**PUBLIC VERSION**

**IIEC Exhibit 1.0**

## STATE OF ILLINOIS

## ILLINOIS COMMERCE COMMISSION

| | | |
|---|---|---|
| Illinois Electric Transmission Company LLC | : | |
| Application for a Certificate of Public Convenience and Necessity, pursuant to Section 8-406 of the Public Utilities Act, to operate as a Public Utility, and for related approvals. | : | Docket No. 02-0742 |
| Illinois Power Company | : | |
| Petition for an Order (1) Concerning Classification of Illinois Power Company's Transmission and Distribution Facilities and (2) for Certain Determinations in Connection with the Sale of Illinois Power Company's Transmission System to Illinois Electric Transmission Company, LLC. | : | Docket No. 02-0743 |
| Illinois Power Company | : | |
| Notice pursuant to Section 16-111(g) of the Public Utilities Act of Sale of Illinois Power Company's Transmission Assets to Illinois Electric Transmission Company, LLC | : | Docket No. 03-0022 |

Direct Testimony and Exhibit of

**Michael Gorman**

**On behalf of**

**Illinois Industrial Energy Consumers**

February 7, 2003
Project 7911

BRUBAKER & ASSOCIATES, INC.
ST. LOUIS, MO 63141-2000

**STATE OF ILLINOIS**

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# Direct Testimony of Michael Gorman

**Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A Michael Gorman; my business address is 1215 Fern Ridge Parkway, Suite 208; St. Louis, MO 63141-2000.

**Q WHAT IS YOUR OCCUPATION?**

A I am a consultant in the field of public utility regulation and a principal in the firm of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

**Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

A These are set forth in Appendix A to my testimony.

## INTRODUCTION

**Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

A I am appearing on behalf of the Illinois Industrial Energy Consumers (IIEC). The members of IIEC include several large industrial customers who purchase electric utility service and delivery service from Illinois Power Company (Company or IP).

**Q WHAT IS THE SUBJECT MATTER OF YOUR TESTIMONY?**

A In my testimony I address certain financial issues related to IP's proposal to sell its transmission assets to Illinois Electric Transmission Company, LLC. (IETC). These issues include:

a. whether the asset sale will result in the strong likelihood that IP could request a base rate increase during the Mandatory Transition Period (MTP) per the terms of Section 16-111(g) of the Public Utilities Act (Act);

b. whether the Illinois Commerce Commission (ICC or Commission) should put in place safeguards to ensure safe and reliable tariffed service, if the asset sale is approved. These safeguards should include: 1) require IP to retain all net asset sale proceeds to enhance its liquidity as recommended by IP witnesses Daniel Mortland and Peggy Carter; and 2) require IP to deposit an appropriate amount of the net asset sale proceeds with the indenture trustee of the transitional funding notes issued by Illinois Power Special Purpose Trust as recommended by Mr. Mortland.

## SUMMARY

**Q PLEASE SUMMARIZE YOUR FINDINGS AND CONCLUSIONS AS SET FORTH IN YOUR TESTIMONY.**

A My testimony is summarized as follows:

- I recommend IP's proposal to sell its transmission assets to IETC be rejected.

- IP's proposal to sell its transmission assets will result in a strong likelihood that its earned return on common equity will fall below the return on equity benchmark set forth in Section 16-111(d) of the Act, thus allowing IP to request a base rate increase during the MTP.

- IP's earned return on common equity without the transmission asset sale will fall dangerously close to the Treasury bond yield benchmark set forth in Section 16-111(d), that will allow it to request a base rate increase during the MTP. While the transmission asset sale will only lower IP's earned return on common equity by approximately 90 basis points, this reduction is enough to put it below the Treasury yield benchmark, thus permitting IP to request a base rate increase during the MTP.

- IP's financial forecast is flawed because it has not supported its purchased power expense estimates for 2005 and 2006. IP's cost of purchased power in 2005 and 2006 are key parameters in assessing the Company's earned return without the transmission sale, and thus is keenly important to assessing the transmission asset sale impact on its earned return on common equity and IP's ability to request a base rate increase during the MTP. IP's failure to provide a competent assessment of its purchased power costs in 2005 and 2006 render its forecast useless in assessing IP's compliance with Section 16-111(d) of the Act.

- If the Commission disagrees the asset sale will create a likelihood IP's return on equity will fall below a level that will permit IP to request an increase in base rates, then I recommend rejection for other reasons. IP is required to provide safe and reliable tariffed service. IP has not offered a mechanism to ensure that it follows through with its commitment to retain the net asset sales proceeds to enhance its liquidity. If the net asset sales proceeds are not retained, IP's earned return on common equity will be lower than that projected in its financial forecast, its ability to request a base rate increase will be more likely, and IP's ability to continue to offer safe and reliable tariffed service will be in jeopardy. For these reasons, the Commission should reject the Company's proposed sale of its transmission assets.

- Also, IP's ability to provide safe and reliable service is placed in jeopardy, because it has not investigated whether credit enhancement will be necessary in order to extend its purchased power agreements in 2005 and 2006. IP is required to provide bundled service throughout the MTP and its ability to secure a purchased power source in these later years is highly uncertain. The transmission asset sale will likely lower IP's bondable assets, and reduce the dollar amount of earnings and cash flow coverage to meet additional mortgage bond tests. Therefore, its ability to issue additional first mortgage bonds to backup short-term credit facilities, including those needed to

collateralize future purchased power expense obligations is uncertain. The Commission should reject IP's proposal to sell its transmission assets because it may place in jeopardy IP's ability to procure power to meet its bond service requirement through the end of the MTP.

- Finally, IP proposes to use approximately $26.4 million of the net proceeds of the sale to pay the indenture trustee of the transitional funding note issued by Illinois Power Special Purpose Trust. After 30 days of the sale of the transmission assets, if approved by the ICC, I recommend the ICC order IP to offer proof that it has deposited cash proceeds in an amount equal to the lost IFC collections resulting from the asset sale with the indenture trustee.

