cost of capital.

50 In authorizing a rate of return on rate base equal to the overall cost of capital, all
51 costs of service are assumed reasonable and accurately measured, including the
52 costs and balances of the components of the capital structure. If unreasonable
53 costs continue to be incurred, or if any reasonable cost of service component is
54 measured inaccurately, then the allowed rate of return on rate base will not
55 balance ratepayer and investor interests.

² The remainder of the discussion assumes that the utility's overall cost of capital is not unnecessarily expensive; that is, the utility's cost of capital reflects a reasonable balance between financial strength and cost.

56 **Q. Please define the overall cost of capital for a public utility.**

57 A. The overall cost of capital for a public utility equals the sum of the costs of the
58 components of the capital structure (*i.e.* debt, preferred stock and common
59 equity) after weighting each by its proportion to total capital.

60 **Q. How does capital structure affect the overall cost of capital?**

61 A. Capital structure affects the value of a firm and, therefore, its cost of capital, to
62 the extent it affects the expected level of cash flows that accrue to parties other
63 than debt and stock holders. Employing debt as a source of capital reduces a
64 company's income taxes,³ thereby reducing the cost of capital; however, as
65 reliance on debt as a source of capital increases, so does the probability of
66 default. As the probability of default rises, expected payments to attorneys,
67 trustees and other outside parties increase. Further, expected cash flows decline
68 as the company forgoes investment that would have been available to it had its
69 financial condition been stronger, including the expected value of the income tax
70 shield from debt financing. Beyond a certain point, a growing dependence on
71 debt as a source of funds increases the overall cost of capital. Therefore, the
72 Commission should not determine the overall rate of return from a utility's actual
73 capital structure if the Commission concludes that capital structure adversely
74 affects the overall cost of capital.

³ The tax advantage debt has over equity at the corporate level is partially offset at the individual investor level. Debt investors receive returns largely in the form of current income (*i.e.* interest). In contrast, equity investors receive returns in the form of both current income (*i.e.* dividends) and capital appreciation (*i.e.* capital gains). Taxes on common dividends and capital gains are lower than taxes on interest because common dividend and capital gains tax rates are lower and taxes on capital gains are deferred until realized.

75 An optimal capital structure would minimize the cost of capital and maintain a
76 utility's financial integrity. Unfortunately, determining whether a capital structure
77 is optimal remains problematic because (1) the cost of capital is a continuous
78 function of the capital structure, rendering its precise measurement along each
79 segment of the range of possible capital structures problematic; (2) the optimal
80 capital structure is a function of operating risk, which is dynamic; and (3) the
81 relative costs of the different types of capital vary with dynamic market
82 conditions. Consequently, one should determine whether the capital structure is
83 consistent with the financial strength necessary to access the capital markets
84 under most economic conditions, and if so, whether the cost of that financial
85 strength is reasonable.

86 In my judgment, the capital structures I recommend reflect a reasonable balance
87 of financial strength and cost. I present my analysis of the Companies' capital
88 structures later in my testimony.

89 **METHODOLOGICAL ADJUSTMENTS APPLICABLE TO ALL AMEREN UTILITIES**

90 **BALANCE OF SHORT-TERM DEBT**

91 **Q. Please describe your adjustment to the short-term debt balance**
92 **measurement period that would be applicable to all the Companies.**

93 **A.** For CIPS and CILCO, I changed the measurement period from the twelve
94 months ending June 2007 to the twelve months ending December 2007 to align
95 the time center with the June 30, 2007 measurement date for long-term debt,

96 preferred stock and common equity. Similarly, for IP, I changed the
97 measurement period from the twelve months ending December 2006 to the
98 twelve months ending June 2007 to align the time center with the December 31,
99 2006 measurement date for IP's long-term debt, preferred stock and common
100 equity.⁴

101 **Q. Why did you change the measurement periods to have a midpoint that**
102 **coincides with the measurement date of the long-term capital structure**
103 **components?**

104 A. A short-term debt balance measurement period with a midpoint that coincides
105 with the measurement date of the long-term capital structure components better
106 aligns the average balance of short-term debt with the long-term term capital
107 structure components.

108 **Q. Please explain why aligning the midpoint of a twelve-month average**
109 **balance with the measurement date of the long-term capital structure**
110 **components is superior to aligning the endpoint of a twelve-month average**
111 **balance with the measurement date of the long-term capital structure**
112 **components.**

113 A. The balances of short-term debt and long-term capital structure components can
114 be perfectly aligned only if both are measured on the exact same dates. From a
115 practical standpoint, that means measuring the short-term and long-term capital

⁴ CILCO and CIPS propose a June 30, 2007 capital structure measurement date. IP proposes a December 31, 2006 capital structure measurement date. AmerenCILCO Ex. 8.1; AmerenCIPS Ex. 8.1 and AmerenIP Ex. 8.1.

116 structure component balances either on the same, single date (e.g. June 30,
 117 2007) or as an average of the same twelve-month period. The former has the
 118 disadvantage of not smoothing out the variation that often exists in short-term
 119 debt balances. The latter has the disadvantage of being more time consuming
 120 and prone to measurement error due to the greater amount of data and
 121 calculations involved. A reasonable, practical solution to those disadvantages is
 122 to measure the long-term capital components on a single date, while smoothing
 123 out the variation in short-term debt by using a twelve-month average centered on
 124 the measurement date of the long-term capital structure components.

125 As the table shows, a twelve-month average centered on the June 30, 2007
 126 measurement date of CILCO's and CIPS' long-term capital structure components
 127 minimizes the total number of months that are misaligned. Using Staff's
 128 methodology, the total misalignment between long-term and short-term capital
 129 balances is 42 months. In contrast, using the Companies' methodology results in
 130 the total misalignment of 78 months.

Date of Short-Term Debt Balance	No. of Mos. from Long-Term Capital Balance Measurement Date of 6/30/2007	
	Company Method	Staff Method
June 2006	12	
July 2006	11	
August 2006	10	
September 2006	9	
October 2006	8	
November 2006	7	
December 2006	6	6
January 2007	5	5
February 2007	4	4
March 2007	3	3
April 2007	2	2
May 2007	1	1

June 2007	0	0
July 2007		1
August 2007		2
September 2007		3
October 2007		4
November 2007		5
December 2007		6
Total Misalignment from Date of Long-Term Capital Balances	78	42

131

132 This principle also applies to IP's December 31, 2006 capital structure
133 measurement date.

134 **Q. Did you make any other adjustments to the short-term debt balance that**
135 **would be applicable to all the Companies?**

136 A. Yes. The Ameren utilities' calculation of net short-term debt subtracts cash from
137 each month-end gross short-term debt balance.⁵ This adjustment is improper
138 because cash is not a part of short-term indebtedness. Thus, my short-term debt
139 calculation does not net out cash. However, my short-term debt calculation
140 reduces monthly gross short-term debt balances for each Company in an amount
141 equal to its month-end balance of bank loan contributions to the Ameren utility
142 money pool.^{6,7}

⁵ Schedule D-2 "Short-Term Debt Data" work papers, submitted in CILCO's CIPS' and IP's Part 285 filing on November 2, 2007.

⁶ The Ameren utility money pool is a Commission-authorized borrowing arrangement that allows the utilities to contribute surplus funds to a pool of funds that provide short-term loans to utility affiliates only. The Ameren utility money pool was authorized by the Commission in Docket No. 03-0214 (7/9/2003).

⁷ In the Ameren utilities' prior electric delivery services rate proceeding, Staff applied an AFUDC formula-based adjustment to CIPS' balances of long-term debt, preferred stock and common equity, which the Companies did not oppose. (Docket Nos.06-0070/0071/0072 (cons.), ICC Staff Ex. 5.0, pp. 22-25 and Respondents' Ex. 15.1, p. 9) In the instant proceeding, Staff did not apply the AFUDC formula-based

143 **Q. Please explain why you reduced short-term debt balances for each month**
144 **in which the Ameren utilities borrowed externally to make loans to utility**
145 **affiliates using the Ameren utility money pool.**

146 A. Cash is fungible and cannot generally be traced from source to use.
147 Nevertheless, a portion of CILCO's, CIPS' and IP's short-term balances coincide
148 with contributions to the Ameren utility money pool. In those instances where
149 there is a clear, proximate connection between a company's short-term debt
150 balance and its contributions to the utility money pool, netting money pool
151 contributions out of gross short-term debt is appropriate because in that instance,
152 that lender (*i.e.* CILCO, CIPS, or IP) is serving as a pass through entity for the
153 borrowings of its utility affiliates. To avoid double counting bank loans from the
154 Companies' credit facilities,⁸ such short-term loans to the utility money pool
155 should be included in the borrower's capital structure but not the lender's capital
156 structure.⁹

157 **COST OF SHORT-TERM DEBT**

158 **Q. Please summarize your adjustments to the Companies' costs of short-term**
159 **debt.**

adjustment because such adjustment is unnecessary for CILCO and the affect of such adjustment on CIPS' and IP's capital structures would be immaterial.

⁸ The credit facility is the loan agreement that the utilities use to obtain short-term bank loans and is referenced in D-2 Supporting Schedule, submitted in CILCO's, CIPS' and IP's Part 285 filing on November 2, 2007.

⁹ Each Company's gross short-term debt balance includes money pool loans. See Schedule D-2 "Short-Term Debt Data" work papers, submitted in CILCO's, CIPS' and IP's Part 285 filing on November 2, 2007.

160 A. I made three adjustments to the costs of short-term debt for IP, CIPS and CILCO.
161 First, I updated the LIBOR rate to reflect rates as of March 6, 2008. That LIBOR
162 rate and each utility's current credit rating serve as the basis for calculating each
163 Company's baseline bank loan rate according to the credit facility pricing
164 schedule.¹⁰ Second, I estimated a dollar-weighted average usage fee¹¹ for each
165 Company during its' short-term debt measurement period. Finally, I estimated a
166 weighted-average cost for loans IP borrowed from the Ameren utility money pool,
167 again using March 6, 2008 as the measurement date for the cost rates. That last
168 adjustment does not apply to CILCO or CIPS since IP was the only Company
169 that borrowed money pool funds at rates that differed from its bank loan rate.

