

ILLINOIS COMMERCE COMMISSION

ICC DOCKET NO. 07-0585 (CONS.)

REBUTTAL TESTIMONY

OF

TIMOTHY I. MOLONEY

Submitted On Behalf

Of

CENTRAL ILLINOIS LIGHT COMPANY d/b/a AmerenCILCO,

CENTRAL ILLINOIS PUBLIC SERVICE COMPANY d/b/a AmerenCIPS, and

ILLINOIS POWER COMPANY d/b/a AmerenIP

(The Ameren Illinois Utilities)

April 14, 2008

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10 **(The Ameren Illinois Utilities)**

11 **I. INTRODUCTION**

12 **A. Witness Identification**

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

14 **A.** My name is Timothy I. Moloney. My business address is One Ameren Plaza,
15 1901 Chouteau Avenue, St. Louis, Missouri 63103.

16 **Q. What is your job title, duties and responsibilities?**

17 I am employed by Ameren Services Company as Managing Supervisor in the
18 Credit Risk Management Department. In that capacity, I am responsible for
19 managing and mitigating credit risk for various commodity businesses at Ameren.

20 With respect to Central Illinois Light Company d/b/a AmerenCILCO, Central
21 Illinois Public Service Company d/b/a AmerenCIPS, and Illinois Power Company
22 d/b/a AmerenIP (the “Ameren Illinois Utilities”), I am responsible for providing

23 credit risk management support of their efforts to secure and provide energy in
24 accordance with their respective obligations.

25 **Q. Please describe your education and professional qualifications.**

26 **A.** A statement of my qualifications is attached as an appendix to this testimony.

27 **B. Purpose and Scope**

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

29 **A.** The purpose of my testimony is twofold. First, I will respond to and discuss
30 proposals submitted in the direct testimony of Theresa Ebrey for the Staff of the
31 Illinois Commerce Commission (“Staff”), regarding her testimony on and
32 adjustment related to collateral and prepayments. (ICC Staff Ex. 1.0, pp. 26-27.)
33 Second, I will respond to and discuss matters relating to collateral and
34 prepayments as addressed within the direct testimony and workpapers of David J.
35 Effron on behalf of the People of the State of Illinois, represented by the Attorney
36 General (“AG”) and the Citizens Utility Board (“CUB”). (AG/CUB Ex. 1.0, pp.
37 26-27; Schedule DJE-4, pp. 4.)

38 **Q. Please summarize the conclusions of your rebuttal testimony.**

39 **A.** As detailed below, I conclude that the Ameren Illinois Utilities should be allowed
40 to recover their necessary costs associated with prepayment and collateral posting
41 for gas purchases. Such additional costs are necessary and will remain necessary
42 unless and until the Ameren Illinois Utilities carry investment-grade ratings. Mr.
43 Andrew Wichmann’s testimony also responds to Mr. Effron’s testimony on this
44 issue.

45 **II. CASH COLLATERAL AND PREPAYMENTS**

46 **Q. Please summarize the testimony of Ms. Ebrey on this issue.**

47 **A.** Ms. Ebrey recommends a disallowance of the Ameren Illinois Utilities' pro forma
48 adjustments to include as purchased gas expense an interest component related to
49 cash collateral and prepayments. She bases the adjustment on her claim that the
50 Ameren Illinois Utilities have not shown that these collateral postings and
51 prepayments are solely for purchased gas. Ms Ebrey also claims that, if the
52 collateral posting and prepayments are solely for purchased gas costs, they would
53 be "considered for recovery through the rates determined under the Purchased
54 Gas Adjustment Clause ("PGA"), rather than recovery through base rates." (ICC
55 Staff Ex. 1.0, p. 26.)

56 **Q. Please explain the nature and circumstances surrounding cash collateral and**
57 **prepayments.**

58 **A.** For the Ameren Illinois Utilities' gas operations, a cost of providing service is the
59 requirement that utilities either prepay for certain services or post collateral. Such
60 requirement is due to limited access to unsecured credit, primarily driven by the
61 Ameren Illinois Utilities' below-investment grade credit ratings.