My failure to address an issue should not be construed as a tacit endorsement of a position of IP or IETC.

## CLAIMED FINANCIAL RESULTS

**Q PLEASE DESCRIBE THE TEST UNDER SECTION 16-111(d) OF THE ACT FOR DETERMINING IF AN ELECTRIC UTILITY IS ELIGIBLE TO REQUEST AN INCREASE IN BASE RATES DURING THE MANDATORY TRANSITION PERIOD.**

A IP witness Carter provided an explanation of this test at Pages 3-4 and at Pages 7-8 of her testimony, IP Exhibit 2.1. Under this Section, a utility is permitted to request an increase to its base rates if its two-year average return on common equity, calculated in accordance with the description in the Act, falls below the two-year average of the monthly returns on 30-year Treasury bonds. 30-year Treasury bonds were no longer traded as of approximately February 2002. Subsequently, the test required the use of long-term Treasury bond instruments in place of the 30-year Treasury yield after January 2002.[1]

[1] The yields on "long-term" Treasury bond yields reflect the secondary market of Treasury bond yields with maturities in excess of 25 years. In essence, these are 30-year Treasury bonds, that have been issued within the last five years.

**Q DOES IP CLAIM THAT ITS EARNED RETURN ON COMMON EQUITY WILL BE ABOVE THE MINIMUM AVERAGE TREASURY BOND YIELD BENCHMARK DURING THE MANDATORY TRANSITION PERIOD?**

A Yes. As shown below in Table 1, and as presented by IP witness Carter on IP Exhibit 2.2, the projected earned return on common equity ranges from 8.14% in 2003 to a low of 7.58% in 2005. Ms. Carter estimates the average monthly return on 30-year/long-term Treasury bonds over a two-year period ending December 2002 to be 5.46%, which is developed on IP Exhibit 2.5. IP witness Daniel Mortland produced a forecasted Treasury bond (T-Bond) yield series.

Since IP's projected earned return on common equity, as presented by Ms. Carter, is above the Treasury bond average yield estimates, Ms. Carter concluded: "Therefore, there is not a strong likelihood that Illinois Power will be entitled to request an increase in its base rates as a result of the sale of its transmission system." (IP Exhibit 2.1, Page 9)

**TABLE 1**

**IP's Estimated Section 16-111(d) ROE**

| Year | With Transmission Asset Sale (1) | Without Transmission Asset Sale (2) | Increasing T-Bond Yield Series (3) |
|---|---|---|---|
| 2003 | 8.14% | 6.35% | 5.36% |
| 2004 | 8.96% | 7.75% | 5.46% |
| 2005 | 7.58% | 8.60% | 5.81% |
| 2006 | 8.27% | 9.19% | 6.16% |

Source: IP Exhibit 2.2

**BENCHMARK YIELD**

**Q IS THE TWO-YEAR AVERAGE TREASURY BOND YIELD OF 5.46% CALCULATED BY MS. CARTER AN APPROPRIATE BENCHMARK TO USE FOR EVALUATING WHETHER IP'S EARNINGS WOULD FALL TO A LEVEL THAT WOULD ALLOW IT TO ASK FOR AN INCREASE IN BASE RATES DURING THE MANDATORY TRANSITION PERIOD?**

A No. Ms. Carter's method of calculating the earned return for the two-year period ending December 2002 is correct. However, IP's prospective earnings estimates should be compared to prospective Treasury yields applicable to the same period in order to assess how the sale will impact IP under the Section 16-111(d) test. Treasury bond yields have varied significantly over the last five years. Prospective Treasury bond yields are what are relevant in the Section 16-111(d) test. Prospective yields may be very different from the 5.46% yield used by Ms. Carter to support her conclusion.

**Q IS THE INCREASING TREASURY YIELD SERIES CALCULATED BY MR. MORTLAND AN APPROPRIATE BENCHMARK TO USE FOR EVALUATING WHETHER IP'S EARNINGS WOULD FALL TO A LEVEL THAT WOULD ALLOW IT TO ASK FOR AN INCREASE IN BASE RATES DURING THE MTP?**

A Mr. Mortland's increasing yield series is a significant improvement to Ms. Carter's benchmark yield based on historical data. Mr. Mortland apparently relies on data I supplied him in the Company's first filing in December 2002. In that filing, I provided him with projections made by The Value Line Investment Survey and the Blue Chip Financial Forecast. Value Line's projections reflect an increase in Treasury securities

yields of approximately 1.5 percentage points above the 2002 yields over the following 3-5 year period.

Per Value Line's projections, the increase in Treasury bond yields could be realized as early as the beginning of 2005. Mr. Mortland, in contrast, assumed Value Line's projected yield increase would materialize in the beginning of 2006. A more conservative assumption is that Value Line's projected yield would be realized in 2005.

**Q HOW WOULD MR. MORTLAND'S INCREASING YIELD SERIES CHANGE USING MORE RECENT INFORMATION?**

A Using more recent Value Line and Blue Chip Financial Forecast projections, produces an updated increasing Treasury yield series as shown below in Table 2.

**Table 2**

**Treasury Bond Yield Series**

| Year | Annual Yield (1) | Two-Year Average Yield (2) |
|---|---|---|
| 2002 | 5.1% | |
| 2003 | 5.6% | 5.4% |
| 2004 | 5.8% | 5.7% |
| 2005 | 6.5% | 6.2% |
| 2006 | 6.5% | 6.5% |

Using Mr. Mortland's methodology, updated information and a more conservative use of Value Line projections, I recommend that the increasing yield

series reflected in Table 2 above be used to assess whether IP is likely to be allowed to request a base rate increase if it sells its transmission assets.

