

ILLINOIS COMMERCE COMMISSION

DOCKET No. 12-0598

REBUTTAL TESTIMONY

OF

DARRELL E. HUGHES

Submitted On Behalf

Of

AMEREN TRANSMISSION COMPANY OF ILLINOIS

APRIL 26, 2013

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7 **I. INTRODUCTION AND WITNESS QUALIFICATIONS**

8 **Q. Please state your name, business address and present position.**

9 **A.** My name is Darrell E. Hughes, and my business address is 1901 Chouteau Avenue, St.
10 Louis, Missouri 63103. I am employed by Ameren Services Company (“AMS”) as a Supervisor
11 Valuation and Cost of Capital – Corporate Finance for Ameren Corporation (“Ameren”) and its
12 affiliates, including Ameren Transmission Company of Illinois ("ATXI").

13 **Q. Are you the same Darrell E. Hughes who sponsored direct testimony in this**
14 **proceeding?**

15 **A.** Yes, I am.

16 **II. PURPOSE AND SCOPE**

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

18 **A.** The purpose of my testimony is to respond to Staff witness, Mr. Greg Rockrohr’s
19 commentary regarding the financing of the Illinois Rivers Project (the “Project”), and the
20 testimony of any Intervener who may have addressed the financing of the Project. My failure to
21 address any witnesses' testimony or position should not be construed as an endorsement of same.

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

23 **A.** No.

24 **III. RESPONSE TO STAFF**

25 **Q. Without restating your direct testimony in its entirety, can you briefly explain the**
26 **source of funding upon which ATXI will rely to fund the construction of the Project?**

27 **A.** Yes, I can. ATXI will primarily rely on Ameren for its source of funds. These funds will
28 include short-term and long-term intercompany loans from Ameren. In addition, Ameren will be
29 making periodic equity infusions into ATXI. ATXI will also self-fund a portion of the Project
30 with retained earnings. Further, ATXI will receive funding from the Midwest Independent
31 Transmission System Operator, Inc. (“MISO”). The MISO revenue comes about as MISO
32 receives revenue for the services provided to wholesale and retail customers by ATXI, and then
33 is distributed to ATXI.

34 **Q. Did you review Mr. Rockrohr’s testimony as it relates to the financing of the**
35 **Project?**

36 **A.** Yes, I did. When asked if ATXI is capable of financing the proposed construction
37 without significant adverse financial consequences for the utility or its customers, he testified as
38 follows: “I do not know. ATXI witness Darrell E. Hughes presents ATXI’s plans to finance its
39 proposed Project. Mr. Hughes states that ATXI will primarily rely on Ameren Corporation for its
40 source of funds.” (ICC Staff Ex 1.0. p.8.) I take it from the answer that Mr. Rockrohr either
41 agrees with me, or has no opinion on the matter; he doesn’t offer any opinions as to whether my
42 analyses or commentary on ATXI's funding sources or plans is erroneous.

43 **Q. Were any data requests submitted to Mr. Rockrohr in order to better understand**
44 **his positions with regard to the financing of the Project?**

45 **A.** Yes. He was asked whether the utility's source of funding for a transmission project
46 cannot come from an external sources such as an affiliate or parent company. He responded no,
47 and that he understands Section 8-406.1 (f) (3) does not restrict a utility's source of funding .
48 (Response to DR ATXI-ICC 1.12).

49 Indeed, ATXI has had external funding sources previously approved in Docket Nos. 08-
50 0174 and Docket 12-0017. In these dockets the Illinois Commerce Commission ("Commission")
51 approved Ameren as an external source of funds to ATXI for both short and long term debt. In
52 summary, relying on Ameren as a means to assist in the financing of the Project is consistent
53 with past practice, and there has been no evidence to the contrary why that should be any
54 different for the Project.

55 **IV. RESPONSE TO INTERVENERS**

56 **Q. Did any other parties question ATXI's ability to fund the Project?**

57 **A.** No.

58 **Q. Did any other parties question whether the funding of the ATXI project would have**
59 **an adverse effect on customers?**

60 **A.** No.

61 **Q. Did any Intervener respond to any aspect of your direct testimony?**

62 **A.** Yes. Dr. Magdi Ragheb alleges the accounting consideration appears to take precedence
63 over the engineering design with the sole purpose, according to ATXI filing, of "acquiring rights

64 of ways” which would constitute “assets” to “be depreciated” and hence “generate cash flow” so
65 as to “facilitate the ability of ATXI to obtain its own credit rating.”

66 **Q. How do you respond?**

67 **A.** The ability of ATXI to obtain its own credit rating has no bearing on the design of the
68 Project. Engineers design a project based on design criteria, codes, industry standards, other
69 rules and regulations, and the like in order to meet their objective—the construction and
70 operation of the project. Corporate Finance, my group, develops a plan that supports the
71 financing and payment of the design, construction, and operation of the project. Accounting
72 considerations only come into play as we determine the optimal means to finance the project.

73 **Q. Mr. Bergschneider testifies that ATXI's "projected return on investment for this
74 Project... [is] glaringly low." What was his analysis based on?**

75 **A.** A comparison of federal securities rates to the decline in power costs projected by Mr.
76 Frame. (Data Response ATXI-MSSCLPG 3.01).

77 **Q. Is that an appropriate way to analyse a project's return on investment?**

78 **A.** No. It appears based on the misconception that the investment in this project is made with
79 taxpayer dollars (Response to ATXI-MSSCLPG 2.17), when in fact as I discuss in direct, the
80 investment will primarily be in the form of debt and equity from Ameren. Moreover, the decline
81 in power costs does not reflect a "return on investment" in the rate regulated context.

82 **V. CONCLUSION**

83 **Q. Does this conclude your rebuttal testimony?**

84 **A.** Yes, it does.