62 **Q. Do cash collateral and prepayments increase the costs of providing gas?**

63 **A.** Yes. For cash collateral postings, the cost is estimated by finding the monthly
64 negative carry and multiplying by the monthly amount of the collateral postings.
65 The negative carry is estimated as the difference between the actual short-term
66 borrowing rates in effect for the Ameren Illinois Utilities each month and the
67 actual Federal Funds Target Rate in effect each month (the rate of interest often

68 received for cash balances posted to counterparties). For prepayments, the
69 Ameren Illinois Utilities do not receive interest, as prepayments are considered
70 early payment for pending deliveries rather than as cash deposits that are being
71 held over time. Therefore, the cost of prepaying is estimated by multiplying the
72 actual short-term borrowing rates in effect each month for the Ameren Illinois
73 Utilities by the monthly amount of prepayments. This methodology is utilized
74 and demonstrated within the Ameren Illinois Utilities' response to AG Data
75 Request No. 4.13 and its attachment, identified as AG 4.13-REV Attach.

76 **Q. Why are the Ameren Illinois Utilities required to incur such costs?**

77 **A.** Prepayment requirements and collateral postings to assure performance most
78 often arise under North American Energy Standards Board ("NAESB")
79 agreements or International Swap Dealers Association ("ISDA") agreements with
80 various counterparties. Because the Ameren Illinois Utilities' ratings are below
81 investment grade, many of their respective NAESB and ISDA counterparties have
82 availed themselves of a clear contractual right to require the posting of
83 performance assurances. This contractual right is partially described within the
84 Ameren Illinois Utilities' response to Attorney General Data Request 4.16 and
85 can be seen within the contracts provided in response to Staff Data Request TEE
86 17.04, identified as TEE 17.04 Attach 1 through Attach 58. It is reasonable to
87 expect that many counterparties to these agreements will likely continue to seek to
88 be fully secured with respect to any positive exposure they have to our utilities
89 until ratings return to investment grade levels.

90 **Q. What could be the consequences if the Ameren Illinois Utilities failed to**
91 **prepay or post collateral in response to an appropriately submitted request**
92 **for performance assurance?**

93 **A.** If the Ameren Illinois Utilities were to fail to provide prepayment as contractually
94 required, they could be cited for default and could be at risk in their efforts to
95 secure and maintain stable, long-term gas supplies for their ratepayers.

96 **Q. How quickly are the Ameren Illinois Utilities required to respond to a**
97 **request for prepayment?**

98 **A.** Depending on the circumstances, upon receipt of a request for prepayment, the
99 Ameren Illinois Utilities could need to provide prepayment on the same day or on
100 the next business day. Within many of the agreements to which the Ameren
101 Illinois Utilities are principals, calculations of credit exposure take place daily. In
102 instances where a counterparty calculates exposure to the Ameren Illinois Utilities
103 that exceeds any unsecured credit to which the Ameren Illinois Utility is entitled
104 (such calculation to take place in accordance with contract provisions in place
105 within the applicable agreement), the counterparty would have a contractual right
106 to require a margin posting. Such calculations and margin calls can (and often
107 do) take place each business day. In most cases under ISDA contracts,
108 counterparties have one business day to post margin as requested. As is a
109 standard practice within the energy industry, the Ameren Illinois Utilities perform
110 the same calculations as their counterparties: (1) in order to determine the
111 appropriateness of any margin call received by the Ameren Illinois Utilities; (2) to
112 determine whether margin posted by the Ameren Illinois Utilities should be

113 returned; and (3) to determine whether the Ameren Illinois Utilities should
114 request margin from any of their respective counterparties. Upon receipt of an
115 appropriately submitted margin call, if the Ameren Illinois Utilities fail to respond
116 as required within their contracts, they could be cited for default and could be at
117 risk in their efforts to secure and maintain stable, long-term gas supplies for their
118 ratepayers.

119 **Q. Please explain why the amounts of cash collateral and prepayments change**
120 **on a monthly basis.**

121 **A.** The amounts of cash collateral and prepayment can change monthly or more
122 frequently and are susceptible to change as often as daily. Prepayment amounts
123 may change monthly or more frequently, depending upon the nature of the
124 agreement and whether the transaction is baseload or swing. Under a monthly
125 baseload contract, the prepayment amounts can vary due to varying estimated
126 monthly volumes and varying prices applicable to the volumes. Under swing
127 packages, the Ameren Illinois Utilities may exercise a right to call on variable
128 amounts of gas depending upon the need that exists at that time, and prepayment
129 would vary according to gas volumes and pricing. With respect to cash collateral,
130 the amounts may change daily, depending on the nature of each agreement and
131 the transactions executed under each agreement. For example, a fixed-for-
132 floating swap is revalued each business day based upon changes in market pricing
133 in relation to the fixed pricing indicated in the executed transaction; as a result,
134 margining could conceivably take place as often as each business day.

