Ameren Exhibit 21.0

ILLINOIS COMMERCE COMMISSION

DOCKET No. 12-0293

SURREBUTTAL TESTIMONY

OF

RYAN J. MARTIN

Submitted on Behalf

Of

AMEREN ILLINOIS COMPANY
d/b/a Ameren Illinois

September 5, 2012

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I. INTRODUCTION

A. Witness Identification

Q. Please state your name and business address?

A. My name is Ryan J. Martin, and 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 (AMS) as its Assistant Treasurer and Manager of Corporate Finance.

Q. Are you the same Ryan J. Martin who previously sponsored testimony in this proceeding?

A. Yes, I sponsored rebuttal testimony on behalf of Ameren Illinois Company d/b/a Ameren Illinois (AIC, or the Company).

B. Purpose, Scope and Identification of Exhibits

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

A. The purpose of my testimony is to respond to the rebuttal testimony of Illinois Commerce Commission (Commission) Staff (Staff) witness, Ms. Rochelle M. Phipps.

Q. Are you sponsoring any exhibits in support of your testimony?

A. No, I'm not.

II. <u>RESPONSE TO STAFF WITNESS, MS. PHIPPS</u>

Q. Has your position changed regarding the use of an actual capital structure?

A. No, it has not. I continue to advocate use of AIC's actual capital structure rather than an average capital structure as proposed by Ms. Phipps.

Q. Ms. Phipps indicates that she adopts the position she took in Docket 12-0001 as part of her rebuttal position in this docket related to her construction work in progress adjustments. How do you respond?

A. Staff and the Company continue to disagree. As stated in my rebuttal testimony, my position has not changed. My testimony from Docket 12-0001 was attached to my Rebuttal testimony in this docket. Please see Ameren Exhibits 12.1 and 12.2.

Q. Similar to the construction work in progress adjustment, Ms. Phipps refers to her 12-0001 position with regard to her purchase accounting adjustment. How do you respond?

A. I also see no need to repeat previously made arguments here. My position has not changed with regard to this issue. Please see Ameren Exhibits 12.1 and 12.2.

Q. Ms. Phipps disagrees with the corrected purchase accounting adjustments that you provide and cites Section 9-230. What is your response?

A. I do not agree that Section 9-230 applies to this issue or this proceeding. There has been no showing of increased cost of capital imposed by virtue of incremental risk associated with any unregulated business affiliates of AIC.

Q. Ms. Phipps argues that she has prepared an analysis that an $80 million dollar debt financing reducing the common equity ratio to 51% would not result in a downgrade action. How do you respond?

A. My main concern with Ms. Phipps' analysis is that she attempts to predict ratings or ratings action by evaluating only one aspect of very complex, highly subjective ratings processes. Ratings actions are not easily predicted or calculated due to the credit agencies' qualitative assessments that factor into a ratings assessment. It is not as simple as dropping a few values into an equation and evaluating the results based on some master key. Ms. Phipps oversimplifies the process and ignores the inherent subjectivity that ratings agencies employ in evaluating an issuer's creditworthiness and assigning ratings. While rating methodologies, key rating factors, and general ratings guidance for key measures such as credit metrics are generally published by the agencies, there is no way to predict with certainty what any particular ratings agency will do, how it will evaluate certain subjective criteria, or how changes in one particular rating factor impact the agency's overall rating decisions. It may be possible to predict the directional impact of a specific change (such as strengthening or weakening of credit metrics), but one cannot accurately predict the impact on such an isolated change on an issuer's overall rating. Stronger metrics support stronger ratings, but it is impossible to predict with precision how strong ratings must be to offset weaker ratings with respect to other rating factors, include those that cannot be quantitatively measured, such as the supportiveness of a particular regulatory environment. If one could truly predict credit rating actions by rote mathematical application of ratings methodologies, no one would anticipate rating agency credit actions, nor would the ratings have much value, because everyone with the requisite financial data would have already predicted the result. Ratings are more than just a calculation and evaluation of credit metrics. There exists an inherently high degree of judgment and subjectivity involved in the rating process, such that no one outside of the agencies can predict ratings with the precision that Ms. Phipps' analysis and testimony suggest. An evaluation of credit metrics alone is not a reasonable basis for predicting the outcome of the complex, comprehensive rating process, and it is certainly not a basis for approving a proposed Staff adjustment that would weaken and increase risk associated with the Company's capital structure. I believe one can generally make reasonable conclusions about the directional impact of a change in a factor affecting ratings, but one simply cannot accurately predict a rating action, much less anticipate exactly how such a rating action would impact market-derived pricing for an issuer's long term debt. Credit ratings are important, but they are just one of many tools available to and used by investors for purposes of measuring risk. A decline in a credit rating would not necessarily result in an increase in an issuer's market-determined cost of capital if the increased risk indicated by the rating change had already been factored into investor sentiment regarding the issuer. Credit markets themselves are not necessarily beholden to the dictates of the ratings agencies, and factors outside of those addressed in a ratings opinion are considered by the market in the risk assessment process.