**Q HOW DOES YOUR INCREASING YIELD SERIES COMPARE TO HISTORICAL LONG-TERM TREASURY BOND YIELDS?**

A As shown on my Exhibit MPG-1, Schedule 1, the two-year average yield on monthly 30-year/long-term Treasury bonds has ranged from a high of 8.37% in 1991 to a low of 5.46% for the 12-month period ending December 2002. Treasury bond yields are in a extremely low period over the last 12 years. It would not be reasonable or conservative to assume that today's very low yields will remain in effect throughout the remainder of the MTP as Ms. Carter has done.

Accordingly, relying on Value Line and Blue Chip Financial Forecast's projections of increasing Treasury bond yields over the MTP is prudent. Based on yields that have been in effect over the last ten years, an increasing yield series reflecting the step-up to the long-term Treasury bond yield of 6.5% by the year 2005 certainly is reasonable.

**Q ARE THERE REASONS TO EXPECT TREASURY YIELDS TO INCREASE OVER THE REMAINING MTP?**

A Yes. This is likely given the change in the Federal government's transformation from budget surpluses to budget deficits. The current war on terrorism, and possible war with Iraq, could cause the Federal government's deficit spending to continue for a prolonged period of time. If that occurs, the need for the government to borrow money to fund the additional spending could drive up interest rates and possibly bring

back the issuance of the 30-year Treasury bonds. All of these unknown, uncertain factors would produce upward pressure on Treasury bond yields during the mandatory transition period.

## SENSITIVITY ANALYSIS

**Q DID IP PERFORM ALTERNATIVE FINANCIAL PROJECTIONS OR SENSITIVITIES TO TEST THE IMPACT OF ALTERNATIVE ASSUMPTIONS ON ITS EARNED RETURN ON COMMON EQUITY?**

A Yes, albeit limited. Ms. Carter did perform an alternative financial projection based on the uncertain transmission credits described by IP witness Shawn E. Schukar. The credits concern FERC's decision on whether to eliminate charges for through and out transactions between RTOs and the resulting impact on IP from a lost revenue recovery mechanism. Ms. Carter modeled an alternative scenario assuming IP receives $5 million less revenue credit on her IP Exhibits 2.7, 2.8 and 2.9.

**Q HAVE OTHER UTILITIES TESTED THEIR ASSUMPTIONS UNDER SECTION 16-111(d) OF THE ACT COMPARABLE TO THE FINANCIAL PRESENTATIONS MADE BY IP AND COMMONWEALTH EDISON COMPANY (COMED) IN SUPPORT OF THEIR PRIOR SALE/TRANSFER OF FOSSIL-FIRED GENERATING PLANTS?**

A Yes. Unlike in this proceeding, IP and ComEd offered financial projections to test how sensitive the common equity return estimate was to variations in key forecast assumptions. In this proceeding, IP has not offered alternative financial projections that test how sensitive its proposed asset sale is in determining whether it can

request a base rate increase. IP's financial projection, taking into account the transmission credits, do not suffice as a comparable analysis.

**Q PLEASE DESCRIBE THE SENSITIVITY EXAMINED BY IP AND COMED IN PREVIOUS ASSET SALE PROCEEDINGS.**

A In Docket No. 99-0209, IP requested authority under the Act to, among other things, transfer the ownership of certain fossil generating units. In support of that petition, IP witness Mr. Robert Shultz, IP's then Vice-President of Finance, presented a financial forecast with and without the proposed asset transfer. Mr. Shultz also provided evidence of IP's financial projections based on sensitivities to market prices of power and energy. Hence, at the time of that proceeding, the Company took care to identify issues that were highly uncertain, which could have lowered its earned return on common equity estimate to below the Section 16-111(d) benchmark (ICC Docket No. 99-0209, Order at 19-20, July 8, 1999).

Similarly, ComEd offered a sensitivity analysis to its primary financial forecast in support of its contention that the sale of its fossil generating units would not create a strong likelihood that it could file for an increase in base rates during the mandatory transition period. In that presentation, ComEd supplemented its primary financial forecast with alternative forecasts that considered different percentages of customers switching to open access service. ComEd opined that the percentage of customers switching will have an impact on its return on equity, and it set out to show what that impact would be and whether it would drive its earnings below the benchmark, thus allowing it to file for an increase in its base rates (ICC Docket Nos. 99-0273/99-0282, Order at 23-24, August 3, 1999).

It is significant that in past proceedings IP and ComEd have showed what the projected earned return on equity would be under the proposed asset sale/transfer under both a base case scenario and alternatives to the base case forecast, to show the impact on the return on common equity under varying revenue and/or expense assumptions. In this case IP has not provided meaningful alternative financial forecasts showing alternative revenue and expense assumptions to illustrate what the impact to its return on common equity would be under its proposal to sell its transmission assets. This is a material deficiency in the Company's filing.

**Q IS IT YOUR CONTENTION THAT THE CIRCUMSTANCES IN THE COMED AND IP CASES DISCUSSED ABOVE ARE PRECISELY THE SAME INVOLVING THE CURRENT PROPOSAL BY IP TO SELL ITS TRANSMISSION ASSETS?**

A No, however, the point of my testimony is to substantiate the use of alternative assumptions in considering a Section 16-111(g) filing. The Commission is being asked to agree to the sale of IP's transmission assets, and in so doing come to the conclusion that IP will not be entitled to seek base relief during the mandatory transition period. In this regard, the Commission is being asked to make a judgment about the future. Because the facts and circumstances in the future cannot be known with absolute precision, it makes intuitive sense to consider reasonable parameters, or in this instance alternative financial projection scenarios, in attempting to discern what the future may hold. The ComEd and IP cases previously addressed are solid examples and precedent for justifying alternative financial projection scenarios in considering a Section 16-111(g) filing of this nature.