170 **Q. Please describe how you calculated CILCO's, CIPS' and IP's baseline bank**
171 **loan rate.**

172 A. My interest rate calculation begins with the 2.89% six-month LIBOR rate on
173 March 6, 2008,¹² which is a more current estimate of the basis for each utility's
174 short-term bank loan rate than the June 2007 six-month LIBOR rate used in the
175 Companies' short-term debt cost calculation.¹³ Then, using the credit facility

¹⁰ Provided as a Schedule D-2 work paper in CILCO's, CIPS' and IP's Part 285 filings on November 2, 2007.

¹¹ The Companies' credit facilities refer to two different Eurodollar fees, which are adders to the base LIBOR rate for borrowings under the credit facilities. One of the Eurodollar fees is effective when credit facility capacity utilization is less than or equal to 50%; the other Eurodollar fee is effective when credit facility capacity utilization is greater than 50%. The difference between those two Eurodollar fees is 25 basis points given the Companies' credit ratings. Hereafter, I will refer to the additional 25 basis points the Companies incur for incremental bank loans when aggregate borrowings exceed 50% of the credit facility capacities as the "usage fee."

¹² *The Wall Street Journal*, "Markets Data Center," March 7, 2008 (www.wsj.com).

¹³ Company responses to ICC Staff data requests RP 7.04, RP 7.05 and RP 7.06.

176 pricing schedule, I added the applicable Eurodollar margin to the LIBOR rate.
177 The Eurodollar margin varies according to the borrower's senior secured credit
178 rating and while CILCO and CIPS are currently "Level IV" borrowers, IP is a
179 "Level V" borrower. The Eurodollar margins for Level IV and Level V status
180 equal 0.825% and 1.000%, respectively (excluding usage fees). Thus, on March
181 6, 2008, CILCO's and CIPS' baseline bank loan rates equal 3.72%; and IP's
182 baseline bank loan rate equals 3.89%.

183 **Q. Please describe the usage fee adjustment.¹⁴**

184 A. The credit facility interest rate increases for any borrowings under each credit
185 facility that result in aggregate borrowings exceeding 50% of the credit facility
186 capacity.¹⁵ On the Companies' short-term debt cost measurement date,
187 September 30, 2007, CILCO, CIPS and IP were paying usage fees on their bank
188 loans. Each Company's cost of short-term debt cost estimate includes the full 25
189 basis point usage fee.¹⁶ Consequently, the Companies' method of estimating the
190 cost of short-term debt implies that the utilities will incur the usage fee on all
191 credit facility borrowings as long as rates set in this proceeding remain effective.

192 That assumption does not reflect the Companies' actual experience during their

¹⁴ The usage fee adjustments I recommend are provided in the Balance and Cost of Short-Term Debt sections of each Company.

¹⁵ Any borrowing that is drawn at a time when facility usage is greater than 50% of capacity is subject to the usage fee. However, the interest rate on any borrowings that are drawn when facility usage was at 50% of capacity or below are not affected throughout their terms to maturity even if the facility usage should rise above 50% during the terms of those loans. Company response to ICC Staff data request RP 2.08.

¹⁶ AmerenCILCO Exs. 8.0G and 8.0E, lines 105-110; AmerenCIPS Ex. 8.0G, lines 100-105 and Ex. 8.0E, lines 99-104; AmerenIP Ex. 8.0G, lines 103-110 and Ex. 8.0E, lines 103-110.

193 short-term debt measurement periods and, thus, overstates the utilities' cost of
194 short-term debt.

195 **Q. How did you estimate the proportion of credit facility loans that would incur**
196 **the usage fee?**

197 A. For each company, I estimated the proportion of credit facility loans that would
198 incur the usage fee with the following ratio: the denominator equals the sum of
199 the Company's daily dollars outstanding under both credit facilities during the
200 short-term debt measurement period; the numerator equals the sum of (1) daily
201 dollars outstanding for all days during the short-term debt measurement period in
202 which the utilities' aggregate 2006 credit facility borrowings exceeded 50% and
203 the Company was a 2006 credit facility borrower; and (2) daily dollars
204 outstanding for all days during the short-term debt measurement period in which
205 the utilities' aggregate 2007 credit facility borrowings exceeded 50% and the
206 Company was a 2007 credit facility borrower. Although this weighted average
207 does not precisely reflect the proportion of total credit facility loans in which each
208 Company incurred a usage fee (see footnote 12), it should be sufficiently
209 accurate given the amount of the usage fee and the small proportion of total
210 capital the Companies' credit facility loans compose.

211 **Q. Ameren Energy Resources Generating Company (AERG) and CILCORP,**
212 **Inc. are also borrowers under the 2006 and 2007 credit facilities. Did you**
213 **include their borrowings in your calculation of aggregate utility borrowings**
214 **under the credit facilities?**

215 A. No. My understanding is that Section 9-230 of the Illinois Public Utilities Act (the
216 “Act”) prohibits including in a utility’s allowed rate of return any increased cost of
217 capital which is the direct or indirect result of the public utility’s affiliation with
218 unregulated or nonutility companies.¹⁷ Thus, I have assumed that under that
219 provision of the Act, the Ameren utilities’ allowed rates of return cannot include
220 usage fees incurred whenever the usage fee would not have been triggered had
221 non-utility affiliates AERG and CILCORP not also borrowed from the credit
222 facilities.

223 **Q. How did you weight borrowings from the money pool?**

224 A. Using the formula for money pool loan interest rates,¹⁸ I incorporated a weighted-
225 average money pool rate into IP’s cost of short-term debt. This adjustment
226 applies only to IP because only IP borrowed money pool funds at the internal
227 borrowing rate during its short-term debt measurement period and IP incurred a
228 different external rate due to the fact that IP’s senior secured credit rating is lower
229 than CIPS’ and CILCO’s ratings. Thus, I will describe the additional weighting
230 factor applicable to IP in my discussion of IP’s short-term debt cost.

¹⁷ 220 ILCS 5/9-230.

¹⁸ The interest rates for all utility money pool loans are calculated as follows: (1) if the source of money pool funds are exclusively from internal funds (i.e. surplus cash), then the rate equals the CD equivalent of the 30-day Federal Reserve AA Non-financial commercial paper composite rate; (2) if the source of money pool funds are exclusively from external funds (i.e. bank loans), then the rate equals the lending party’s cost of such external funds; and (3) if both internal and external sources make up available money pool funds, then the rate charged on pool loans equal a weighted average blend of the internal and external money pool rate, based on the proportion of each that make up the blend. AmerenCILCO’s, AmerenCIPS’ and AmerenIP’s Schedule D-2 Supporting work papers, provided in each Company’s Part 285 filing on November 2, 2007.

231 EMBEDDED COST OF LONG-TERM DEBT

232 **Q. How did you estimate the current rate for the Companies' auction rate**
233 **pollution control bonds?**

234 A. Each of the Companies has outstanding variable rate long-term indebtedness
235 that are pollution control bonds ("PCBs") with interest rates established every 7
236 or 35 days through an auction (the "auction rate PCBs"). During December
237 2007, Moody's Investors Service ("Moody's") placed the credit ratings of the
238 companies that insure the utilities' auction rate PCBs on review for possible
239 downgrade and Standard & Poor's ("S&P") assigned the ratings of those bond
240 insurance companies to Negative CreditWatch or assigned their ratings negative
241 Outlooks.¹⁹ Those negative credit rating actions preceded a dramatic increase in
242 the interest rates for the auction rate PCBs. On February 13, 2008, CIPS' and
243 CILCO's auctions failed to attract sufficient bids. Consequently, the interest rate
244 on their auction rate PCBs defaulted to 18%; during the same week, two of IP's
245 auction rate PCBs had interest rates of 10% and 12%, the latter of which
246 represents the default rate on an auction that failed to attract sufficient bids.²⁰ In

¹⁹ According to S&P, "Outlooks and CreditWatch are used in a changing credit situation when a rating change is not yet certain... The greater the likelihood of a rating change, the more compelling the use of CreditWatch, with guidelines of at least a one in two likelihood of a ratings change occurring in the short-term, typically within 90 days... Outlooks have a longer time horizon than CreditWatch listings and incorporate trends or risks with less certain implications for credit quality. The time frame for an outlook generally is up to two years." Standard & Poor's Research, "S&P Takes Rating Actions on Six Bond Insurers," December 19, 2007.

²⁰ Company response to ICC Staff data request RP 8.03.

247 contrast, during September 2007, the Ameren utilities' auction rate PCBs had
248 interest rates of approximately 4%.²¹

249 Specifically, CILCO's auction rate PCBs are insured by Financial Guaranty
250 Insurance Company ("FGIC"); CIPS' auction rate PCBs are insured by XL Capital
251 Assurance Inc.; and IP's auction rate PCBs are insured by AMBAC Assurance
252 Corporation ("AMBAC") and MBIA Insurance Corporation ("MBIA").²² On
253 December 14, 2007, Moody's placed the ratings of FGIC and XL Capital
254 Assurance on review for possible downgrade and changed MBIA's rating outlook
255 to negative.²³ On December 19, 2007, S&P assigned the ratings of FGIC a
256 Negative CreditWatch and assigned AMBAC, XL Capital Assurance and MBIA
257 ratings negative rating outlooks.²⁴

258 During the period rates set in this proceeding are in effect, one of two events is
259 likely to occur: 1) the market for insured tax-exempt bonds will return to a more
260 stable equilibrium in which the interest rates on such indebtedness reflect the

²¹ Schedule D-3 supporting work papers, which were provided in the initial rate case filing on November 2, 2007.

²² Company response to ICC Staff data request RP 10.01.

²³ Moody's Investors Service Global Credit Research Rating Action, "Moody's announces rating actions on financial guarantors," December 14, 2007.

²⁴ Standard & Poor's Research, "S&P Takes Rating Actions on Six Bond Insurers," December 19, 2007. According to S&P, "Outlooks and CreditWatch are used in a changing credit situation when a rating change is not yet certain... The greater the likelihood of a rating change, the more compelling the use of CreditWatch, with guidelines of at least a one in two likelihood of a ratings change occurring in the short-term, typically within 90 days... Outlooks have a longer time horizon than CreditWatch listings and incorporate trends or risks with less certain implications for credit quality. The time frame for an outlook generally is up to two years."