In summary, I do not think anyone, besides the credit rating agencies themselves, can say whether or not the incremental debt issuance and reduction of the Company's equity ratio proposed by Ms. Phipps would result in a rating downgrade. It may, or it may not. And there may not even be consensus among the different rating agencies on the question. But the incremental debt proposed by Ms. Phipps definitely would result in some degree of deterioration of key credit metrics (relative to metrics without the proposed incremental debt), and such deterioration will absolutely put some degree of downward pressure on AIC's existing ratings.

Whether or not such deterioration and downward pressure would warrant a downgrade is a question only the rating agencies can answer.

Lastly, I think it is important to again note that AIC's current Standard & Poor's (S&P) corporate rating is only one notch above junk status, and its current Moody's issuer rating is only two notches above junk status. The Company has very little cushion to absorb events or developments perceived as detrimental to credit quality and maintain its investment grade ratings. While, as noted above, credit ratings are just one indicator of relative risk and just one factor that contributes to the cost of an issuer's debt, maintenance of investment grade credit ratings is important because it indicates to the investment community a certain level of financial strength and stability that generally affords an issuer access to necessary debt capital at market-competitive rates.

Q. Are there any other reasons why the Commission should not arbitrarily restrict the equity percentage for AIC due to the Energy Infrastructure Modernization Act passage at this time?

A. Yes, Moody's, in its recent release announcing an upgrade of AIC ratings, expressed concern about interference with the intent of the enactment. Obviously, the Energy Infrastructure Modernization Act (EIMA) is a new enactment, and how it will actually be implemented is yet to be known. While ratings analysts generally see the enactment as a positive credit development, they are fully aware that the act is subject to implementation as established through a regulatory review and oversight process. Thus, the jury is still out on whether the EIMA will be a meaningfully credit positive change in law. Any perceptions that the EIMA will be interpreted in a manner that inhibits full cost recovery could sour the positive credit support that the enactment presents, and may even erode the Company's credit quality.

Maintaining credit ratios near the strong end of the range of ratios expected by rating agencies of investment grade issuers is necessary to offset other factors that put downward pressure on the ratings. For example, Moody's rates the supportiveness of the Illinois regulatory environment at the sub-investment grade Ba level. That counts for 25% of the overall rating. Credit metrics, including those related to the Company's capital structure, count for 30% of the overall rating. AIC requires strong Baa-level ratios (or even weaker A-level ratios) to offset the weak regulatory supportiveness grade and safely support an overall rating in the Baa (low investment grade) range. Ratios toward the weak end of the Baa-range would put AIC dangerously on the Baa/Ba junk rating border. Another rating factor associated with the relative strength of a utility's cost recovery mechanisms (and accounts for 25% of the overall rating) was recently upgraded from Ba to Baa, but based on the concerns expressed by Moody's regarding the proper implementation of the new formula-rate legislation, I believe there's risk that the rating for this particular could fall back down to the Ba level if the new legislation is not implemented as intended or expected.

Now is not the time to make significant changes to the Company's capital structure and weaken its credit metrics. Such an action could ultimately lead to a downgrade and increase the Company's costs of debt financing, which would increase the cost to ratepayers of important capital improvements envisioned by the EIMA.