**Q WHY SHOULD IP HAVE MADE ALTERNATIVE FINANCIAL PROJECTIONS IN ORDER TO TEST THE IMPACT OF THE PROPOSED TRANSMISSION ASSET SALE IN THIS PROCEEDING?**

A A key provision for meeting the Section 16-111(d) requirement that the sale will not reduce IP's earned return on common equity to below a threshold level, requires a reasonable projection of IP's earned return without the transmission asset sale. In order to clearly understand what IP's earned return may be during the remaining MTP, the Company should have made alternative financial projections to show the impact of changes to purchased power prices, customer switching rates, the likely imposition of a letter of credit or other collateral to backup a renewed purchased power obligation in 2005 and 2006, and any and all other parameters that can have a significant impact on IP's earnings and for which the costs are not known at this time. Without a clear assessment of IP's earnings outlook in the without the transmission asset sale scenario, IP cannot definitively conclude whether the transmission asset sale will cause it to be able to request an increase in base rates during the MTP.

**Q ARE THERE KEY FACTORS IN THIS PROCEEDING THAT YOU BELIEVE IP SHOULD HAVE PROVIDED IN ALTERNATIVE FINANCIAL FORECASTS TO TEST THE SENSITIVITY OF THE PROPOSED TRANSMISSION ASSET SALE ON ITS RETURN ON EQUITY?**

A Yes. IP should have, at a minimum, provided alternative financial forecasts that show the impact on its earned return on common equity based on alternative purchased power cost estimates in calendar years 2005 and 2006, and related changes to its customer switching assumptions based on those alternative market power costs. IP's

purchased power costs will have a significant impact on IP's earned return on common equity in the last two years of the MTP. It is paramount to first establish how close IP is to the Section 16-111(d) earnings benchmark without the proposed asset sale before an assessment is made to determine what impact the sale will have on IP's earned return on equity.

**Q PLEASE DESCRIBE WHY IP SHOULD HAVE PROVIDED ALTERNATIVE FINANCIAL FORECASTS TO DEMONSTRATE THE IMPACT OF ITS EARNED RETURN ON EQUITY WITH A DIFFERENT PURCHASED POWER COST ASSUMPTION IN 2005 AND 2006.**

A Based on IP's response to IIEC-IP-1-5, the amount of IP's purchased power cost that will be subject to market pricing increases from less than 2% in 2003 and 2004, to over 94% in 2005 and almost 100% in calendar year 2006. This significant increase in uncertainty of its cost of purchased power in the last two years of the MTP has a dramatic impact on its earned return on common equity, as I will show later in this testimony.

**Q WHY DOES THE COST OF PURCHASED POWER IN 2005 AND 2006 INFLUENCE WHETHER OR NOT THE PROPOSED ASSET SALE WILL CAUSE IP'S EARNED RETURN ON EQUITY TO FALL BELOW THE BENCHMARK AND ALLOW IT TO REQUEST A BASE RATE INCREASE DURING THE MTP?**

A The importance of the cost of purchased power is significant because if IP's purchased power cost does not decrease as IP projects in 2005 and 2006, IP's earned return on common equity without the transmission asset sale is just above the

Section 16-111(d) return benchmark that will allow IP to request a base rate increase in the MTP. With its earnings just slightly above the benchmark return, the transmission asset sale which reduces its return on common equity during the MTP, will have just enough of a negative impact to push IP's rate of return below the benchmark. Accordingly, establishing an appropriate baseline for the earned return on common equity without the transmission asset sale, is a key parameter in assessing if the transmission asset sale complies with Section 16-111(d).

**Q PLEASE DESCRIBE IP'S METHODOLOGY FOR FORECASTING ITS FUTURE PURCHASED POWER COST DURING THE TRANSITION PERIOD.**

A IP witness Schukar discusses IP's purchased power projection methodology at Pages 32-34 of his direct testimony. Mr. Schukar explains that the Company's purchased power assumptions for 2003 through 2006 were "....developed based on projection of Illinois Power's retail load obligations, prices under contract, and forward market prices." Specifically, with respect to 2005 and 2006, Mr. Schukar states at Page 34 that the market price assumptions are based on forward prices with adjustments consistent with adjustments currently included in Rider MVI and other adjustments that are being proposed in ICC Docket Nos. 02-0656, 02-0672, and 02-0672 (Cons.) for Rider MVI-II.

**Q IS IP'S PROJECTION OF ITS PURCHASED POWER COST PRODUCE A REASONABLE MOST LIKELY SCENARIO OF THESE COSTS IN 2005 AND 2006?**

A No. Significant shortcomings in Mr. Schukar's and IP's estimated future purchased power costs and lack of support render the Company's projections highly uncertain

and the validity of the forecasts to be problematic. Consequently, I recommend the Commission reject the Company's estimated future purchased power cost assumptions and its forecasted financial ratios during the MTP because it does not contain verifiable estimates.

**Q WHAT ARE THE SHORTCOMINGS OF MR. SCHUKAR'S AND IP'S PROJECTIONS FOR THE PURCHASED POWER COSTS IN 2005 AND 2006.**

A The shortcomings of IP's projections are quite significant. Indeed, in data responses IP failed to support its projections and did not demonstrate what suppliers can and/or will compete for a supply contract with IP during the MTP. IP's purchased power projections are completely unsupported.

Mr. Schukar is not able to identify IP's purchased power supply requirements, number of qualified suppliers that can meet its purchased power supply requirements, confirmation and validation of the forward pricing curves he claims to have used to estimate future purchased power costs and, finally, he has not examined whether IP will be required to post security credit or collateral to extend or replace its purchased power agreements in 2005 and 2006.