261 risks of default; or 2) the Companies will refinance the auction rate PCBs.²⁵ The
262 results of the last auctions available to me at this time are not reasonable
263 estimates of the rates the Companies will incur on the associated indebtedness
264 in either of those events. Since I do not know which of those two events will
265 occur, I estimated the cost of the auction rate PCBs using the interest rates from
266 the last auctions prior to the December 2007 rating actions by Moody's and S&P
267 on the companies that insure the Ameren utilities' auction rate PCBs.

268 **Q. What other adjustments did you make to the embedded cost of long-term**
269 **debt that is applicable to all the Companies?**

270 A. I changed various dates on the long-term debt schedules to conform to the dates
271 in each Company's 2006 Form 21 annual report and set the annual amortization
272 of expense, premium or discount, and loss or gain for each debt issue using a
273 rate that recovers those debt costs in equal monthly amounts between the
274 embedded cost of debt measurement date and the end of the debt issues
275 amortization period. In this particular case, this adjustment does not affect the
276 estimated embedded cost of debt for the Companies.²⁶

²⁵ The Commission granted the Ameren utilities authority to issue new indebtedness for the purpose of refinancing the auction rate PCBs if the Companies so choose. Orders, Docket Nos. 08-0143 through 08-0148, March 12, 2008.

²⁶ For some bond issues, my calculations of unamortized balances and annual amortization expense differed from the Companies' calculation. In such cases, I used my straight-line amortization calculation; however, none of those adjustments had a material effect on the Companies' embedded cost of long-term debt.

277 COMMON EQUITY BALANCE

278 **Q. Please describe your adjustment to the common equity balance that would**
279 **be applicable to all the Companies.**

280 A. I adjusted each Company's common equity balance by removing
281 "Unappropriated undistributed subsidiary earnings".²⁷ None of the Ameren
282 utilities have subsidiaries with utility operations; consequently, for ratemaking
283 purposes, unappropriated undistributed subsidiary earnings should not be
284 included in the utilities' common equity balance.

285 **CAPITAL STRUCTURE COMPONENTS**

286 CENTRAL ILLINOIS LIGHT COMPANY (CILCO)

287 Balance and Cost of Short-Term Debt

288 **Q. What is your estimate of the balance of short-term debt for CILCO?**

289 A. CILCO's balance of short-term debt equals \$82,500,351, which is shown on
290 Schedule 4.02 CILCO.

291 **Q. What is your estimate of the cost of short-term debt for CILCO?**

292 A. My estimate of CILCO's cost of short-term debt equals 4.04%. That estimate is
293 derived from CILCO's month-end short-term debt balances, by weighting the

²⁷ Company response to ICC Staff data request 4.09; Central Illinois Public Service Company 2006 Form 21 ILCC Annual Report, p. 4; and Illinois Power Company, 2006 Form 21 ILCC Annual Report, p. 4.

294 baseline bank loans rate (3.72%) and the usage fee bank loan rate (3.97%)
295 according to the proportion of dollars borrowed during the short-term debt
296 measurement period that CILCO incurred a usage fee due to aggregate utility
297 borrowings only, or 58.8%. On that basis, CILCO's dollar-weighted bank loan
298 rate equals 3.87%. Finally, I added the annual 0.175% Level IV facility fee to
299 CILCO's dollar-weighted bank loan rate to estimate CILCO's 4.04% cost of short-
300 term debt.

301 Balance and Embedded Cost of Long-Term Debt

302 **Q. What are your estimates of the balance and embedded cost of long-term**
303 **debt for CILCO?**

304 A. As Schedule 4.03 CILCO shows, as of June 30, 2007, CILCO's balance of long-
305 term debt equals \$141,064,706; the embedded cost of long-term debt equals
306 6.65%.

307 Balance and Embedded Cost of Preferred Stock

308 **Q. What are your estimates of the balance and embedded cost of preferred**
309 **stock for CILCO?**

310 A. As Schedule 4.04 CILCO shows, as of June 30, 2007, CILCO's balance of
311 preferred stock equals \$36,450,058; the embedded cost of its preferred stock
312 equals 5.34%.

313 Balance of Common Equity

314 **Q. What is your estimate of the balance of common stock for CILCO?**

315 A. As Schedule 4.01 CILCO shows, CILCO's balance of common equity equals
316 \$217,459,214 as of June 30, 2007.

317 **Q. Did you make any adjustments to CILCO's proposed common equity**
318 **balance?**

319 A. Yes. I adjusted CILCO's common equity balance by removing approximately \$2
320 million of AERG Accumulated Other Comprehensive Income.²⁸ This adjustment
321 is necessary to completely remove AERG's contribution to CILCO's common
322 equity balance.

323 **CENTRAL ILLINOIS PUBLIC SERVICE COMPANY (CIPS)**

324 Balance and Cost of Short-Term Debt

325 **Q. What is your estimate of the balance of short-term debt for CIPS?**

326 A. CIPS' short-term debt balance equals \$75,752,646, which is shown on Schedule
327 4.02 CIPS.

²⁸ Company response to ICC Staff data request RP 4.09. This adjustment is in addition to the adjustment to remove unappropriated undistributed subsidiary earnings, which applied to all the Ameren utilities.

328 **Q. Other than the adjustments mentioned previously that are applicable to all**
329 **the Companies, did you make any adjustments to CIPS' proposed short-**
330 **term debt balance?**

331 A. Yes. I reversed the Company's proposed adjustment to reduce short-term debt
332 by the amount of the payment received from its affiliate on May 1, 2007.

333 **Q. Please describe CIPS' adjustment to reduce its short-term debt balance by**
334 **the amount of the payment it received from its non-utility affiliate.**

335 A. For each month beginning December 2006 through April 2007, CIPS reduced its
336 month-end short-term debt balances by \$36,610,667, to reflect the May 1, 2007
337 payment of \$36,610,667 received from Ameren Energy Generating Company.²⁹
338 The Company did not explain how this adjustment results in a correct net short-
339 term debt balance for CIPS.³⁰ Thus, I did not reduce my proposed short-term
340 debt balance for CIPS by the amount of the AEGC amortization payment CIPS
341 received on May 1, 2007.

342 **Q. What is your estimate of the cost of short-term debt for CIPS?**

343 A. My estimate of CIPS' cost of short-term debt equals 4.01%. That estimate is
344 derived from CIPS' month-end short-term debt balances, by weighting the

²⁹ AmerenCIPS Exhibit 8.3.

³⁰ The Company's response to ICC Staff data request RP 5.05 states: "Given that the calculation of short-term debt at AmerenCIPS involves an average of the short-term debt balances over the twelve months ended June 30, 2007, a pro forma adjustment for the May 1, 2007 annual principal payment of \$36,610,667 received from AEGC is appropriate. By accounting for this principal payment, the correct balance of net short-term debt at AmerenCIPS is reflected during those four months of 2007 and results in a proper LTM average short-term balance."

345 baseline bank loans rate (3.72%) and the usage fee bank loan rate (3.97%)
346 according to the proportion of dollars borrowed during the short-term debt
347 measurement period that CIPS incurred a usage fee due to aggregate utility
348 borrowings only, or 47.7%. On that basis, CIPS' dollar-weighted bank loan rate
349 equals 3.84%. Finally, I added the annual 0.175% Level IV facility fee to CIPS'
350 dollar-weighted bank loan rate to estimate CIPS' 4.01% cost of short-term debt.

351 **Balance and Embedded Cost of Long-Term Debt**

352 **Q. What is your estimate of the balance and embedded cost of long-term debt**
353 **for CIPS?**

354 A. As Schedule 4.03 CIPS shows, as of June 30, 2007, CIPS' balance of long-term
355 debt equals \$446,741,385; the embedded cost of its long-term debt equals
356 6.27%.

357 **Q. Did you make any adjustments to CIPS' proposed balance and embedded**
358 **cost of long-term debt?**

359 A. Yes. In May 2005, Union Electric Company ("UE") transferred its Illinois utility
360 assets to CIPS in exchange for a \$67 million, five-year promissory note bearing a
361 4.7% interest rate. On June 14, 2006, CIPS issued \$61.5 million, 30-year bonds
362 with a 6.7% interest rate and used the proceeds from that debt issuance to pre-
363 pay the intercompany note held by UE. Although interest rates had risen since

364 May 2005,³¹ CIPS did not receive any discount on the repurchase price of the
365 promissory note.³² My understanding is that Section 9-230 of the Act prohibits
366 including any increased cost of capital that is the direct or indirect result of the
367 public utility's affiliation with unregulated or nonutility companies in its allowed
368 rate of return.³³ I removed from CIPS' embedded cost of long-term debt any
369 incremental cost increase due to its decision to refinance the 4.7% intercompany
370 note with 6.7% bonds because (1) the loan agreement between CIPS and UE did
371 not oblige CIPS to retire the promissory note at face value on the demand of UE;
372 and (2) in a transaction with an unaffiliated counterparty without such a provision,
373 appropriate compensation would be necessary to induce an entity to repurchase
374 debt bearing a below-market debt interest rate.

375 Specifically, I made the following adjustments. First, I divided the balance of the
376 6.7% debt issuance in two components. The first component, to which I applied
377 a 4.7% interest rate, equals the \$55,688,092 balance on the 4.7% intercompany
378 note that would have been outstanding as of June 30, 2007 had CIPS not retired
379 it before its maturity date. The second component, to which I applied a 6.7%
380 interest rate, is \$5,811,908, which equals the \$61.5 million balance of the 6.7%
381 bonds less the June 30, 2007 balance of the 4.7% intercompany note had it not

³¹ On May 5, 2006, concurrent interest rates for 3-year and 5-year BBB+/Baa1 bonds indicate the implied yield on four-year BBB+/Baa1 bonds equaled approximately 5.7% versus 4.7% on May 2, 2006, when CIPS issued the intercompany note.

³² As interest rates rise, the market value of outstanding fixed-interest rate debt falls such that yield on that debt is competitive with that on new debt that pays interest at the new, higher interest rates.

³³ 220 ILCS 5/9-230.

382 been refinanced with the 6.7% bonds. Second, I reduced the unamortized
383 balances of debt discount and expense for the 6.7% bonds to approximately
384 9.5% of the June 30, 2007 balance, to reflect only the proportion of the principal
385 amount of the 6.7% bonds that I included in CIPS' embedded cost of long-term
386 debt. Third, I used straight-line amortization to calculate the annual amortization
387 expense for debt discount and expense relative to the prorated unamortized
388 balance.

