

**ILLINOIS COMMERCE COMMISSION**

**DOCKET No. 12-\_\_\_\_\_**

**DIRECT TESTIMONY**

**OF**

**DARRELL E. HUGHES**

**Submitted On Behalf**

**Of**

**AMEREN ILLINOIS COMPANY**

**d/b/a Ameren Illinois**

**January 30, 2012**

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23 Administration from Webster University in St. Louis, Missouri in 1991. I was promoted  
24 to Key Account Executive in 1995. In 2000, I accepted the position of Senior Corporate  
25 Development Specialist in Corporate Finance for Ameren Services. I provided financial  
26 review and guidance to senior management regarding business initiatives proposed by all  
27 Ameren business lines. I completed financial projections and due diligence for Ameren's  
28 subsidiaries in the acquisition of new long term debt in 2002. In 2003, I assumed  
29 additional responsibilities as Supervisor Valuation and Cost-of-Capital. In this role, I  
30 support Ameren's capital budgeting and project evaluation activities.

31 **Q. What are your responsibilities in your current position with Ameren**  
32 **Services?**

33 A. In my current position, I also have additional responsibilities for supporting the  
34 development of financial projections provided to the rating agencies, long term cash  
35 forecasting, asset valuations and financial due diligence related to proposed new business  
36 initiatives and financing activities.

37 **II. PURPOSE, SCOPE AND IDENTIFICATION OF EXHIBITS**

38 **Q. Are you familiar with the transmission project described in the Petition filed**  
39 **in this proceeding?**

40 A. Yes. I am familiar with the project at issue. AIC is seeking a Certificate of  
41 Public Convenience and Necessity (“Certificate”) authorizing it to construct a 138 kV  
42 electric transmission line (the “Transmission Line”) in an area south and west of  
43 Champaign, Illinois, connecting AIC Bondville Route 10 and Southwest Campus  
44 substations. Substation modifications at the Bondville Route 10, Southwest Campus and

45 Windsor substations (which, together with the Transmission Line, constitute the  
46 “Project”) will also be required.

47 **Q. What is the purpose of your testimony?**

48 A. The purpose of my testimony is to discuss the financing required for the Project  
49 and to explain why AIC can finance the Project without adverse financial consequences  
50 for AIC or its customers. Based on current financial considerations, my analysis  
51 indicates that AIC will be able to support all of the financing for the Project during its  
52 construction phase without experiencing significant adverse financial consequences for  
53 itself or its customers as a result of the financial requirements imposed by construction of  
54 the proposed Transmission Line.

55 **Q. In addition to your direct testimony, are you sponsoring any exhibits?**

56 A. Yes, I’m sponsoring Ameren Exhibits 5.1 and 5.2.

57 **III. FINANCING OF THE PROJECT**

58 **Q. Please describe the expected cash flow required to finance the Project.**

59 A. The expected cost of the Project (without AFUDC) is between \$34.3 million (for  
60 the Primary Route) and \$63.7 million (Alternate Route), depending on the selected route.  
61 The forecasted completion date is 2015. The following alternative construction costs  
62 (without AFUDC) are estimated by year:

63	<u>Year</u>	<u>Primary Route</u>	<u>Alternative Route</u>
64	Prior	\$ 0.6 million	\$ 0.6 million
65	2011	\$ 0.6 million	\$ 0.6 million

66	2012	\$ 1.8 million	\$ 5.3 million
67	2013	\$ 7.7 million	\$ 16.5 million
68	2014	\$ 13.0 million	\$ 22.7 million
69	2015	\$ 10.6 million	\$18.0 million

70 By comparison, AIC's historical level of capital expenditures from 2008 to 2010 has  
71 averaged \$329 million per year. It is a reasonable expectation that future capital  
72 expenditures will be the same order of magnitude and will grow in subsequent years.

73 **Q. Please describe AIC's current financial situation.**

74 A. AIC renewed its short-term credit facilities in September of 2010, which provide  
75 direct borrowing capability for up to \$800 million, the maximum size of this credit  
76 facility. This facility is in place through 2013, and AIC fully expects to renew and/or  
77 renegotiate these facilities throughout the construction timeframe of the Project. Further,  
78 AIC has ability to draw from an Ameren corporate money pool and Ameren could  
79 provide additional liquidity as needed.

80 With respect to permanent financings, AIC has access to the bond markets with  
81 stable credit ratings that have been recently sustained by Moody's Investor Service on  
82 October 5th, 2011 and by S&P on December 12th, 2011. Moody's senior secured rating  
83 is Baa1 with a stable outlook. This rating reflects upgrades that were made by Moody's  
84 in August of 2009. S&P senior secured rating is BBB with a positive outlook. This  
85 rating reflects upgrades that were made by S&P on September of 2008, and an  
86 improvement in ratings outlook (from stable to positive) made on November 22, 2011. If  
87 these ratings continue, AIC will have the ability to access long term credit markets with

88 terms and conditions that compare favorably with other similarly rated companies. In  
89 summary, the above described resources are more than sufficient to support the financing  
90 requirements of the Project as needed.