**Q WHY DO YOU CONCLUDE THAT IP'S PURCHASED POWER EXPENSE ESTIMATES FOR 2005 AND 2006 CANNOT BE VERIFIED AND THE ESTIMATES CANNOT BE SHOWN TO BE REASONABLE?**

A IIEC submitted discovery to IP witness Schukar to better understand his explanation of how IP arrived at its purchased power expense projections during the MTP. Toward that objective, he was asked to explain the source of the forward pricing

referenced in his testimony, and was asked to supply the trading hub, the volume of power underlying the forward price of power, and copies of all source material that describes the forward price and related trading activity. IIEC also asked for all other factors he considered. In response, Mr. Schukar stated as follows:

> "There is no external "source" for the forward market prices referenced at page 32. The projections of forward market prices are developed through an internal process for use in financial projections based on consideration of numerous sources of information, including published market price projections (some of which are proprietary, copyrighted or otherwise restricted as to use), market information gained in the course of ongoing transactional activities, and analysis of future changes in generation supply sources available to the Illinois Power region. The market price projections are typically developed to be representative of prices in the territory in which Illinois Power operates." (IP response to IIEC-IP-1-5b)

It was not possible to verify the reasonableness nor the validity of Mr. Schukar's projections because he did not provide a single corroborating document to back-up the forward price curves upon which he relied. Nor did he provide any back-up supporting his contention that he considered ongoing transactional activities, or IP's analysis of future changes in generation supply, or any other factors he maintains he considered in his review. Mr. Schukar's projections are completely unsupported in virtually every aspect.

**Q PLEASE EXPLAIN WHY IT IS IMPORTANT FOR IP TO DISCLOSE THE FORWARD PRICING CURVES IT RELIED ON TO ESTIMATE ITS 2005 AND 2006 PURCHASED POWER EXPENSE.**

A It is important that IP disclose its forward pricing information to show its estimates are accurate and legitimate. There is currently significant uncertainty toward the

accuracy and legitimacy of forward pricing information. For example, several companies have released traders that may have submitted false information to survey indices, and many companies' trading and index price disclosure practices are being investigated by federal agencies. For example, IP's affiliate company, Dynegy Marketing and Trade, recently announced it reached a settlement with the Commodity Futures Trading Commission on alleged misreporting of index pricing information. Accordingly, the accuracy and legitimacy of index prices is problematic.

Further, index price accuracy may be problematic if the price is based on little to no trading volume. If the price is based on little or no volume, the indicated forward price really doesn't reflect a market price. Accordingly, the legitimacy of IP's forward pricing information must be made available in order to assess the credibility of IP's purchased power cost estimates based on market prices available in 2005 and 2006.

**Q HAS IP IDENTIFIED IMPORTANT PURCHASED POWER SUPPLY CRITERIA AND IDENTIFIED A LIST OF SUPPLIERS THAT CAN MEET ITS CRITERIA?**

A No. Mr. Schukar and IP were asked by IIEC to identify all requirements IP will make in terms of physical capacity and physical firm transmission links, counter-party credit risks, and all other factors IP will require in order to determine if a supplier is qualified to meet its purchased power requirements in any year of the MTP. In response, IP stated that "The Company has not established such criteria at this time" (IP response to IIEC-IP-1-6(d)).

**Q PLEASE EXPLAIN WHY IT IS IMPORTANT FOR IP TO IDENTIFY ITS PURCHASED POWER SUPPLY REQUIREMENTS AND TO IDENTIFY A LIST OF SUPPLIERS THAT CAN MEET IP'S SUPPLY REQUIREMENTS.**

A IP's supply requirements may limit the number of suppliers that are able to meet IP's supply terms and conditions. Consequently, the number of suppliers that could satisfy IP's supply requirements may limit the competitive process under which IP would negotiate a price for purchased power. Limited suppliers may inhibit IP's ability to receive a negotiated price comparable to a forward market index price. Indeed, if only one supplier will qualify, IP may face market power price manipulation.

For example, in the 2002 Mid-American Interconnection Network Inc. (MAIN) report "Load and Resource Audit Summer 2002 Report to the Board of Directors, June 14, 2002, IP was identified as a member of MAIN. In order to qualify for the MAIN reliability reserve margin requirements, a utility must meet MAIN's exacting requirements for firm capacity and energy. IP doesn't know how many suppliers can meet MAIN's exacting firm capacity and transmission tie requirements. The only way to identify whether or not there are numerous suppliers, or limited suppliers which can meet IP's service quality requirements, is to investigate the availability of suppliers, and select and identify those suppliers that meet the needed requirements. IP has not done this.

**Q PLEASE EXPLAIN WHY IT IS IMPORTANT FOR IP TO HAVE INVESTIGATED WHETHER CREDIT ENHANCEMENT COLLATERAL WOULD BE REQUIRED TO PUT IN PLACE PURCHASED POWER ARRANGEMENTS IN THE YEARS 2005 AND 2006.**

A IP's credit rating has eroded to below investment grade. This erosion to its credit quality will almost certainly require credit enhancements or collateral to back up purchase power agreements in 2005 and 2006. This collateral will increase IP's cost of purchased power.

IP's existing agreements apparently did not consider the possibility that IP's credit rating would deteriorate before the end of the MTP. Nevertheless, going forward it is highly likely IP will be required to place some sort of collateral to back up its purchase power obligations in 2005 and 2006, unless its credit rating improves to above investment grade.

**Q HAS IP INVESTIGATED WHETHER IT WOULD BE REQUIRED TO POST A LETTER OF CREDIT FOR ITS PURCHASED POWER OBLIGATIONS IN ANY YEAR DURING THE MTP?**

A No. IP was asked whether it would be required to put up a letter of credit, surety bond, or other collateralization product to secure a purchased power obligation during any year of its forecast. In response, the Company stated that it is not currently providing credit security under any of its existing purchased power agreements, and the Company has not examined whether it will be required to post security under future purchased power agreements (IP response to IIEC-IP-1-6 (a)).

**Q WHY DO YOU BELIEVE IT IS ALMOST A CERTAINTY THAT IP WILL BE REQUIRED TO COLLATERALIZE ITS FINANCIAL OBLIGATIONS UNDER A PURCHASED POWER CONTRACT IN 2005 AND 2006?**

A Standard industry purchase power contracts have provisions which require entities to post collateral if their credit rating is downgraded to a level which is no longer acceptable to the supplier. An example of such an industry accepted contract is the Master Power and Purchase Sale Agreement distributed by the Edison Electric Institute. In that agreement, there is an article specifically devoted to credit and collateral requirements.