389 **Balance and Embedded Cost of Preferred Stock**

390 **Q. What is your estimate of the balance and embedded cost of preferred stock**
391 **for CIPS?**

392 A. As Schedule 4.04 CIPS shows, as of June 30, 2007, CIPS' balance of preferred
393 stock equals \$48,974,982; the embedded cost of its preferred stock equals
394 5.13%.

395 **Balance of Common Equity**

396 **Q. What is your estimate of the balance of common equity for CIPS?**

397 A. As Schedule 4.01 CIPS shows, CIPS' balance of common equity equals
398 \$506,691,386 as of June 30, 2007.

399

ILLINOIS POWER COMPANY (IP)

400

Balance and Cost of Short-Term Debt

401

Q. What is your estimate of the balance of short-term debt for IP?

402

A. IP's short-term debt balance equals \$82,506,936, which is shown on Schedule

403

4.02 IP.

404

Q. What is your estimate of the cost of short-term debt for IP?

405

A. I estimate IP's cost of short-term debt is 3.93%. That estimate is derived from a

406

dollar-weighted bank loan rate and a weighted-average money pool rate.

407

Q. Please describe the weighting methodology you used to estimate IP's cost of short-term debt.

408

409

A. My estimate of IP's cost of short-term debt equals 3.93%. That estimate is

410

derived from IP's month-end short-term debt balances, by weighting the baseline

411

bank loans rate (3.89%) and the usage fee bank loan rate (4.14%) according to

412

the proportion of dollars borrowed during the short-term debt measurement

413

period that IP incurred a usage fee due to aggregate utility borrowings only, or

414

16%. On that basis, IP's dollar-weighted bank loan rate equals 3.93%. Finally, I

415

added the annual 0.25% Level IV facility fee to IP's dollar-weighted bank loan

416

rate to estimate IP's 4.18% cost of short-term bank loans.

417 Additionally, IP's short-term debt balance includes money pool loans borrowed at
418 the internal money pool rate (which equals the AA Non-Financial commercial
419 paper rate) and the external money pool rate (which equals the actual rate on the
420 externally borrowed funds – in this case the bank loan rates for CIPS and
421 CILCO). As such, I calculated additional weighting factors for IP, which reflect
422 (1) the dollar weighted proportion of loans borrowed at the internal money pool
423 rate during the short-term debt measurement period; and (2) the dollar weighted
424 proportion of the loans borrowed at the external money pool rate during the
425 short-term debt measurement period. The internal money pool rate equals the
426 AA Non-Financial commercial paper rate on March 6, 2008, or 2.70%; the
427 external money pool rate equals the average of CILCO's and CIPS' cost of short-
428 term bank loans, or 4.03%. During IP's short-term debt measurement period,
429 short-term debt was comprised of the following dollar weighted proportions:
430 16.8% internal rate money pool loans, 5.3% external rate money pool loans,
431 77.9% bank loans. Thus, I concluded IP's cost of short-term debt equals 3.93%.

432 Balance and Embedded Cost of Transitional Funding Notes ("TFTNs")³⁴

433 **Q. What are your estimates of the balance and embedded cost of TFTNs for**
434 **IP?**

³⁴ TFTNs are debt instruments that are securitized with intangible transition property, which gives the holder, Illinois Power Special Purpose Trust ("IPSPT"), the right to collect instrument funding charges from IPC's retail customers. IPC transferred the intangible transition property to IPSPT in exchange for the proceeds from the sale of the TFTNs.

435 A. As Schedule 4.05 IP shows, as of December 31, 2006, IP's balance of TFTNs
436 equals \$171,533,494; the embedded cost of its TFTNs equals 4.92%.

437 **Q. Please explain why your 4.50% estimate of the TFTN coupon rate shown in**
438 **column (A) of Schedule 4.05 IP differs from the 5.6% rate presented in**
439 **column C2 of AmerenIP Exhibit 8.5.**

440 A. I made three adjustments to AmerenIP Exhibit 8.5, which reduced the TFTN
441 internal rate of return (IRR) to 4.5%. Two of those adjustments correct errors in
442 the Company's IRR calculation and the third adjustment annualizes the monthly
443 discount rate (rather than compounds the discount rate) used in the TFTN
444 analysis.

445 First, I adjusted the TFTN analysis to calculate the IRR as of IP's capital structure
446 measurement date (*i.e.* December 31, 2006). The Company's analysis
447 incorrectly includes an additional year of cash flows in its analysis because the
448 IRR calculation begins January 1, 2006.

449 Second, the amount of "Net Proceeds Used to Retire Principal" in my IRR
450 calculation is \$100,000 higher than the Company's IRR calculation. According to
451 the TFTN prospectus, the Trust is required to retain \$4,220,000 of TFTN sale
452 proceeds in the capital subaccount rather than the \$4,320,000 amount the

453 Company's calculation assumes; as such, the \$4,220,000 amount should be
454 used in the TFTN IRR calculation.³⁵

455 Third, the TFTN coupon rate is calculated using an analysis that finds the
456 monthly discount rate that equates the cumulative present value of the monthly
457 cash servicing costs of the TFTNs to the principal outstanding net of over-
458 collateralization. IP's analysis calculates an annual discount rate that reflects
459 monthly compounding.³⁶ In contrast, I calculated the monthly discount rate,
460 $r_{monthly}$, and multiplied it by twelve to annualize it.

461 **Q. Why do you disagree with using a discount rate that has been annualized**
462 **through monthly compounding?**

463 A. Annualizing a periodic rate of return by compounding it to the power equal to the
464 number of periods in a year is necessary for determining the required rate of
465 return from the perspective of investors.³⁷ However, the cost of TFTNs is
466 embedded; that is, the cost of TFTNs is calculated from the perspective of the

³⁵ \$864,000,000 Illinois Power Special Purpose Trust Transitional Funding Trust Notes, Series 1998-1, Prospectus Supplement, p. S-18, states, "Upon the issuance of the Offered Notes, the Trust will retain proceeds in the amount of \$4,220,000, which is 0.05 percent of the initial aggregate Class Principal Balance for all of the Offered Notes less \$100,000 in the aggregate for all series of Notes."

³⁶ IP discounted the cash flow in month t with the factor $(1 + r)^{t/12}$ where r is the annualized discount rate. That discount factor equals $(1 + r_{monthly})^t$ where $r_{monthly}$ is the monthly discount rate. Since $(1 + r)^{t/12} = (1 + r_{monthly})^t$, it follows that $r = (1 + r_{monthly})^{12} - 1$. Thus, IP's discount methodology produces a rate of return that is equivalent to a monthly compounded rate of return.

³⁷ While raising a periodic rate of return to the power equal to the number of periods in a year is a necessary condition for accurately measuring the annual investor-required rate of return, it is not a sufficient condition. The periodic rate of return must be based on the market value of the investment; that is, the correct periodic discount rate is that which equates the cumulative present value of the cash flows to the market value of an investment. In contrast, the cost of TFTNs is based on principal amount outstanding rather than market value.

467 utility, not investors. Embedded costs are annualized by multiplying the periodic
468 rate by the number of periods in a year. Thus, while most bonds pay interest
469 semi-annually, the annual coupon interest rate is stated at double the semi-
470 annual coupon rate rather than the compound annual rate of return.³⁸ For
471 example, if \$200 million in TFTNs had a monthly cash service cost of \$1 million,
472 the monthly cost as a percentage of the TFTN balance would be 0.5%, and the
473 annual cash service would be \$12 million / \$200 million = 0.5% * 12 = 6%. In
474 contrast, IP's methodology would calculate a 6.17% annual service cost rate (i.e.
475 $[1 + 0.5\%]^{12} - 1$), which when applied to the \$200 million balance of TFTNs
476 would produce an annual cash flow of 6.17% * \$200 million = \$12,335,562 rather
477 than the \$12 million needed for the annual TFTN cash service cost.

478 **Balance and Embedded Cost of Long-Term Debt**

479 **Q. What is your estimate of the balance and embedded cost of long-term debt**
480 **for IP?**

481 A. As Schedule 4.03 IP shows, as of December 31, 2006, IP's balance of long-term
482 debt equals \$709,096,036; the embedded cost of long-term debt equals 7.34%.

³⁸ The general formula for compounding an interest rate is $(1 + r)^n - 1$ where n is the number of periods the interest rate r is compounded.

483 Balance and Embedded Cost of Preferred Stock

484 **Q. What is your estimate of the balance and embedded cost of preferred stock**
485 **for IP?**

486 A. As Schedule 4.04 IP shows, as of December 31, 2006, IP's balance of preferred
487 stock equals \$45,786,945; the embedded cost of its preferred stock equals
488 5.01%.

489 Balance of Common Equity

490 **Q. What is your estimate of the balance of common equity for IP?**

491 A. As Schedule 4.01 IP shows, IP's balance of common equity equals
492 \$1,076,124,965 as of December 31, 2006.

493 **Q. Did you make any adjustments to IP's proposed common equity balance**
494 **other than the adjustment you made to the common equity balance that**
495 **would be applicable to all the Ameren utilities?**

496 A. Yes. I adjusted IP's common equity balance by removing the preferred stock
497 premiums, which were improperly included in IP's proposed common equity
498 balance.³⁹

³⁹ IP's common equity balance, as presented on AmerenIP Ex. 8.1, correctly excluded discounts on capital stock (\$81,505), but incorrectly included the premium on capital stock (\$234,700). The net effect of removing those items from the common equity balance is a \$153,195 reduction in the December 31, 2006, common equity balance. This adjustment is in addition to the adjustment to remove unappropriated undistributed subsidiary earnings, which applied to all the Ameren utilities.

499

RATE OF RETURN ON RATE BASE

500 **Q. What is the rate of return on rate base you recommend for CILCO?**

501 A. I recommend a 7.95% rate of return on rate base for CILCO's gas delivery
502 services, which incorporates the 10.72% rate of return on common equity Staff
503 witness Janis Freetly recommends for the Ameren utilities' gas operations. I
504 recommend a 7.96% rate of return on rate base for CILCO's electric delivery
505 services, which incorporates the 10.73% rate of return on common equity Ms.
506 Freetly recommends for the Ameren utilities' electric operations. The rates of
507 return I recommend on CILCO's rate bases are shown on Schedule 4.01 CILCO.

