ILLINOIS COMMERCE COMMISSION

DOCKET No. 09-________

DIRECT TESTIMONY

OF

MICHAEL G. O'BRYAN

Submitted on Behalf

Of

CENTRAL ILLINOIS LIGHT COMPANY
d/b/a AmerenCILCO

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ILLINOIS COMMERCE COMMISSION

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CENTRAL ILLINOIS LIGHT COMPANY
d/b/a AmerenCILCO

I. INTRODUCTION

A. Witness Identification

A. Please state your name and business address.

Q. My name is G. O'Bryan. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri, 63103.

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

A. I am employed by Ameren Services Company ("Ameren Services") as a Senior Capital Markets Specialist in the Treasury - Corporate Finance Department.

Q. What are your current job duties and responsibilities?

A. I am involved in Ameren's corporate financing, cost of capital, financial analysis and modeling activities as well as monitoring capital markets and bank credit markets to stay current on rates, structures and opportunities. I communicate regularly with investment bankers and debt capital markets personnel to obtain market intelligence. I also closely follow the actions of the rating agencies for trends and changes in ratings methodology largely for internal ratings maintenance purposes.

Q. Please describe your educational background and relevant work experience.

A. See my Statement of Qualifications, attached as an Appendix to this testimony.

B. Purpose, Scope and Identification of Exhibits

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

A. The purpose of my testimony is to recommend an overall fair rate of return for Central Illinois Light Company d/b/a AmerenCILCO's ("AmerenCILCO" or "Company") utility business. I determine AmerenCILCO's capital structure, embedded cost of long-term debt, cost of short-term debt and embedded cost of preferred stock. I also calculate the overall fair rate of return applied to rate base which is utilized in AmerenCILCO's filing in this case. I do so by using a fair rate of return applicable to the common equity component of AmerenCILCO's capital structure using analysis performed by Ameren witness Ms. Kathleen McShane presented in her direct testimony submitted in this case.

Q. Have you prepared or has there been prepared under your direction and supervision any schedules relating to overall fair rate of return in this proceeding?

A. Yes, I am sponsoring AmerenCILCO Exhibits 13.1 through 13.4 for that purpose. These schedules are based upon the twelve month period ended March 31, 2009, and are designated as follows:

AmerenCILCO Exhibit 13.1	Cost of Capital Summary
AmerenCILCO Exhibit 13.2	Embedded Cost of Long-Term Debt
AmerenCILCO Exhibit 13.3	Cost of Short-Term Debt
AmerenCILCO Exhibit 13.4	Embedded Cost of Preferred Stock

Q. How did you calculate the overall fair rate of return or weighted average cost of capital for AmerenCILCO?

A. In order to derive AmerenCILCO's overall fair rate of return, I multiplied the relative weighting or proportion of each component of AmerenCILCO's capital structure by the cost developed for that component. I then summed these weighted costs by component to arrive at AmerenCILCO's overall fair rate of return or weighted average cost of capital.

Q. What is the primary standard for determining a fair rate of return?

A. The primary standard used in the determination of a fair rate of return is the cost of capital. This cost, the overall rate of return or weighted average cost of capital, must produce sufficient earnings/cash flow when applied to AmerenCILCO's rate base at book value to enable the Company to accomplish the following:

1) maintain the financial integrity of its existing invested capital;
2) maintain its creditworthiness; and
3) attract sufficient capital on competitive terms to continue to provide a source of funds for continued investment and enable the Company to continue to meet the needs of its customers.

Q. Why must AmerenCILCO meet these requirements?

A. Beyond the fact that these three (3) standards are effectively mandated by the landmark Bluefield and Hope U.S. Supreme Court decisions,[1] meeting these

[1] Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia, (262 U.S. 679, (1923) and Federal Power Commission v. Hope Natural Gas Company, (320 U.S. 391, (1944).

requirements is necessary in order for AmerenCILCO to effectively meet the utility services requirements of its customers and provide an adequate and reasonable return to its investors, debt holder and equity holder alike. The assets owned by AmerenCILCO are employed in meeting its customers' utility services requirements. These assets exist and are available for this purpose only because investors have entrusted their funds with AmerenCILCO and deemed an investment in the securities issued by the Company to be sound and capable of providing a competitive return. AmerenCILCO must maintain its creditworthiness in order to continue to attract capital on a competitive basis. This is important to assure future opportunities for AmerenCILCO to replace capital and various securities which must be refinanced in the future at reasonable cost. Also, the ability of AmerenCILCO to attract new capital on competitive terms is critical in order for the Company to continue to replace and upgrade facilities used to meet the utility services needs of its customers.

II. <u>CAPITAL STRUCTURE</u>

Q. Please describe the capital structure of AmerenCILCO.

A. As outlined on AmerenCILCO Exhibit 13.1, the capital structure of AmerenCILCO on March 31, 2009 consisted of 47.475% long-term debt, 5.599% short-term debt, 3.304% preferred stock and 43.622% common equity.