135 **Q. If the Ameren Illinois Utilities carried investment grade ratings, how would**
136 **payment arrangements differ under the contracts?**

137 **A.** If the Ameren Illinois Utilities carried investment grade ratings, they would in
138 most instances be able to pay for gas supplies during the month *following* the
139 receipt of gas deliveries, which would substantially reduce and possibly eliminate
140 prepayment-related costs currently borne by the Ameren Illinois Utilities.

141 **Q. Please summarize the testimony of Mr. Effron on the issue of collateral and**
142 **prepayment costs.**

143 **A.** Mr. Effron reviewed the collateral and prepayment costs as estimated by the
144 Ameren Illinois Utilities in response to Attorney General Data Request 4.13,
145 including the attachment thereto identified as AG 4.13-REV Attach. He proposed
146 modifications to the prepayment cost amounts estimated by the Ameren Illinois
147 Utilities, indicating: (1) the Ameren Illinois Utilities excluded the prepayment
148 balances in the first available month in which data was available; and (2) he
149 recommended "... the latest known applicable interest rate be used rather than the
150 month-by-month interest rates." (AG/CUB Ex. 1.0, p. 27.) In addition, Mr
151 Effron's Schedule DJE-4, page 4 indicates he is averaging the individual monthly
152 amounts of prepayment postings to obtain an average monthly prepayment
153 posting to which he then applies the most current annual rate of interest.

154 **Q. Should the Ameren Illinois Utilities have included the prepayment balances**
155 **shown for the months of February and March 2007 to estimate annual**
156 **prepayment costs?**

157 A. No. The Ameren Illinois Utilities excluded February and March 2007
158 prepayment balances from their calculations because April 2007 was the first full
159 month during which both S&P and Moody's ratings for each of the Ameren
160 Illinois Utilities were below investment grade. The Ameren Illinois Utilities'
161 ratings were downgraded by S&P on April 23, 2007 and by Moody's on March
162 12, 2007. Most of the counterparties requiring prepayment imposed such
163 requirement by April 2007 but not, in each case, prior to that month. Therefore,
164 including prepayments in place from April 2007 and later (and excluding
165 prepayment balances for February and March 2007) yields a more accurate
166 indication of prepayments that could be expected to take place in the future.

167 **Q. Do you agree with Mr. Effron's recommendation that the latest known**
168 **applicable interest rate should be used to calculate pro forma interest cost**
169 **rather than month-by-month interest rates?**

170 A. I am unable to agree with Mr. Effron's recommendation, as Mr. Effron did not
171 provide rationale for his views on this issue. The estimates shown in the Ameren
172 Illinois Utilities' AG 4.13-REV Attach reflect actual interest rates experienced
173 over time and indicate the possibility for continuing interest rate volatility in
174 future periods.

175 **III. CONCLUSION**

176 **Q. Does this conclude your testimony?**

177 A. Yes, it does.

APPENDIX - STATEMENT OF QUALIFICATIONS

My name is Timothy I. Moloney. I graduated from the University of Missouri – Columbia in 1985 with a Bachelor of Science in Business Administration. I earned a Master of Business Administration from St. Louis University in 1988.

From 1985 until 1995, I worked in Contracts & Pricing and Corporate Internal Audit with McDonnell Douglas Corporation in St. Louis, MO. In 1995, I joined Boatmen’s Trust Company (which later merged into NationsBank and then Bank of America) and worked as an Investment Performance Analyst for two years and as an Equity Research Analyst for four years. I earned the Chartered Financial Analyst Designation (CFA) in 2000.

In 2002, I joined Ameren Energy Fuels & Services as a Financial Development Executive, and I assumed my current position in Credit Risk Management in 2003. I manage a group that is responsible for reviewing counterparty creditworthiness, ensuring sufficient credit protections are in place in contracts, and monitoring/mitigating credit risks for various commodity businesses at Ameren.