Further, industry experience shows that suppliers will demand collateral upon the downgrading of the utility to below investment grade. As an example, Nevada Power Company and Sierra Pacific Power Company both went into technical default on their purchased power arrangements because their credit ratings were downgraded to below investment grade. As a result, the utilities' purchased power suppliers invoked a material adverse change clause in the supply contract and requested collateral to backup the utilities' financial obligations under the contracts (Sierra Pacific Resources SEC Form 10 Q, September 30, 2002 at page 13).

Finally, from a financial perspective, a below investment grade credit rating will increase IP's cost of service. IP's cost of debt has increased because of its weak credit rating, and its cost to renew its purchased power contracts in 2005 and 2006 will also increase because of its weak credit standing. The higher cost of IP's weak credit standing will be reflected in either a credit enhancement product that IP will have to pay for directly, or if no collateral is posted, it is reasonable to expect that the supplier will demand a premium to the market power price to accept IP's high credit risk. Either way, the cost of IP's weakened credit standing must be reflected in the estimated purchase power cost in 2005 and 2006, which is not currently under contract.

**Q DID IP REFLECT THIS WEAK CREDIT COST IN ITS PURCHASE POWER EXPENSE IN ITS FINANCIAL FORECASTS?**

A No.

**ALTERNATIVE FINANCIAL FORECASTS**

**Q IS IP'S FINANCIAL FORECAST IN SUPPORT OF MS. CARTER'S CONCLUSION REASONABLE?**

A No. There are two unknown and highly uncertain costs included in the financial forecast that have a significant impact on IP's projected Section 16-111(d) earned return on common equity calculation.

These uncertain costs are: (1) its cost of purchased power during 2005 and 2006. In its forecast, IP has assumed that its cost of purchased power will decrease by almost [ ] per megawatthour in 2005 and 2006, relative to 2004. Also, IP should have reflected security costs to reflect its weaker credit standing]; (2) IP's switching assumption may change, which could further erode its return on equity estimates if IP is understating its 2005 and 2006 cost of purchased power.

**Q IS THERE MARKET DATA AVAILABLE TO PRODUCE A REASONABLE ESTIMATE OF IP'S PURCHASED POWER COST IN 2005 AND 2006?**

A I don't believe so. IP's current purchased power contract supplies it with both capacity and energy needed to serve its native load. IP would incur the cost associated with delivering the power to its transmission system, cost of ancillary services, cost to ensure delivery of the generating capacity to its system, losses on

the movement of energy over the transmission lines, adequate reliability costs, and other costs related to the reliable physical movement and delivery of power to IP's system.

The only accurate and reasonable method of estimating what IP's purchased power expense will be during 2005 and 2006 is to conduct a request for proposal (RFP) and receive firm pricing proposals from qualified suppliers. IP has not conducted an RFP for its 2005 and 2006 power supply to receive firm prices. Indeed, IP has not even identified supplier qualification criteria, and identified a list of suppliers that meet this criteria.

**Q ABSENT AN RFP, WHAT IS THE MOST REASONABLE METHOD OF ESTIMATING IP'S COST OF PURCHASED POWER IN 2005 AND 2006?**

A The only firm commitment for delivered purchased power cost, which meets IP's requirements, is based on its current purchased power supply contract. In its forecast, IP estimates its current supply cost in 2004 to be [ ] per megawatthour. Using IP's 2004 purchase power price is the most conservative estimate of a supply cost in 2005 and 2006 that meets IP's supply requirements, as I later explain.

**Q IS IT REASONABLE TO BELIEVE THAT THE COST OF PURCHASED POWER WILL BE LOWER IN 2005 AND 2006, COMPARED TO THE TIME PERIOD IP ORIGINALLY ENTERED INTO THESE PURCHASED POWER CONTRACTS?**

A No. Factors that affect power supply costs are generation supply, and demand and fuel costs.

**Q HOW HAS SUPPLY AND DEMAND CHANGED SINCE IP NEGOTIATED ITS CURRENT PURCHASED POWER SUPPLY CONTRACTS?**

A It is my understanding the Amergen contract was originally negotiated in 1999, and current pricing terms in the Dynegy-Midwest Generation (DMG) contract were developed in 2000.

The MAIN reserve requirements in 2000 and 2002 are comparable. In MAIN's Load and Resource Audit Summer 2000, and Report to the Board of Directors in Summer 2002, the reports indicated the reserve margin in the MAIN region in year 2000 to be 17.9%, and in 2002 to be 18.4%. Accordingly, there has not been a significant change in the supply and demand of generation resources in IP's market region since it renegotiated the terms of its DMG contract.

**Q HOW HAVE FUEL PRICES CHANGED SINCE IP ENTERED INTO ITS CURRENT PURCHASED POWER SUPPLY CONTRACTS?**

A Fuel price changes have also been rather dramatic for the period 1999 through 2003. As shown on my Exhibit MPG-1, Schedule 2, gas prices in 1999 were rather stable between $2 and $3 per MMBtu. For most of 2000, the price ranged between $3 and $4 per MMBtu, but there was a time when gas price volatility hit extreme highs of as much as $10 per MMBtu. Recently, gas prices have been in excess of $4 to $5 and the recent forward pricing on NYMEX gas contracts has been $4.00 to $3.85 per MMBtu in 2005 and 2006.

The Energy Information Administration projects approximately flat, to slightly increasing, nominal price of delivered coal for electric generation between 1995 and 2025 (Annual Energy Outlook 2003 with Projections to 2025, January 2003).