Q. Why was March 31, 2009 used as the capital structure measurement date rather than the December 31, 2008 test year-end date?

A. I used March 31, 2009 as the capital structure measurement date for AmerenCILCO to incorporate an $11,000,000 infusion of common equity by Ameren Corporation into the Company that occurred in March. Rather than make a pro-forma adjustment to the Company's December 31, 2008 capital structure to account for this equity infusion, I used a capital structure measurement date of March 31, 2009. This measurement date allows use of a capital structure that: (i) better approximates the company's actual capital structure when rates go into effect, and (ii) measures all components of the capital structure at the same point in time.

Q. How were the balances of the components of AmerenCILCO's capital structure determined?

A. The balance of long-term debt, $271,492,364, is the total carrying value of all of the Company's long-term debt (first mortgage bonds and pollution control bonds) using the net proceeds method (as outlined on AmerenCILCO Exhibit 13.2).

The balance of short-term debt, which was $32,017,993, was calculated pursuant to the formula set forth in the Illinois Commerce Commission ("Commission") Rate of Return Instructions Section 285.4020 Schedule D-2: Cost of Short-term Debt (b-4) (as outlined on AmerenCILCO Exhibit 13.3). The Commission's approach from recent rate proceedings was followed, which calculates the amount of short-term debt in the capital structure by taking an average of month-end short-term debt balances six (6) months prior to and following the capital structure measurement date. This approach aligns the measurement period with a midpoint that coincides with the measurement date of the long-term capital structure components. In order to follow this approach, construction work in progress ("CWIP") balances for the months ended April 2009 through September 2009 and short-term debt balances for the months ended May 2009 through September 2009 were estimated. The estimated balances will be updated as actual balances become available. AmerenCILCO Exhibits 13.1—Cost of Capital Summary and 13.3—Cost of

Short-Term Debt, reflecting these updates, will be incorporated into my rebuttal testimony.

The balance of preferred stock, $18,893,567, is the carrying value or net proceeds amount of AmerenCILCO's preferred stock as found in the embedded cost calculation for this component of capitalization.

The balance of common equity, $249,457,171, is the Company's March 31, 2009 common equity balance.

Q. What is the embedded cost of AmerenCILCO's long-term debt?

A. AmerenCILCO's embedded cost of long-term debt was 8.161% as of March 31, 2009. AmerenCILCO Exhibit 13.2 provides the calculation of the embedded cost of long-term debt.

Q. What is the cost of AmerenCILCO's short-term debt?

A. AmerenCILCO's cost of short-term debt was 1.136%, which is the Company's current implied cost. Since the Company does not have any short-term debt currently outstanding, the cost of short-term debt was calculated in accordance with the terms of the source of AmerenCILCO's last short-term borrowing—its credit facilities. The cost is the sum of the April 30, 2009 one-month LIBOR and the applicable margin, which is based on both the Company's current senior secured credit ratings (Baa2/BBB+) and the current utilization of the facility at the time of the loan. The utilization of the facility is the total percentage of the facility drawn by all borrowers of the facility. If the facility is under 50% drawn, AmerenCILCO's spread over LIBOR would be 0.600% and if the facility is over 50% drawn, the spread over LIBOR would be 0.850%. For simplicity purposes, the spread over one-month LIBOR was calculated by taking an average of the utilization spreads.

Q. Did you make any adjustments to the cost of AmerenCILCO's short-term debt to reflect the costs associated with the it's credit facilities? Why or why not?

A. No, I did not. Although the interest rate that AmerenCILCO pays on credit facility borrowings understates the true cost to the Company by ignoring fees paid both at the time that the facility is put in place (upfront fees) and quarterly thereafter (facility fees), adding these fees to AmerenCILCO's cost of short-term debt and applying it to its short-term debt in the capital structure is improper.

The upfront and facility fees are fixed expenses paid on the entire credit facility and do not change nor have any relationship to the amount of funds borrowed from the facility. The Company would still owe all of these fees throughout the life of the facilities whether or not they borrowed one dollar from them. These costs, therefore, do not reflect the costs of drawing from these facilities but rather the cost of having access to these facilities. Further, these costs would still be borne by the Company, but not able to be recovered, if it did not have bank borrowings at the capital structure measurement date. For these reasons the fees associated with the credit facilities should be, and are included in, AmerenCILCO's A&G expenses.

Q. What is the embedded cost of AmerenCILCO's preferred stock?

A. AmerenCILCO's embedded cost of preferred stock was 4.613% as of March 31, 2009. AmerenCILCO Exhibit 13.4 provides the calculation of the embedded cost of preferred stock.

Q. Did you consider expenses associated with AmerenCILCO's issuance of perpetual preferred stock in developing the embedded cost of this component of the Company's capital structure?