508 **Q. What is the rate of return on rate base you recommend for CIPS?**

509 A. I recommend an 8.15% rate of return on rate base for CIPS' gas delivery
510 services, which incorporates Ms. Freetly's 10.72% rate of return on common
511 equity recommendation for the Ameren utilities' gas operations. I recommend an
512 8.13% rate of return on rate base for CIPS' electric delivery services, which
513 incorporates Ms. Freetly's 10.68% rate of return on common equity
514 recommendation for the Ameren utilities' electric operations. The rates of return I
515 recommend on CIPS' rate bases are shown on Schedule 4.01 CIPS.

516 **Q. What is the rate of return on rate base you recommend for IP?**

517 A. I recommend an 8.70% rate of return on rate base for IP's gas delivery services,
518 which incorporates Ms. Freetly's 10.72% rate of return on common equity
519 recommendation for the Ameren utilities' gas operations. I recommend an 8.68%

520 rate of return on rate base for IP's electric delivery services, which incorporates
521 Ms. Freetly's 10.68% rate of return on common equity recommendation for the
522 Ameren utilities' electric operations. The rates of return I recommend on IP's rate
523 bases are shown on Schedule 4.01 IP.

524 **Q. Staff witness Freetly indicates that if the Commission approves Rider VBA**
525 **for the gas companies then the cost of equity should be adjusted**
526 **downwards to reflect the decrease in risk.⁴⁰ Do your cost of capital**
527 **recommendations reflect that downward adjustment to the cost of equity?**

528 A. No, they do not. In the event the Commission approves Rider VBA, the
529 referenced cost of equity adjustment will necessarily result in a reduction to my
530 cost of capital recommendations for the gas operations of CILCO, CIPS and IP.

531 **Q. How did you evaluate the Companies' capital structures?**

532 A. I compared the debt ratios from Staff's proposed capital structures for the
533 Companies to Moody's benchmark total debt to total capital ratio for medium risk
534 electric utilities. CILCO's, CIPS' and IP's 47%, 48% and 46% debt ratios,
535 respectively, fall within the 40% - 60% debt ratio for A-rated, medium risk electric
536 utilities. According to Moody's, an obligor rated 'A' is considered upper-medium
537 grade and is subject to low credit risk.⁴¹

⁴⁰ ICC Staff Ex. 5.0, p. 32.

⁴¹ Moody's Investors Service, *Moody's Ratings Symbols & Definitions*, March 2007, pp. 8 and 11.

538 Further, I considered Ms. Freetly's analysis of the effect of Staff's proposed
539 revenue requirements on the other two Moody's benchmark ratios, funds from
540 operations interest coverage and funds from operations as a percentage of
541 average debt. Ms. Freetly concludes that under Staff's proposed revenue
542 requirement, the financial strength of CILCO is commensurate with an A2 rating
543 and the financial strengths of CIPS and IP are commensurate with an A1 credit
544 rating.⁴² The above suggests that the Ameren utilities' capital structures are
545 commensurate with a strong but not excessive degree of financial strength.

546 **Q. Does this question conclude your prepared Direct Testimony?**

547 **A.** Yes, it does.

⁴² ICC Staff Ex. 5.0, p. 25.

CENTRAL ILLINOIS LIGHT COMPANY

JUNE 30, 2007 COST OF CAPITAL SUMMARY

STAFF PROPOSAL FOR CILCO GAS

Capital Component	Balance	Percent of Total Capitalization	Cost	Weighted Cost
Short-Term Debt	\$82,500,351	17.29%	4.04%	0.70%
Long-Term Debt	141,064,706	29.54%	6.65%	1.96%
Preferred Stock	36,450,058	7.63%	5.34%	0.41%
Common Equity	217,459,214	45.54%	10.72%	4.89%
Total	\$477,474,329	100.00%		7.95%

STAFF PROPOSAL FOR CILCO ELECTRIC

Capital Component	Balance	Percent of Total Capitalization	Cost	Weighted Cost
Short-Term Debt	\$82,500,351	17.29%	4.04%	0.70%
Long-Term Debt	141,064,706	29.54%	6.65%	1.96%
Preferred Stock	36,450,058	7.63%	5.34%	0.41%
Common Equity	217,459,214	45.54%	10.73%	4.88%
Total	\$477,474,329	100.00%		7.96%

COMPANY PROPOSAL

Capital Component	Balance	Percent of Total Capitalization	Cost	Weighted Cost
Short-Term Debt	\$18,274,209	4.40%	6.64%	0.29%
Long-Term Debt	141,064,013	33.92%	6.67%	2.26%
Preferred Stock	36,450,067	8.77%	5.34%	0.47%
Common Equity	220,046,821	52.92%	11.00%	5.82%
Total	\$415,835,110	100.00%		8.84%

REDACTED

CENTRAL ILLINOIS LIGHT COMPANY

SHORT-TERM DEBT BALANCE FOR TWELVE MONTHS ENDED DECEMBER 31, 2007

Date (A)	Gross Short-Term Debt Balance (B)	Contributions to Ameren Utility Money Pool (C)	Adjusted Gross Short-Term Debt Balance (D)	CWIP (E)	CWIP Accruing AFUDC (F)	Net Short-Term Debt Balance (G)	Monthly Average Net Short-Term Debt Balance (H)
December 2006	\$50,000,000			\$12,658,323	\$12,370,698		
January 2007	85,000,000			12,931,968	13,125,605		
February 2007	100,000,000			13,631,503	13,984,165		
March 2007	31,100,000			14,897,349	14,546,833		
April 2007	50,000,000			17,146,759	16,509,786		
May 2007	50,000,000			16,674,101	16,282,787		
June 2007	75,000,000			17,065,402	16,339,481		
July 2007	150,000,000			17,832,963	17,719,220		
August 2007	150,000,000			18,753,686	18,171,743		
September 2007	150,000,000			21,006,675	19,181,890		
October 2007	150,000,000			18,753,686	20,682,290		
November 2007	150,000,000			18,086,499	18,907,839		
December 2007	115,000,000			21,762,837	19,617,554		

Average Net Short-Term Debt Balance = \$82,500,351

Notes: Column (G) = the greater of [Columns (D) – (F)] or [Column (D) – Column (D) / Column (E) x Column (F)]

Sources: CILCO's Schedule D-2 work paper, "Short-Term Debt Data"; Company responses to ICC Staff data requests RP 1.04, RP 1.07 and RP 8.01; and the Ameren utilities' Confidential Money Pool Reports, provided pursuant to 83 Ill. Adm. Code 340.60.

CENTRAL ILLINOIS LIGHT COMPANY
EMBEDDED COST OF LONG-TERM DEBT
JUNE 30, 2007

Debt Issue Type, Coupon Rate (A)	Date Issued (B)	Maturity Date (C)	Principal Amount (D)	Face Amount Outstanding (E)	Unamortized Debt		Carrying Value (H)	Coupon Interest Expense (I)	Amortization of Debt		Annual Interest Expense (L)
					Discount or (Premium) (F)	Expense (G)			Discount or (Premium) (J)	Expense (K)	
Senior Secured Notes											
6.200%	6/14/2006	6/15/2016	54,000,000	54,000,000	171,504	529,092	53,299,404	3,348,000	19,234	59,337	3,426,572
6.700%	6/14/2006	6/15/2036	42,000,000	42,000,000	223,416	559,584	41,217,000	2,814,000	7,726	19,352	2,841,078
Pollution Control Bonds											
6.200% Refunding Series G	7/1/1992	11/1/2012	1,000,000	1,000,000	1,536	20,736	977,728	62,000	288	3,888	66,176
5.900% Refunding Series H	8/1/1993	8/1/2023	32,000,000	32,000,000	0	214,809	31,785,191	1,888,000	0	13,356	1,901,356
4.100% Refunding Series I	11/19/2004	10/1/2039	14,200,000	14,200,000	0	379,647	13,820,353	582,200	0	11,772	593,972
4.100% Refunding Series I	11/19/2004	10/1/2026	5,000,000	5,000,000	0	122,661	4,877,339	205,000	0	6,372	211,372
Total First Mortgage Bonds			\$ 148,200,000	\$ 148,200,000	\$ 396,456	\$ 1,826,529	\$ 145,977,015	\$ 8,899,200	\$ 27,248	\$ 114,077	\$ 9,040,525
Net (Gain)/Loss on Reacquired Debt											
7.730% FMB Series	7/17/2006	6/1/2016	20,000,000			464,603	(464,603)			52,105	52,105
7.730% FMB Series	7/17/2006	6/1/2036	20,000,000			386,261	(386,261)			13,358	13,358
9.625% FMB Series	2/20/1992	1/1/2022	25,000,000			390,978	(390,978)			26,964	26,964
9.250% FMB Series	3/2/1992	1/1/2022	25,000,000			378,276	(378,276)			26,088	26,088
9.250% FMB Series	2/20/1992	1/1/2022	15,000,000			255,606	(255,606)			17,628	17,628
8.200% FMB Series	4/30/2003	1/1/2022	65,000,000			2,022,090	(2,022,090)			139,454	139,454
7.800% FMB Series	4/30/2003	2/1/2023	10,000,000			363,532	(363,532)			23,328	23,328
6.000% PCB Series A	10/1/1992	1/1/2010	5,000,000			780	(780)			312	312
11.375% PCB Series C	9/1/1992	2/1/2018	14,200,000			211,836	(211,836)			20,016	20,016
10.800% PCB Series D	11/2/1992	11/1/2012	1,000,000			14,016	(14,016)			2,628	2,628
6.125% PCB Series B	9/12/1993	8/1/2023	12,000,000			63,883	(63,883)			3,972	3,972
6.200% PCB Series A	10/1/1993	8/1/2023	20,000,000			55,198	(55,198)			3,432	3,432
6.500% PCB Series E	12/22/2004	10/1/2039	14,200,000			272,448	(272,448)			8,448	8,448
6.500% PCB Series F	12/22/2004	10/1/2026	5,000,000			32,802	(32,802)			1,704	1,704
Total Net (Gain)/Loss on Reacquired Debt			\$ 251,400,000	\$ 0	\$ 0	\$ 4,912,309	\$ (4,912,309)	\$ 0	\$ 0	\$ 339,438	\$ 339,438
Total Long-Term Debt			\$ 399,600,000	\$ 148,200,000	\$ 396,456	\$ 6,738,838	\$ 141,064,706	\$ 8,899,200	\$ 27,248	\$ 453,515	\$ 9,379,963
Embedded Cost of Long-Term Debt										<u>6.65%</u>	

Notes: Column (H) = Columns (E) - (F) - (G)
Column (L) = Columns (I) + (J) + (K)
Embedded Cost of Debt = Column (L) ÷ Column (H)

Sources: AmerenCILCO Schedule D-3 and supporting work papers; Central Illinois Light Co. 2006 Form 21, ILCC annual report, pp. 24-28; and Company response to ICC Staff data request RP 8.03.

