

ILLINOIS COMMERCE COMMISSION

DOCKET No. 12-0017

SECOND REVISED DIRECT TESTIMONY

OF

RYAN J. MARTIN

Submitted on Behalf

Of

AMEREN TRANSMISSION COMPANY OF ILLINOIS

September 26, 2012

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8 **I. INTRODUCTION**

9 **A. Witness Identification**

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

11 A. My name is Ryan J. Martin. My business address is 1901 Chouteau Avenue, St. Louis,
12 MO, 63103.

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

14 A. I am employed by Ameren Services Company (“AMS”), a wholly-owned subsidiary of
15 Ameren Corporation (“Ameren”), as Assistant Treasurer and Manager of Corporate Finance. I
16 also serve as Assistant Treasurer of Ameren Transmission Company of Illinois (“ATXI”).

17 **Q. What are your current job duties and responsibilities?**

18 A. As Assistant Treasurer and Manager of Corporate Finance, I am responsible for
19 managing the Ameren and subsidiary company short-term and long-term financing activities,
20 including debt and equity issuances and credit facility arrangements, monitoring liquidity and
21 key credit metrics, monitoring compliance with debt agreements, managing relationships with

22 credit rating agencies and banks, and monitoring capital markets for key developments, emerging
23 risks, and opportunities, among other corporate-finance related activities.

24 **Q. Please provide your educational background and relevant work experience.**

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

26 **B. Purpose, Scope and Identification of Exhibits**

27 **Q. What is the purpose of your direct testimony?**

28 A. I am providing testimony in support of ATXI's f/k/a Ameren Illinois Transmission
29 Company or "AITC" *Second Revised Petition* ("Petition") in this docket. The Petition seeks
30 Illinois Commerce Commission ("Commission") approval of a long-term borrowing agreement
31 ("Ameren Agreement") between ATXI and its parent, Ameren. The proposed Ameren
32 Agreement is attached to the Petition as Exhibit A. The Ameren Agreement is very similar to a
33 short-term Unilateral Borrowing Agreement that was previously approved by the Commission in
34 Docket No. 08-0174. I will explain why approval of the Ameren Agreement is being sought at
35 this point in time and describe ATXI's financing plan over the next five to seven years.

36 **Q. Are you sponsoring any exhibits?**

37 A. Yes, I am sponsoring Ameren Exhibit 1.1 (2nd Rev.), the Ameren Agreement, which is
38 the same as the Exhibit A attached to the Petition.

39 **II. NEED AND PROVISION FOR LONG-TERM FINANCING OF ATXI**

40 **Q. What is ATXI?**

41 A. ATXI is a wholly-owned subsidiary of Ameren. In 2007, ATXI received a Certificate
42 from the Commission to operate as a "public utility" under the Public Utilities Act ("Act") in

43 Docket No. 06-0179. As a public utility, ATXI transmits electricity for use by the public at rates,
44 terms, and conditions subject to regulation by the Federal Energy Regulatory Commission
45 (“FERC”).

46 **Q. In general, what types of projects does ATXI undertake?**

47 A. ATXI funds, constructs, and operates transmission lines in Illinois. It owns portions of
48 transmission facilities in southern Illinois as part of the Prairie State Project. Further, ATXI has
49 received approval for the construction of additional transmission projects in Illinois and plans to
50 seek authority for additional transmission projects in the state.

51 **Q. Please describe how ATXI is currently financed.**

52 A. Currently, ATXI borrows directly from Ameren through a Unilateral Borrowing
53 Agreement approved by the Commission on May 7, 2008, as part of Docket No. 08-0174.
54 Under the Unilateral Borrowing Agreement, ATXI can borrow up to a maximum aggregate of
55 \$125,000,000 from Ameren on a short-term basis. The first borrowing by ATXI under the
56 Unilateral Borrowing Agreement occurred in September of 2008, when portions of the Prairie
57 State Project were transferred from then AmerenIP to ATXI. At the end of 2010, portions of the
58 Prairie State Project were placed into service.

59 **Q. Does ATXI have any borrowing arrangements with third-party lenders?**

60 A. No. The Unilateral Borrowing Agreement is currently the sole short-term or long-term
61 financing mechanism for ATXI.

62 **Q. Is the Unilateral Borrowing Agreement an adequate and appropriate source of long-**
63 **term funding for ATXI?**

64 A. No.

65 **Q. Please explain why it is not.**

66 A. The Unilateral Borrowing Agreement is intended to provide ATXI with a short-term
67 source of financing for construction projects and to meet other short-term capital needs. ATXI
68 now has long-lived assets that are in-service and generating revenue for ATXI as part of a
69 Midwest Independent Transmission System Operator (“MISO”) tariff. Long-term debt is a more
70 appropriate funding option for ATXI’s revenue-generating long-lived assets. In addition, the Act
71 limits the tenor of financings allowed under debt issuance governing provisions of the Act to two
72 years. The tenor of ATXI’s original borrowings under the Unilateral Borrowing Agreement
73 reached this two-year limit in September 2011. ATXI is therefore applying for Commission
74 approval of the Ameren Agreement as a means of repaying ATXI short-term borrowings under
75 the Unilateral Borrowing Agreement. ATXI plans to repay the remainder of the principal
76 balance currently outstanding under the Unilateral Borrowing Agreement with proceeds from the
77 proposed Ameren Agreement.