91 **Q. What is the current outlook for AIC credit ratings?**

92 A. Moody's provides conditions that would change ratings, either up or down, in  
93 their October 5th report, included as Ameren Exhibit 5.1. Ratings could go down if  
94 future rate cases do not provide sufficient rate relief to maintain financial metrics as well  
95 as other conditions described in their opinion, which principally concern availability of  
96 liquidity to meet debt obligations on an ongoing basis. To state generally, in my opinion,  
97 currently credit ratings agencies rating utilities are concerned with the ability of utilities  
98 to recover costs in order to support operations and liquidity necessary to meet operational  
99 requirements. I believe that both of these conditions are currently and prospectively  
100 favorable from AIC's standpoint. It is noteworthy that Moody's states if there is an  
101 improvement in the regulatory and political framework for Ameren Illinois and evidence  
102 of credit supportive rate case outcomes, the ratings could improve. Additionally,  
103 Moody's specifically mentions the Illinois regulatory effort to move to formula rate plans  
104 as a credit positive event. Since formula rate making was approved for electrical  
105 distribution investment as part of the passage of SB 1652 on October 26th, 2011, it is  
106 reasonable to assume this will positively influence AIC's future credit ratings.

107 In a similar manner, Standard & Poor's (S&P) cites recent passage of the Energy  
108 Infrastructure Modernization Act ("SB 1652") in their November 22, 2011 report that  
109 moved AIC ratings outlook from stable to positive. S&P comments: "We view the

110 Illinois General Assembly's ... enactment of the Energy Infrastructure Modernization  
111 Act into law as potentially reducing the regulatory lag and enhancing credit quality over  
112 the intermediate period." The full S&P report is included as Attachment 5.2 to my  
113 testimony. Thus both S&P and Moody's note positive credit trends for AIC.

114 In summary, AIC's improving outlook for credit ratings ensures competitive  
115 interest costs for long term financings and enhances the ability to renew short term credit  
116 facilities. Further, the liquidity perspective is not affected by changes in my review of  
117 this project's prospective financial requirements.

118 **Q. Please explain. How does the timeframe and magnitude of this Project affect**  
119 **costs of prospective financings and future credit ratings?**

120 A. The expected completion date of this Project is 2015. This Project has only  
121 modest construction needs between now and 2013 that should be fully supported by the  
122 existing lines of credit. Any interest expense incurred between now and 2013 will be  
123 minimal. After 2013, there is increased funding, but it remains a small portion of AIC's  
124 total capital expenditures and of the expected borrowing capacity when AIC renews the  
125 Illinois credit facilities. With respect to financing costs, AIC will have retained earnings  
126 which will supply financing for this Project. As an example, assume 50% of the  
127 accumulated construction costs for the alternative project will be financed with equity (in  
128 the form of retained earnings) and 50% will be financed with debt. 50% of \$63.7 million  
129 would mean \$31.9 million of debt could accumulate by the time the Project is in service.  
130 Assume that the costs of debt would be no greater than 6%. This means a maximum of  
131 \$1.9 million in annual interest expense would be possible by 2015 when the Project is

132 placed in-service. The \$1.9 million can be contrasted to the \$143 million of interest  
133 expense incurred for AIC in 2010. Thus the interest expense by 2015 (even to fund the  
134 more costly alternative route at 6% interest) would be less than 1.3% of 2010's expense,  
135 not enough to cause any concern from a financing, ratings, or liquidity standpoint. In  
136 addition, the beneficial effect of short term debt rates would decrease the prospective  
137 interest costs by the time the project nears completion.

138 **Q. What about any impact on credit ratings after this Project goes in-service?**

139 A. Increased transmission revenue would provide adequate cash flow to fully support  
140 the amount of debt and equity. Other costs like depreciation, maintenance and operations  
141 would also be recovered via the transmission rates. This revenue would have a beneficial  
142 sustaining effect on credit metrics and ratings.

143 **Q. Will AIC be reimbursed by any individual customer or group of customers  
144 for its actual or estimated costs for the Project?**

145 A. No. This project is being done for reliability purposes, and not in response to the  
146 specific needs of any individual customer or group of customers.

147 **IV. CONCLUSION**

148 **Q. What is your conclusion regarding AIC's ability to finance the Project?**

149 A. I conclude that AIC can finance the Project without adverse financial  
150 consequences to the utility or its customers.

151 **Q. Does this conclude your direct testimony?**

152 A. Yes, it does.