CENTRAL ILLINOIS LIGHT COMPANY
EMBEDDED COST OF PREFERRED STOCK
JUNE 30, 2007

Stock Issue Type, Dividend Rate (A)	Date Issued (B)	Maturity Date (C)	Shares Outstanding (D)	Amount Outstanding (E)	Premium (Discount) (F)	Issue Expense (G)	Net Proceeds (H)	Annual Dividends (I)	Annual Amort. Of Issue Exp. (J)	Annual Dividends & Expense (K)
\$4.50 Series, \$100 Par	5/12/36		111,264	\$11,126,400	(\$89,518)		\$11,036,882	\$500,688		\$500,688
\$4.64 Series, \$100 Par	8/23/56		79,940	7,994,000	(137,600)		7,856,400	370,922		370,922
\$5.80 Series, \$100 Par	6/8/93	7/1/08	176,000	17,600,000		\$17,567	17,582,433	1,029,600	\$17,567	1,047,167
Reacquired Issues										
7.56% Series	7/8/93	7/1/08				8,276	(8,276)		8,276	8,276
7.72% Series	8/27/93	7/1/08				7,583	(7,583)		7,583	7,583
8.28% Series	8/27/93	7/1/08				9,798	(9,798)		9,798	9,798
Total			367,204	\$36,720,400	(\$227,118)	\$43,224	\$36,450,058	\$1,901,210	\$43,224	\$1,944,434

Embedded Cost of Preferred Stock = 5.34%

Column (H) = Columns (E) + (F) – (G)

Column (K) = Columns (I) + (J)

Embedded Cost of Preferred Stock = Column (K) / Column (H)

Sources: AmerenCILCO Ex. 8.4; AmerenCILCO Schedule D-4 Supporting Schedule; Central Illinois Light Co. 2006 Form 21 ILCC annual report, p. 6; Central Illinois Light Co. FERC Form 1, pp. 250-251; and Company responses to ICC Staff data requests RP 4.03 and RP 4.04.

CENTRAL ILLINOIS PUBLIC SERVICE COMPANY

JUNE 30, 2007 COST OF CAPITAL SUMMARY

STAFF PROPOSAL FOR CIPS GAS

Capital Component	Balance	Percent of Total Capitalization	Cost	Weighted Cost
Short-Term Debt	\$75,752,646	7.03%	4.01%	0.28%
Long-Term Debt	446,741,385	41.43%	6.27%	2.60%
Preferred Stock	48,974,982	4.54%	5.13%	0.23%
Common Equity	506,691,386	47.00%	10.72%	5.04%
Total	\$1,078,160,398	100.00%		8.15%

STAFF PROPOSAL FOR CIPS ELECTRIC

Capital Component	Balance	Percent of Total Capitalization	Cost	Weighted Cost
Short-Term Debt	\$75,752,646	7.03%	4.01%	0.28%
Long-Term Debt	446,741,385	41.43%	6.27%	2.60%
Preferred Stock	48,974,982	4.54%	5.13%	0.23%
Common Equity	506,691,386	47.00%	10.68%	5.02%
Total	\$1,078,160,398	100.00%		8.13%

COMPANY PROPOSAL

Capital Component	Balance	Percent of Total Capitalization	Cost	Weighted Cost
Short-Term Debt	\$1,286,866	0.13%	6.82%	0.01%
Long-Term Debt	445,904,162	44.44%	6.53%	2.90%
Preferred Stock	48,974,984	4.88%	5.13%	0.25%
Common Equity	507,260,588	50.55%	11.00%	5.56%
Total	\$415,835,110	100.00%		8.72%

REDACTED

CENTRAL ILLINOIS PUBLIC SERVICE COMPANY

SHORT-TERM DEBT BALANCE FOR TWELVE MONTHS ENDED DECEMBER 31, 2007

Date (A)	Gross Short-Term Debt Balance (B)	Contributions to Ameren Utility Money Pool (C)	Adjusted Gross Short-Term Debt Balance (D)	CWIP (E)	CWIP Accruing AFUDC (F)	Net Short-Term Debt Balance (G)	Monthly Average Net Short-Term Debt Balance (H)
December 2006	\$35,000,000			\$10,508,435	\$7,407,188		
January 2007	55,200,000			10,241,609	8,599,362		
February 2007	105,000,000			11,612,903	8,911,912		
March 2007	100,000,000			11,631,414	9,300,826		
April 2007	35,000,000			11,056,923	9,433,560		
May 2007	0			11,621,713	9,620,618		
June 2007	135,000,000			8,077,886	9,806,417		
July 2007	135,000,000			8,311,736	5,923,518		
August 2007	135,000,000			8,792,755	6,664,810		
September 2007	135,000,000			11,837,444	6,340,014		
October 2007	135,000,000			12,669,931	7,564,938		
November 2007	135,000,000			14,043,345	7,842,417		
December 2007	125,000,000			14,828,770	9,053,764		

Average Net Short-Term Debt Balance = \$75,752,646

Notes: Column (G) = the greater of [Columns (D) – (F)] or [Column (D) – Column (D) / Column (E) x Column (F)]

Sources: CIPS' Schedule D-2 work paper, "Short-Term Debt Data"; Company responses to ICC Staff data requests RP 1.03 SUPP, RP 1.08 and RP 8.01; and the Ameren utilities' Confidential Money Pool Reports, provided pursuant to 83 Ill. Adm. Code 340.60.

CENTRAL ILLINOIS PUBLIC SERVICE COMPANY
EMBEDDED COST OF LONG-TERM DEBT
JUNE 30, 2007

Debt Issue Type, Coupon Rate (A)	Date Issued (B)	Maturity Date (C)	Principal Amount (D)	Face Amount Outstanding (E)	Unamortized Debt		Carrying Value (H)	Coupon Interest Expense (I)	Amortization of Debt		Annual Interest Expense (L)
					Discount or (Premium) (F)	Expense (G)			Discount or (Premium) (J)	Expense (K)	
First Mortgage Bonds											
7.610% Series 97-2	6/10/1997	6/1/2017	40,000,000	40,000,000	0	190,995	39,809,005	3,044,000	-	19,260	3,063,260
5.375% Series AA	12/15/1998	12/15/2008	15,000,000	15,000,000	9,022	17,147	14,973,832	806,250	6,015	11,431	823,696
6.125% Series AA	12/15/1998	12/15/2028	60,000,000	60,000,000	289,922	412,264	59,297,814	3,675,000	13,485	19,175	3,707,660
6.625% Series BB	6/13/2001	6/15/2011	150,000,000	150,000,000	510,569	166,933	149,322,498	9,937,500	127,642	41,733	10,106,876
6.700% Series CC	6/14/2006	6/15/2036	5,811,908	5,811,908	30,947	56,204	5,724,758	389,398	1,067	1,938	392,403
Other Long-Term Debt											
4.700% Intercompany Note	5/2/2005	5/2/2010	55,688,092	55,688,092	0	0	55,688,092	2,617,340	-	-	2,617,340
Pollution Control Bonds											
5.950% Series C1	8/15/1993	8/15/2026	35,000,000	35,000,000	0	600,276	34,399,724	2,082,500	-	31,319	2,113,819
5.700% Series C2	8/15/1993	8/15/2026	25,000,000	7,500,000	0	55,200	7,444,800	427,500	-	2,880	430,380
5.500% Series 2000A	3/9/2000	3/1/2014	51,100,000	51,100,000	0	467,520	50,632,480	2,810,500	-	70,128	2,880,628
4.250% 7 Day Variable	11/19/2004	7/1/2025	35,000,000	35,000,000	0	970,272	34,029,728	1,487,500	-	53,904	1,541,404
Total First Mortgage and Pollution Control Bond			\$ 472,600,000	\$ 455,100,000	\$ 840,459	\$ 2,936,811	\$ 451,322,730	\$ 27,277,488	\$ 148,209	\$ 251,768	\$ 27,677,465
Net (Gain)/Loss on Reacquired Debt											
13.625% FMB Series U	3/31/1986	1/1/2016	\$ 25,000,000	\$ 0	\$ 0	\$ 493,207	\$ (493,207)	\$ 0	\$ 0	\$ 58,024	\$ 58,024
9.000% FMB Series D	3/31/1990	2/1/2014	9,500,000	0	0	\$ 138,118	(138,118)	0	0	20,980	20,980
Variable FMB Series A	3/31/1990	4/1/2013	32,000,000	0	0	\$ 43,770	(43,770)	0	0	7,612	7,612
9.125% FMB Series T	5/31/1992	5/1/2022	25,000,000	0	0	\$ 927,767	(927,767)	0	0	62,546	62,546
8.500% FMB Series W	12/15/1998	4/1/2021	33,000,000	0	0	\$ 1,435,099	(1,435,099)	0	0	104,371	104,371
6.375% PCB Series B	1/1/1993	5/1/2028	17,500,000	0	0	\$ 265,031	(265,031)	0	0	12,722	12,722
6.750% PCB Series C	6/1/1993	6/1/2028	15,000,000	0	0	\$ 116,665	(116,665)	0	0	5,578	5,578
5.850% PCB Series A	8/1/1993	8/1/2026	25,000,000	0	0	\$ 94,060	(94,060)	0	0	4,929	4,929
6.625% PCB Series Newton	8/1/1995	8/1/2009	1,000,000	0	0	\$ 594	(594)	0	0	285	285
6.375% PCB Series A	12/22/2004	6/1/2025	35,000,000	0	0	\$ 415,316	(415,316)	0	0	23,180	23,180
5.900% PCB Series B-2	12/20/2004	5/1/2028	17,500,000	0	0	\$ 367,932	(367,932)	0	0	17,661	17,661
5.700% PCB Series C-2	12/20/2004	8/1/2026	17,500,000	0	0	\$ 283,788	(283,788)	0	0	14,871	14,871
Total Net (Gain)/Loss on Reacquired Debt			\$ 253,000,000	\$ 0	\$ 0	\$ 4,581,346	\$ (4,581,346)	\$ 0	\$ 0	\$ 332,758	\$ 332,758
Total Long-Term Debt			\$ 725,600,000	\$ 455,100,000	\$ 840,459	\$ 7,518,156	\$ 446,741,385	\$ 27,277,488	\$ 148,209	\$ 584,527	\$ 28,010,223
Embedded Cost of Long-Term Debt										6.27%	

Notes: Column (H) = Columns (E) - (F) - (G)
 Column (L) = Columns (I) + (J) + (K)
 Embedded Cost of Debt = Column (L) ÷ Column (H)

Sources: AmerenCIPS Schedule D-3 and supporting work papers; Central Illinois Public Service Co. 2006 From 21 ILCC annual report, pp. 22-28; and Company response to ICC Staff data requests RP 8.03, RP 5.07 and RP 5.08.