78 **Q. How much does ATXI owe under the Unilateral Borrowing Agreement?**

79 A. As of August 31, 2012, the principal amount borrowed by ATXI under the Unilateral
80 Borrowing Agreement totaled approximately \$13.2 million.

81 **Q. Please explain how ATXI proposes to pay the balance it owes under the Unilateral**
82 **Borrowing Agreement.**

83 A. Ameren infused equity of \$25.0 million into ATXI on November 1, 2011. This \$25.0
84 million was used to repay a portion of the balance outstanding under the Unilateral Borrowing
85 Agreement, which as of October 31, 2011, totaled approximately \$47.0 million. ATXI proposes
86 to repay the remaining outstanding balance under the Unilateral Borrowing Agreement with
87 proceeds from borrowings under the proposed Ameren Agreement.

88 **Q. Why does ATXI plan to fund the repayment in this manner?**

89 A. ATXI needs a capital structure composed of approximately 56% equity to achieve the
90 capital structure reflected in the FERC's approval of ATXI Attachment O Filing in Docket No.
91 ER11-2104-000. This 56% equity structure is consistent with the structure approved by FERC
92 in Docket No. ER10-80-000. ATXI anticipates using approximately the same ratio of equity
93 financing to fund new transmission projects over the next five to seven years. ATXI plans to
94 utilize a combination of periodic infusions of equity from Ameren and long-term debt issued by
95 ATXI under the Ameren Agreement to target a capital structure composed of 56% equity and 44%
96 debt. Such a financing strategy, which would require the approval of the Ameren Agreement by
97 the Commission, will allow ATXI to pay off its short-term debt under the Unilateral Borrowing
98 Agreement and achieve a long-term capital structure that is consistent with the capital structure
99 recently approved by the FERC Orders described.

100 **Q. Would the existing Unilateral Borrowing Agreement remain in effect if the**
101 **Commission approves the Ameren Agreement?**

102 A. Yes. ATXI plans to continue utilizing the existing Unilateral Borrowing Agreement as a
103 source of short-term funds to finance ATXI's capital needs in advance of long-term debt
104 issuances under the Ameren Agreement and equity infusions from Ameren Corporation. ATXI
105 plans to periodically repay borrowings under the Unilateral Borrowing Agreement with both
106 cash generated from operations and proceeds from the periodic issuances of long-term debt and
107 infusions of equity. ATXI anticipates that the repayment of accumulated borrowings under the
108 Unilateral Borrowing Agreement would occur at least annually but may occur more often
109 depending on the cost and timing of construction activities that ATXI must finance.

110 **Q. Who will determine the timing of repayments of borrowings under the Unilateral**
111 **Borrowing Agreement?**

112 A. AMS, a subsidiary service company of Ameren, serving as financial agent for ATXI, will
113 make this determination by reviewing borrowings under the existing Unilateral Borrowing
114 Agreement, the need for capital for future construction projects, and the need to maintain a
115 balanced and healthy capital structure consistent with that reflected in ATXI's various regulatory
116 filings.

117 **Q. Please describe the terms and conditions of the proposed Ameren Agreement.**

118 A. Under the terms of the proposed Ameren Agreement, ATXI would be able to borrow up
119 to \$100 million from Ameren on a long-term basis. The Ameren Agreement allows for the
120 execution of multiple promissory notes, the proposed format of which is reflected in Ameren
121 Exhibit 1.1 (2nd Rev.) and Exhibit A attached to the Petition. The term of each promissory note

122 shall be longer than 365 days but no longer than ten years. Promissory notes may be executed
123 for any principal amount up to the \$100 million borrowing limit, but the cumulative principal
124 amount of all promissory notes outstanding at any time during the term of the Ameren
125 Agreement may not exceed \$100 million. Each promissory note will allow ATXI to prepay
126 Ameren the principal amount borrowed at any point after a period of one year from the date of
127 the promissory note, and there will be no penalty or premium for any such prepayment.