A. Yes, I did. I included expenses associated with the issuance of perpetual preferred stock, including discount and premium, plus any loss incurred in acquiring/redeeming prior series, in the embedded cost calculation. These costs are illustrated in the cost calculations shown on AmerenCILCO Exhibit 13.4. Unlike similar expenses incurred in connection with the issuance of long-term debt, these expenses are not amortized over the life of the particular series of preferred stock due to the perpetual nature of this form of capitalization. Nonetheless, for economic purposes it is reasonable to recognize these costs in establishing an overall fair rate of return for the Company.

Q. In what manner will AmerenCILCO obtain debt and preferred stock capital in the future?

A. To the extent this form of capital is needed, AmerenCILCO expects to continue to issue its own long-term debt and preferred stock securities in the external capital markets. Short-term borrowings can be obtained from the capital markets, bank credit facilities, Ameren Corporation ("Ameren"), or through Ameren's Utility Money Pool, depending on availability and the best borrowing rates available.

III. COST OF COMMON EQUITY

Q. What is the cost of common equity for AmerenCILCO?

A. In her testimony in this case, Ms. Kathleen McShane develops and supports a fair return on common equity of 12.250% and 11.600% for AmerenCILCO's electric utility and gas utility operations, respectively. Therefore, for purposes of determining the overall fair rate of return for AmerenCILCO in this proceeding, I use 12.250% as the Company's cost of common equity for electric operations and 11.600% as the Company's cost of common equity for gas operations.

IV. <u>EQUITY INFUSION</u>

Q. Please describe the recent infusion of equity made by Ameren into AmerenCILCO.

A. In March 2009, Ameren made an infusion of common equity (in the form of cash) into AmerenCILCO in the amount of $11,000,000.

Q. Why did Ameren make this equity infusion?

A. Ameren made this equity infusion in order to strengthen the capital structure at AmerenCILCO by bolstering the Company's level of equity capitalization. Although initially provided in the form of cash, this infusion of cash/equity will be used to fund operating/capital requirements and will lessen the reliance on debt financing and interest obligations for these purposes. The related avoidance of debt financing, and by extension, avoided interest costs, provides for stronger cash flow coverage measures which provide support for AmerenCILCO's ratings and enhances credit quality.

Q. Where will Ameren obtain additional equity for future equity infusions?

A. Ameren generates new equity capital on an on-going basis through its issuance of new common stock to meet the requirements of its dividend reinvestment, or DRiP, and 401(k) plans. Meeting these needs generated new common equity of $154,000,000 in 2008, however Ameren does expect this amount to be lower in 2009 and future years.

Q. Are there are other benefits from the making of an equity infusion?

A. Yes, the making of an equity infusion provides a positive, credit supportive signal to the Company's investors, suppliers and the rating agencies. It is an indication of the importance of credit quality. The cash provided by an equity infusion also enhances the Company's liquidity position, an especially critical resource in today's credit-constrained environment.

V. <u>FAIR RATE OF RETURN</u>

Q. What is the overall fair rate of return for AmerenCILCO for this proceeding?

A. As shown on AmerenCILCO Exhibit 13.1, as of March 31, 2009, the overall fair rate of return for AmerenCILCO's electric operations and gas operations is 9.435% and 9.151%, respectively. I derived this result by using the capital structure and embedded costs of long-term debt, short-term debt and preferred stock discussed above, and shown on the various exhibits attached, along with the cost of common equity for AmerenCILCO's electric and gas operations developed by Ms. McShane in her testimony.

VI. <u>CONCLUSION</u>

Q. Does this conclude your direct testimony?

A. Yes.

APPENDIX

STATEMENT OF QUALIFICATIONS
MICHAEL G. O'BRYAN

My name is Michael G. O'Bryan. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri, 63103. I am employed by Ameren Services Company and I hold the position of Senior Capital Markets Specialist in Treasury - Corporate Finance.

I am involved in Ameren's corporate financing, cost of capital, financial analysis and modeling activities as well as monitoring capital markets and bank credit markets to stay current on rates, structures and opportunities. I communicate regularly with investment bankers and debt capital markets personnel to obtain market intelligence. I also closely follow the actions of the rating agencies for trends and changes in ratings methodology largely for internal ratings maintenance purposes.

I graduated Cum Laude with a Bachelor of Science in Business Administration with a concentration in Finance from the University of Missouri – Columbia in 1992. I later earned an MBA from Saint Louis University's John Cook School of Business in 1998. Upon graduation from undergraduate studies, I took a position at A.G. Edwards in Investment Banking as a Research Assistant and then Analyst, focusing on the investor-owned utilities sector. I was responsible for transaction support and marketing as well as general financial analysis of clients, capital markets transactions and merger and acquisitions. I later was promoted to Senior Analyst where I focused to a greater degree on business development and the execution of clients' transactions. I then moved into Debt Capital Markets concentrating solely on fixed-income execution and business development for clients in several different industries.