**Q PLEASE SUMMARIZE YOUR ASSESSMENT OF CHANGES TO PURCHASED POWER COSTS SINCE IP ORIGINALLY ENTERED ITS PURCHASED POWER SUPPLY CONTRACTS.**

A The market for capacity purchases today is reasonably comparable to that in 2000. This is evidenced by reasonably comparably reserve margins in the MAIN market region today, as in 2000. The energy market would be largely driven by incremental fuel cost, which is the best proxy for the price of natural gas. Accordingly, since gas prices are somewhat higher now than they were in 1999, and reasonably comparable to those in 2000, it is reasonable to expect that energy price purchased power contracts in 2005 and 2006 may be somewhat comparable to those at the time IP renegotiated pricing terms of its DMG contract.

For all of these reasons, I believe the most likely outcome for IP's purchased power costs in 2005 and 2006 is to set those prices equal to IP's cost of purchased power under its existing contract in the year 2004.

**Q ARE THERE OTHER IMPORTANT CONSIDERATIONS TO ESTIMATE IP'S COST OF PURCHASED POWER IN 2005 AND 2006?**

A Yes. IP's deteriorated credit quality will impose higher costs for purchased power in 2005 and 2006 as it goes to renew its purchased power supply contracts. IP's weak credit standing cost can be reflected in a financial forecast either directly by reflecting

the cost to collateralize its purchased power contract, e.g., using a letter of credit to back-up its purchased power obligations, or to project a premium to purchased power costs if IP's weak credit risk will be assumed by the purchased power supplier.

IP has estimated what presumably is a commercially acceptable cost of a letter of credit to back-up its transmission financial obligations to IETC. Based on IP's projections, and based on its current credit rating, IP estimates a letter of credit in the amount equal to ten months of transmission financial obligations at a cost of 4% of the notational value of the obligation. I believe this is the best estimate of the cost parameters to secure IP's future purchased power supply in 2005 and 2006. There is simply no way to estimate the premium to purchased power prices that a supplier would demand if a supplier was required to accept IP's credit risk.

**Q WHAT WOULD BE THE IMPACT ON IP'S FINANCIAL FORECAST IF IT ASSUMED ITS PURCHASED POWER COSTS IN 2005 AND 2006 WERE EQUAL TO ITS PURCHASED POWER COSTS IN 2004 AND IP WAS REQUIRED TO POST A LETTER OF CREDIT EQUAL TO TEN MONTHS OF PURCHASED POWER SUPPLY AT COST OF 4% OF THE LETTER OF CREDIT NOTATIONAL AMOUNT?**

A If IP's purchased power costs in 2005 and 2006 were [ ] per MWh or about equal to IP's purchased power cost in 2004 and IP collateralizes its purchased power supply in 2004 and 2005, its Section 16-111(d) determined return on common equity would fall below the benchmark in the transmission asset sale scenario during the MTP, but would still stay above the benchmark in the no transmission asset sale scenario. With only this adjustment to IP's forecast, the sale of the transmission assets would provide IP the opportunity to request an increase to its base rates

during the mandatory transition period. The adjusted Section 16-111(d) return on common equity estimates during the MTP is shown below in Table 3.

**TABLE 3**

**Adjusted Financial Forecast**
**Purchased Power Cost in 2005 and 2006**
**Equal to 2004 Cost Level**

| Year | With Transmission Asset Sale (1) | Without Transmission Asset Sale (2) | Adjusted Increasing T-Bond Yield Series (3) | Mortland Increasing T-Bond Yield Series |
|---|---|---|---|---|
| 2003 | 8.1% | 6.4% | 5.4% | 5.36% |
| 2004 | 9.0% | 7.7% | 5.7% | 5.46% |
| 2005 | 5.5% | 6.5% | 6.2% | 5.81% |
| 2006 | 4.3% | 5.4% | 6.5% | 6.16% |

**Q BASED ON THE FINANCIAL FORECAST SHOWN IN TABLE 3 ABOVE, WHEN WOULD IP BE ABLE TO FILE FOR A RATE INCREASE DURING THE MTP?**

A A simple review of the table above indicates that IP would be permitted to file for a base rate increase at the end of calendar year 2005. In that year, its projected return on common equity of 5.5% is lower than the increasing Treasury bond yield series estimated by both Mr. Mortland and myself. As such, the Company would be permitted to request a base rate increase after the end of calendar year 2005. However, a more detailed review of the projections indicate the Company would likely be able to request a base rate increase after the first or second quarter in 2005.

Specifically, IP's earned return on common equity in the year 2003 is heavily influenced by the profits of its transmission asset sale. If the asset sale occurs in the first or second quarter of 2003, then the earnings in subsequent quarters will be

depressed to a level that would allow IP to request a base rate increase. Section 16-111(d) requires the use of the previous 24-monthly returns on Treasury bills and the earned return on book equity over a corresponding period to determine whether the utility qualifies for a base rate increase. Therefore, if IP records the profits on the transmission asset sale in the first quarter of 2003, then it likely would be permitted to ask for a base rate increase at the end of the first quarter in 2005. If it requests a base rate increase at the beginning of the first quarter of 2005, then the rate would go into effect at approximately the beginning of the year 2006. As a result, based on the projections listed in Table 3, IP's proposal to sell its transmission assets will result in the strong likelihood that it will be permitted to request a base rate increase during the MTP.

**USE OF SALES PROCEEDS**

**Q PLEASE DESCRIBE IP'S PROPOSED USE FOR THE TRANSMISSION ASSET SALE PROCEEDS IF THE SALE IS APPROVED BY THE ICC?**

A IP witness Mortland, on IP Exhibit 3.1 at Page 4, describes how the proceeds from the sale of the transmission system will be used. Mr. Mortland contends that out of the sales proceeds of $239 million, approximately $26.4 million will be paid to the indenture trustee of the transitional funding notes, $56 million will be paid as incremental income taxes, and the cost of closing the transaction will be $2 million. Mr. Mortland maintains that the net proceeds to IP will be $154 million. Mr. Mortland states that this cash would then be used to enhance IP's liquidity.