CENTRAL ILLINOIS PUBLIC SERVICE COMPANY
EMBEDDED COST OF PREFERRED STOCK
JUNE 30, 2007

Stock Issue Type, Dividend Rate (A)	Date Issued (B)	Shares Outstanding (C)	Amount Outstanding (D)	Premium (Discount) (E)	Issue Expense (F)	Net Proceeds (G)	Annual Dividends (H)
\$5.16 Series, \$100 Par	11/20/59	50,000	\$5,000,000	\$9,709	\$34,665	\$4,975,043	\$258,000
\$4.92 Series, \$100 Par	10/1/52	50,000	5,000,000	125,000	118,095	5,006,905	246,000
\$4.90 Series, \$100 Par	11/1/62	75,000	7,500,000			7,500,000	367,500
\$4.25 Series, \$100 Par	5/1/54	50,000	5,000,000			5,000,000	212,500
\$4.00 Series, \$100 Par	11/1/46	150,000	15,000,000		513,310	14,486,690	600,000
\$6.625 Series, \$100 Par	10/13/93	125,000	12,500,000		493,655	12,006,345)	828,125
Total		500,000	\$50,000,000	\$134,709	\$1,159,726	\$48,974,982	\$2,512,125

Embedded Cost of Preferred Stock = 5.13%

Column (G) = Columns (D) + (E) – (F)

Embedded Cost of Preferred Stock = Column (H) / Column (G)

Sources: AmerenCIPS Ex. 8.4; AmerenCIPS Schedule D-4 Supporting Schedule; Central Illinois Public Service Co. 2006 Form 21, ILCC annual report, p. 6; Central Illinois Public Service Co. FERC Form 1, pp. 250-251; and Company response to ICC Staff data request RP 4.02.

**ILLINOIS POWER COMPANY
 DECEMBER 31, 2006 COST OF CAPITAL SUMMARY**

STAFF PROPOSAL FOR IP GAS

Capital Component	Balance	Percent of Total Capitalization	Cost	Weighted Cost
Short-Term Debt	\$82,506,936	3.96%	3.93%	0.16%
Long-Term Debt	709,096,036	34.01%	7.34%	2.50%
Preferred Stock	45,786,945	2.20%	5.01%	0.11%
Transitional Funding Notes	171,533,494	8.23%	4.92%	0.40%
Common Equity	1,076,124,965	51.61%	10.72%	5.53%
Total	\$2,085,048,376	100.00%		8.70%

STAFF PROPOSAL FOR IP ELECTRIC

Capital Component	Balance	Percent of Total Capitalization	Cost	Weighted Cost
Short-Term Debt	\$82,506,936	3.96%	3.93%	0.16%
Long-Term Debt	709,096,036	34.01%	7.34%	2.50%
Preferred Stock	45,786,945	2.20%	5.01%	0.11%
Transitional Funding Notes	171,533,494	8.23%	4.92%	0.40%
Common Equity	1,076,124,965	51.61%	10.68%	5.51%
Total	\$2,085,048,376	100.00%		8.68%

COMPANY PROPOSAL

Capital Component	Balance	Percent of Total Capitalization	Cost	Weighted Cost
Short-Term Debt	\$47,106,782	2.30%	6.75%	0.15%
Long-Term Debt	707,321,274	34.54%	7.14%	2.47%
Preferred Stock	45,786,945	2.23%	5.01%	0.11%
Transitional Funding Notes	171,533,494	8.38%	6.03%	0.51%
Common Equity	1,076,286,905	52.55%	11.00%	5.78%
Total	\$2,048,035,400	100.00%		9.02%

REDACTED
ILLINOIS POWER COMPANY
SHORT-TERM DEBT BALANCE FOR TWELVE MONTHS ENDED JUNE 30, 2007

Date (A)	Gross Short-Term Debt Balance (B)	Contributions to Ameren Utility Money Pool (C)	Adjusted Gross Short-Term Debt Balance (D)	CWIP (E)	CWIP Accruing AFUDC (F)	Net Short-Term Debt Balance (G)	Monthly Average Net Short-Term Debt Balance (H)
June 2006	\$54,200,000			\$35,086,798	\$32,170,401		
July 2006	64,500,000			30,001,100	27,617,140		
August 2006	27,100,000			29,517,405	23,949,227		
September 2006	110,300,000			28,730,666	26,615,156		
October 2006	100,500,000			34,960,440	29,328,390		
November 2006	54,200,000			33,931,027	31,926,683		
December 2006	118,100,000			32,849,524	30,841,635		
January 2007	86,800,000			34,369,743	33,130,803		
February 2007	137,100,000			37,127,956	33,367,157		
March 2007	190,000,000			29,636,095	27,780,578		
April 2007	145,500,000			32,905,851	30,559,350		
May 2007	135,000,000			30,369,509	28,710,481		
June 2007	325,000,000			28,403,417	29,132,710		
Average Net Short-Term Debt Balance =							<u>\$82,506,936</u>

Notes: Column (G) = the greater of [Columns (D) – (F)] or [Column (D) – Column (D) / Column (E) x Column (F)]

Sources: IP's Schedule D-2 work paper, "Short-Term Debt Data" and Company response to ICC Staff data request RP 1.02.

**ILLINOIS POWER COMPANY
 EMBEDDED COST OF LONG-TERM DEBT
 DECEMBER 31, 2006**

Debt Issue Type, Coupon Rate (A)	Date Issued (B)	Maturity Date (C)	Principal Amount (D)	Face Amount Outstanding (E)	Unamortized Debt		Carrying Value (H)	Coupon Interest Expense (I)	Amortization of Debt		Annual Interest Expense (L)
					Discount or (Premium) (F)	Expense (G)			Discount or (Premium) (J)	Expense (K)	
Mortgage Bonds											
7.500% Series 95-1	6/29/1999	6/15/2009	250,000,000	250,000,000	90,840	580,860	249,328,300	18,750,000	37,589	240,356	19,027,945
6.250% Senior Sec Notes	6/14/2006	6/15/2016	75,000,000	75,000,000	136,002	998,298	73,865,700	4,687,500	14,316	105,084	4,806,900
Pollution Control Bonds											
5.700% Series 1994 A	2/1/1994	2/1/2024	35,615,000	35,615,000	3,103,548	851,183	31,660,269	2,030,055	181,671	49,825	2,261,551
5.400% Series 1998 A	3/6/1998	3/1/2028	18,700,000	18,700,000	0	412,750	18,287,250	1,033,800	0	19,500	1,053,300
5.400% Series 1998 B	3/6/1998	3/1/2028	33,755,000	33,755,000	0	417,068	33,337,932	1,866,768	0	19,704	1,886,472
4.865% Series 1997 A,B,C	4/10/1997	4/1/2032	150,000,000	150,000,000	0	2,171,498	147,828,502	7,297,500	0	86,000	7,383,500
4.571% Series 2001 Non-AMT	5/1/2001	11/1/2028	111,770,000	111,770,000	0	2,973,438	108,796,562	5,109,007	0	136,188	5,245,195
5.857% Series 2001 AMT	5/1/2001	3/1/2017	75,000,000	75,000,000	0	1,309,060	73,690,940	4,392,750	0	128,760	4,521,510
Total Mortgage and Pollution Control Bonds			\$ 749,840,000	\$ 749,840,000	\$ 3,330,390	\$ 9,714,155	\$ 736,795,455	\$ 45,167,380	\$ 233,576	\$ 785,417	\$ 46,186,373
Net (Gain)/Loss on Reacquired Debt											
Refunded by Transitional Funding Notes											
8.750% MB due 2021	1/11/1999	12/31/2008	\$ 57,061,000	\$ 0	\$ 0	\$ 1,363,860	\$ (1,363,860)	\$ 0	\$ 0	\$ 681,930	\$ 681,930
8.000% MB due 2023	1/11/1999	12/31/2008	229,000,000	0	0	2,904,878	(2,904,878)	0	0	\$ 1,452,439	1,452,439
7.950% MB due 2004	1/15/1999	12/31/2008	5,400,000	0	0	161,231	(161,231)	0	0	\$ 80,616	80,616
6.500% MB due 1999	2/1/1999	12/31/2008	36,800,000	0	0	71,820	(71,820)	0	0	\$ 35,910	35,910
7.950% MB due 2004	2/5/1999	12/31/2008	2,000,000	0	0	59,631	(59,631)	0	0	\$ 29,816	29,816
7.950% MB due 2004	2/9/1999	12/31/2008	3,000,000	0	0	75,207	(75,207)	0	0	\$ 37,604	37,604
9.450% MIPS Series A	3/9/1999	12/31/2008	3,872,500	0	0	41,117	(41,117)	0	0	\$ 20,559	20,559
7.950% MB due 2004	3/12/1999	12/31/2008	12,500,000	0	0	327,119	(327,119)	0	0	\$ 163,560	163,560
7.500% MB due 7/2025	4/9/1999	12/31/2008	39,850,000	0	0	569,783	(569,783)	0	0	\$ 284,892	284,892
6.500% MB due 1999	7/20/1999	12/31/2008	35,200,000	0	0	37,740	(37,740)	0	0	\$ 18,870	18,870
7.950% MB due 2004	7/20/1999	12/31/2008	16,100,000	0	0	1,065,585	(1,065,585)	0	0	\$ 532,793	532,793
7.375% PCB A due 2021	7/20/1999	12/31/2008	84,710,000	0	0	1,464,984	(1,464,984)	0	0	\$ 732,492	732,492
7.950% MB due 2004	12/22/1998	12/31/2008	33,000,000	0	0	1,010,301	(1,010,301)	0	0	\$ 505,151	505,151
7.500% MB due 7/2025	12/23/1998	12/31/2008	28,520,000	0	0	898,316	(898,316)	0	0	\$ 449,158	449,158
6.000% MB due 2003	8/12/1999	12/31/2008	10,000,000	0	0	(45,480)	45,480	0	0	\$ (22,740)	(22,740)
7.500% MB due 2025	10/8/1999	12/31/2008	11,000,000	0	0	(56,682)	56,682	0	0	\$ (28,341)	(28,341)
6.250% MB due 2002	10/22/1999	12/31/2008	4,325,000	0	0	(9,885)	9,885	0	0	\$ (4,943)	(4,943)
7.500% MB due 2025	1/20/2000	12/31/2008	32,000,000	0	0	(217,514)	217,514	0	0	\$ (108,757)	(108,757)
Refunded by 5.4% PCB Series A											
6.000% PCB B due 5/2007	3/6/1998	3/1/2028	18,700,000	0	0	134,919	(134,919)	0	0	6,374	6,374
Refunded by 5.4% PCB Series B											
8.300% PCB I due 4/2017	3/6/1998	3/1/2028	33,755,000	0	0	243,541	(243,541)	0	0	11,506	11,506
Refunded by variable rate Series P,Q & R PCB due 4/2032											
7.625% PCB F,G & H due 2016	6/2/1997	4/1/2032	150,000,000	0	0	1,747,704	(1,747,704)	0	0	69,216	69,216