128 **Q. How will interest on the promissory notes accrue, when will it be paid, and how will**
129 **the interest rate for each promissory note be determined?**

130 A. Interest will accrue and be paid quarterly on the unpaid principal amount of each
131 promissory note executed under the Ameren Agreement from the date of the note until the
132 principal amount of the note is paid in full. The interest rate for each promissory note will be
133 equal to the interest rate of the most recent long-term financing completed by Ameren, if and
134 only if, the date of such long-term Ameren financing is no more than 30 days prior to the date of
135 the note. If no such long-term financing has been completed by Ameren within 30 days prior to
136 the date of the note, the interest rate of the note will equal the estimated interest rate of a
137 hypothetical Ameren long-term financing with a tenor equal to the tenor of the note. For
138 purposes of determining the interest rate of the note, Ameren will seek interest rate estimates
139 from any three banks that (1) are lenders in one or more of Ameren's short-term credit facilities
140 and (2) have fixed-income underwriting capabilities. The interest rate estimates will represent
141 the estimated interest rate of a hypothetical senior unsecured bond issued by Ameren with a tenor
142 equal to the tenor of the note. All such estimates will be received no earlier than one week prior
143 to the date of the note. Estimates shall be solicited and stated by the participating banks as a
144 spread over the yield on the outstanding Treasury bill, note, or bond deemed by the participating

145 banks as the most comparable Treasury security. The interest rate for the note will equal the
146 summation of the (1) average of the three indicative spreads provided by the banks plus (2) the
147 closing yield on the comparable Treasury security on the business date prior to the date of the
148 note.

149 **Q. What are ATXI's repayment obligations under the proposed Ameren Agreement?**

150 A. ATXI must repay the principal amount of loans, together with interest, upon the maturity
151 date specified in the applicable promissory notes. As noted above, principal may be prepaid at
152 any time prior to maturity without premium or penalty.

153 **Q. How does ATXI intend to secure long-term debt financing subsequent to the ten-**
154 **year term of the proposed Ameren Agreement?**

155 A. Prior to the expiration of the proposed Ameren Agreement, Ameren intends to establish
156 ATXI as a Securities and Exchange Commission ("SEC") registrant that could be assigned a
157 standalone credit rating. Given the risk profile of ATXI's business and expected future cash
158 flows and credit metrics, we believe ATXI is capable of earning a strong credit rating that will
159 allow the company to ultimately secure long-term financing from third parties on a standalone
160 basis. At such point, ATXI would not be reliant on Ameren for long-term financing, and the
161 Ameren Agreement would no longer be necessary. Borrowings made by ATXI under the
162 proposed Ameren Agreement would likely be repaid with proceeds from ATXI standalone long-
163 term financings.

164 **Q. Do you believe the consent sought in this proceeding will be in the best interest of**
165 **the public?**

166 A. Yes. ATXI represents that, in its judgment, approval by the Commission of the Ameren
167 Agreement described in the Petition and in my testimony will allow ATXI to secure the long-
168 term financing necessary to execute its capital projects. As such, approval of the Ameren
169 Agreement serves the best interest of the public.

170 **Q. Will AITX owe fees under the Act in connection with the authorized of the Ameren**
171 **Agreement?**

172 A. Yes, AITX will owe a fee of \$0.24 for each \$100 of borrowings authorized in this
173 proceeding, or a fee of \$240,000.

174 **Q. Has ATXI made any other commitments?**

175 A. Yes, ATXI has agreed to comply with 83 Ill. Admin. Code 240, and agrees to disclose to
176 the Staff of the Commission the interest rate on any borrowings pursuant to the long-term
177 borrowing agreement at the time it submits the reports required by 83 Ill. Admin. Code 240.

178 **III. CONCLUSION**

179 **Q. Does this conclude your second revised direct testimony?**

180 A. Yes, it does.

APPENDIX

STATEMENT OF QUALIFICATIONS

RYAN J. MARTIN

My name is Ryan J. Martin. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri, 63103. I am employed by Ameren Services Company as Assistant Treasurer and Manager of Corporate Finance.

As Assistant Treasurer and Manager of Corporate Finance, I am responsible for managing the Ameren and subsidiary company short-term and long-term financing activities, including debt and equity issuances and credit facility arrangements, monitoring the company's liquidity position and key credit metrics, monitoring compliance with our debt agreements, managing relationships with credit rating agencies and banks, and monitoring capital markets for key developments, emerging risks, and opportunities, among other corporate-finance related activities.

I received my Bachelor of Business Administration degree, with a concentration in Accountancy, in 1995 from the University of Notre Dame. I received my Master of Business Administration degree, with concentrations in finance, marketing, and strategy, in 2004 from Northwestern University's Kellogg School of Management.

I have over sixteen years of experience in various audit, accounting, financial reporting, and finance roles. I began my career in 1995 at Arthur Andersen LLP and worked in the firm's Audit and Business Advisory practice for six years. I left Arthur Andersen in 2000 to join Career Education Corporation, a Chicago-based public company that owns and operates for-profit, post-secondary schools. At Career Education Corporation, I managed the company's

accounting and financial reporting functions and at various times was also responsible for accounts payable, payroll, and insurance. In 2007, I joined Ameren Services Company as Assistant Controller. In that role, I managed the Company's general accounting function and plant accounting function and was also responsible for accounting research and policy. In March of 2010, I transitioned to the Finance department of Ameren Services Company as the Assistant Treasurer and Manager of Corporate Finance.