Q. Is the current debt-equity ratio reasonable for AIC?

A. Yes, it is. I believe a reasonable debt to equity range for AIC is between 51 and 55 percent. In my expert opinion, maintaining a debt to equity ratio in this range is ideal for purposes of maintaining an investment grade credit rating and, thus, access to reasonably priced debt capital. An equity ratio in this range indicates financial strength and stability and results in a reasonable weighted average cost of capital. As AIC begins the formula rate process, I believe an equity ratio near the upper end of this range should be maintained, partially to offset concerns regarding the supportiveness of the Illinois regulatory environment and the constructive implementation of formula-rate legislation. Therefore, an equity ratio of 54.85% is reasonable and appropriate.

It is also important to note that AIC is also a gas utility, and it does not have access to gas formula rates, thereby limiting any positive credit quality that might exist with respect to the electric business.

I believe that the Company should continue to target a long-term equity ratio in the 51-55% range, should try to maintain an equity percentage toward the top of the range as formula rate legislation is implemented, and should avoid setting any equity percentage ceilings at this time. This is a prudent and reasonable course of action from a finance perspective in light of the Company's existing risk landscape.

Q. Ms. Phipps argues that AIC's non-rate-regulated affiliate has impacted the Company's cost of capital, citing a S&P report dated March 16, 2012. What is your response?

A. First, I think it is important to keep in mind that AIC is a separate corporate entity. It is affiliated with certain non-regulated affiliates of Ameren Corporation (Ameren) only by virtue of Ameren's ownership of those affiliates. I don't not believe, nor is there evidence that the investment community believes, that AIC's affiliation the non-rate-regulated affiliates has any material effect on the Company's creditworthiness or cost of capital. I believe the comment in the referenced S&P report is a reflection on S&P's unique consolidated rating approach rather than an indication of any significant risk associated with AIC's affiliation with Ameren's non-rate-regulated merchant generation business. While the standard rating methodology S&P employs generally evaluates a consolidated enterprise as a whole, including affiliates, S&P recently separated the ratings of Ameren Genco from those of the rest of the Ameren family, including AIC, a signal of a weakening perceived connection between Ameren Genco, Ameren and its other affiliates.

The other two ratings agencies, Fitch and Moody's, establish ratings for AIC by evaluating the Company on a standalone basis. There is no evidence that AIC's affiliation with Ameren's merchant generation businesses has any effect on its ratings assigned by Moody's or Fitch.

I think it is important to consider that Standard and Poor's represents one voice out of the three credit ratings agencies. All three ratings agency perspectives must be considered, among other variables, when assessing risk and its impact on the cost of debt. Credit ratings are just one indicator of relative risk considered by the market when evaluating the Company and the riskiness of its debt securities.

Q. In response to Ms. Phipps arguments concerning Ameren Genco and ratings analysis generally, is there any objective information that is relevant to consider?

A. Yes, AIC in August 2012 completed a debt financing transaction whereby the Company issued approximately $400 million of 10-year senior secured notes at 2.7%. This was an excellent outcome for AIC and rate payers, as the issue represents the lowest price debt in the Company's long-term debt portfolio, and clearly demonstrates that AIC, in part by maintaining a healthy capital structure, is able to access debt capital markets on a competitive basis. As Assistant Treasurer at Ameren, I was directly involved in this financing and can attest that AIC's affiliation with Ameren's merchant generation subsidiaries was no factor whatsoever in the sale and pricing of the debt and closing of the transaction. Further, I believe that the results of actual market transactions are superior indicators, relative to credit ratings, of the market perception of AIC's creditworthiness and financial strength and stability. Credit ratings are only a tool; the true question in evaluating the Company's management of its capital structure is whether or not such capital structure signals the requisite level of financial strength to the market and affords the Company access to necessary capital at a reasonable cost. Clearly, the favorable outcome of the recent financing stands in testament that AIC's conservative financial management is effectively affording the company access to reasonably priced long term debt.

III. <u>CONCLUSION</u>

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.