**ILLINOIS POWER COMPANY
 EMBEDDED COST OF LONG-TERM DEBT
 DECEMBER 31, 2006**

Debt Issue Type, Coupon Rate (A)	Date Issued (B)	Maturity Date (C)	Principal Amount (D)	Face Amount Outstanding (E)	Unamortized Debt		Carrying Value (H)	Coupon Interest Expense (I)	Amortization of Debt		Annual Interest Expense (L)
					Discount or (Premium) (F)	Expense (G)			Discount or (Premium) (J)	Expense (K)	
Refunded by 9.875% MB due 7/1/2016											
9.875% MB due 2004	7/1/1986	7/1/2016	5,000,000	0	0	126	(126)	0	0	13	13
12.625% MB due 2010	8/4/1986	7/1/2016	50,000,000	0	0	55,640	(55,640)	0	0	5,857	5,857
9.875% MB due 2016	11/25/1990	7/1/2016	1,000,000	0	0	988	(988)	0	0	104	104
9.875% MB due 2016	11/26/1990	7/1/2016	7,500,000	0	0	6,288	(6,288)	0	0	662	662
Refunded by 9.375% Series MB due 9/1/2016											
14.500% IPF Deb due 1989	9/8/1986	9/1/2016	25,000,000	0	0	79,623	(79,623)	0	0	8,237	8,237
12.000% MB due 2012	9/12/1986	9/1/2016	68,173,000	0	0	1,250,570	(1,250,570)	0	0	129,369	129,369
14.500% MB due 1990	9/12/1986	9/1/2016	65,347,000	0	0	817,199	(817,199)	0	0	84,538	84,538
Refunded by Series I PCB due 4/1/2017											
PCB E due 3/1/2015	7/29/1987	4/1/2017	33,755,000	0	0	818,688	(818,688)	0	0	79,872	79,872
12.000% MB due 11/15/2012	1/4/1988	11/15/2012	6,827,000	0	0	57,510	(57,510)	0	0	9,720	9,720
Refunded by \$200 million 7.5% NMB due 7/15/2025											
8.250% MB due 2007	8/16/1993	7/15/2025	100,000,000	0	0	375,752	(375,752)	0	0	20,220	20,220
10.000% MB due 1998	8/16/1993	7/15/2025	50,000,000	0	0	151,643	(151,643)	0	0	8,160	8,160
7.500% MB due 2025	4/1/1996	7/15/2025	23,000,000	0	0	(245,754)	245,754	0	0	(13,224)	(13,224)
Refunded by \$111,770,000 Variable PCB Series A,B & C due 11/1/2028											
10.750% PCB C due 2013	12/15/1993	11/1/2028	111,770,000	0	0	1,617,326	(1,617,326)	0	0	74,076	74,076
Refunded by \$235 million 8% NMB due 2/15/2023											
9.375% MB due 2016	3/22/1993	2/15/2023	125,000,000	0	0	2,159,802	(2,159,802)	0	0	133,596	133,596
8.875% MB due 2008	3/22/1993	2/15/2023	100,000,000	0	0	1,088,922	(1,088,922)	0	0	67,356	67,356
Refunded by \$35,615,000 5.7% FMB due 2/1/2024											
11.625% FMB due 2014	5/1/1994	2/1/2024	35,615,000	0	0	432,960	(432,960)	0	0	25,344	25,344
Refunded by \$84,150,000 7.4% FMB due 12/1/2024											
10.750% FMB due 2015	3/1/1995	12/1/2024	84,150,000	0	0	722,185	(722,185)	0	0	40,308	40,308
Refunded by \$111,770,000 Variable PCB Series Non-AMT 2001 due 11/1/2028											
Var. FMB due 2028	5/1/2001	11/1/2028	111,770,000	0	0	1,118,478	(1,118,478)	0	0	51,228	51,228
Refunded by \$75 million Variable PCB Series due 3/1/2017											
Var. PCB due 2017	5/1/2001	3/1/2017	75,000,000	0	0	351,726	(351,726)	0	0	34,596	34,596
IP Capital MIPS	5/30/2000	12/1/2043	93,000,000	0	0	2,432,956	(2,432,956)	0	0	65,904	65,904
IP Financing I TOPRS	9/30/2001	1/1/2045	100,000,000	0	0	2,558,616	(2,558,616)	0	0	67,332	67,332
Total Net (Gain)/Loss on Reacquired Debt			\$ 2,118,700,500	\$ 0	\$ 0	\$ 27,699,419	\$ (27,699,419)	\$ 0	\$ 0	\$ 5,841,369	\$ 5,841,369
Total Long-Term Debt				\$ 749,840,000	\$ 3,330,390	\$ 37,413,574	\$ 709,096,036	\$ 45,167,380	\$ 233,576	\$ 6,626,786	\$ 52,027,742
Embedded Cost of Long-Term Debt											7.34%

Notes: Column (H) = Columns (E) + (F) + (G)
 Column (L) = Columns (I) + (J) + (K)
 Embedded Cost of Long-Term Debt = Column (L) ÷ (H)

Source: AmerenIP Schedule D-3 and supporting work papers; Illinois Power Co. 2006 Form 21 ILCC annual report, p. 22-23, 26-28; and Company response to ICC Staff data request RP 8.03.

ILLINOIS POWER COMPANY
EMBEDDED COST OF PREFERRED STOCK
DECEMBER 31, 2006

Stock Issue Type, Dividend Rate (A)	Date Issued (B)	Shares Outstanding (C)	Amount Outstanding (D)	Premium (Discount) (E)	Issue Expense (F)	Net Proceeds (G)	Annual Dividends (H)
4.08% Series, \$50 Par	4/12/50	225,510	\$11,275,500	\$224,334		\$11,499,834	\$460,040
4.26% Series, \$50 Par	11/1/50	104,280	5,214,000	10,366		5,224,366	222,116
4.70% Series, \$50 Par	3/10/52	145,170	7,258,500			7,258,500	341,150
4.42% Series, \$50 Par	2/11/53	102,190	5,109,500			5,109,500	225,840
4.20% Series, \$50 Par	9/23/54	143,760	7,188,000			7,188,000	301,896
7.75% Series, \$50 Par	6/21/93	191,765	9,588,250	(81,505)		9,506,745	743,089
Total		912,675	\$45,633,750	\$153,195		\$45,786,945	\$2,294,132

Embedded Cost of Preferred Stock = 5.01%

Column (G) = Columns (D) + (E) – (F)

Embedded Cost of Preferred Stock = Column (H) / Column (G)

Sources: AmerenIP Ex. 8.4; AmerenIP Schedule D-4 Supporting Schedule; Illinois Power Co. 2006 Form 21 ILCC annual report, pp. 6 and 45; Illinois Power Co. FERC Form 1, pp. 250-251; and Company response to ICC Staff data request RP 4.01.

ILLINOIS POWER COMPANY
EMBEDDED COST OF TRANSITIONAL FUNDING NOTES
DECEMBER 31, 2006

Debt Issue Type, Coupon Rate (A)	Date Issued (B)	Maturity Date (C)	Principal Amount (D)	Face Amount Outstanding (E)	Unamort. Discount (Premium) (F)	Unamort. Debt Expense (G)	Carrying Value (H)	Coupon Interest Expense (I)	Annual Amort. Of Disc/ (Prem) (J)	Annual Amort. Of Debt Expense (K)	Annual Interest Expense (L)
4.50% Transitional Funding Notes	12/22/98	12/25/08	\$864,000,000	\$172,800,000	\$16,002	\$1,250,504	\$171,533,494	\$7,781,451	\$8,349	\$652,438	\$8,442,237

Embedded Cost of Transitional Funding Notes = 4.92%

Column (H) = Columns (E) + (F) – (G)

Embedded Cost of Preferred Stock = Column (L) / Column (H)

Sources: AmerenIP Ex. 8.5; Illinois Power Co. 2006 Form 21 ILCC annual report, p. 26; and Supplemental Prospectus for \$864,000,000 Illinois Power Special Purpose Trust Transitional Funding Trust Notes, Series 1998-1, pp. S-17, S-18, and 103-104.