**Q HAS THE RETENTION OF THE NET ASSET SALE PROCEEDS IMPACTED IP'S FINANCIAL FORECAST?**

A Yes. A critical assumption in IP's financial forecast in its transmission sale scenario is that it is able to significantly reduce its balance of outstanding debt. A portion of the funds available to reduce the outstanding debt is the net proceeds from the transmission asset sale. If IP does not reduce its outstanding debt as reflected in its forecast, then its earned return on common equity projections under the sale scenario will be overstated. Hence, if IP does not use the net sale proceeds to enhance its liquidity and reduce its balance of outstanding debt, then it is more likely that its earned return on common equity will fall below the Section 16-111(d) Treasury yield benchmark, thus permitting it to request a base rate increase during the mandatory transition period. Consequently, it is critical that IP retain the net cash proceeds to enhance its liquidity and reduce its outstanding debt during the mandatory transition period.

**Q DOES THE RESTRICTION ON THE USE OF THE NET SALE PROCEEDS HAVE ANY BEARING ON THE PROVISIONS OF SAFE AND RELIABLE SERVICE FROM IP?**

A Yes. As stated by IP witness Carter in her response to IIEC IP-1-10 in Docket No. 02-0754, "Retention of the proceeds has an additional potential benefit to customers because some of these proceeds may also be used for expenditures, which will help maintain and improve reliability." Ms. Carter also states that "Improving Illinois Power's liquidity position will improve IP's financially flexibility and strength, and thus its ability to continue to provide safe and reliable service, since, as a result of recent

downgrades of its debt ratings, Illinois Power presently has no access to the commercial paper markets, and also has no revolving credit arrangements in place."

I am advised that under the Act the Commission could reject the sale of the transmission assets if it found that the proposed transaction would impede IP's ability to provide safe and reliable tariffed services. Therefore, given IP's admissions that the net proceeds from the sale have a direct bearing on the provision of safe and reliable tariffed services, it is incumbent upon the Commission to ensure that the net proceeds do, in fact, benefit IP's customers.

**Q HAS IP OFFERED A MECHANISM TO ENSURE IT RETAINS NET SALES PROCEEDS IN ORDER TO ENHANCE ITS LIQUIDITY TO ENSURE THAT IT IS CAPABLE OF PROVIDING SAFE AND RELIABLE SERVICE IF IT SELLS ITS TRANSMISSION ASSETS?**

A No. Without an appropriate regulatory oversight mechanism, IP's ability to continue to offer safe and reliable service if it sells its transmission assets is not certain. Therefore, this is an additional reason why the Commission should reject the Company's proposal to sell its transmission assets.

**Q HOW COULD THE ICC OVERSEE IP'S COMMITMENT TO USE THE NET SALE PROCEEDS TO ENHANCE ITS LIQUIDITY?**

A The Commission should ensure that IP follows through with its pledge to use all the net sale proceeds to enhance its liquidity. Toward this objective, the Commission should receive reports that permit it to oversee IP's use of the sale proceeds. The ICC should oversee the sale proceeds as follows:

- IP should give a final accounting of the sale proceeds, cost of closing, and income tax liability within 30 days following the close of the sale.

- IP should present a full disclosure accounting report, certified by a company officer, to the Commission that details the amount of the gross proceeds that are paid to the indenture trustee of the transitional funding notes issued by the Illinois Power Special Purpose Trust within 60 days following the close of the sale.

- Finally, the Commission should require an annual report from IP where it should demonstrate that it has met all of the restrictions placed on it by the ICC in Docket No. 02-0561, Order dated October 23, 2002.

- IP should disclose to the Commission all payments to all affiliate companies prior to making affiliate payments. The Commission should ensure that the net cash proceeds of the sale are not inappropriately transferred to an affiliate company via unreasonable affiliate transaction charges, consolidated tax payments, or other means of moving the net proceeds out of IP and into an affiliate. Without this oversight, the Commission can nave no confidence that the net proceeds are being used as IP represents.

**Q WHY SHOULD THE COMMISSION OVERSEE IP'S PAYMENT OF A PORTION OF THE NET PROCEEDS TO THE TRUSTEE OF THE TRANSITIONAL FUNDING NOTES ISSUED BY ILLINOIS POWER SPECIAL PURPOSE TRUST?**

A IP's transition bonds are collateralized by IP's expected revenue receipts. In selling its transmission assets, IP is giving up a portion of the revenue stream that has collateralized the transition bonds. IP should accelerate the payment of a portion of the bonds to offset for the lost revenue collateral.

Accelerating the pay down of these transition bonds is appropriate to ensure timely payment of the bonds. If IP foregoes transmission revenues that would have contributed to the debt service of the transitional funding bonds, and does not prepay certain bonds with the proceeds from the net asset sale, then it is more likely that IP will have to continue to charge instrument funding charges beyond the expected

maturity date of the bonds. Timely payment of the transition bonds benefits both IP and its customers.

If it approves the transmission asset sale, IP should confirm to the Commission it has made a payment to the trustee equal to the amount of instrument funding charge that IP would have collected from transmission service if it had not sold its transmission assets. This, again, will ensure that the transitional funding bonds are paid off in a timely manner.

**Q ARE THERE OTHER POSSIBLE RESTRICTIONS ON IP'S ABILITY TO PROVIDE SAFE AND RELIABLE SERVICE CREATED BY ITS PROPOSED TRANSMISSION ASSET SALE?**

A Yes. IP is required to provide a bundled service option to retail customers through the end of the MTP. It currently does not have a purchased power supply agreement to meet that load requirement in the years 2005 and 2006. As discussed above, IP will likely be required to collateralize its purchased power obligations in the form of a letter of credit or surety bond in order to put a new supply contract in place. IP's ability to put in place a letter of credit or surety bond to backup its future purchased power obligations is highly questionable. IP does not have an existing bank line of credit and does not have access to commercial paper markets, as discussed by IP witness Mortland.

Further, IP is also required to put up a letter of credit to collateralize its obligations for purchasing transmission service from IETC. The significant collateralization requirement facing IP has not yet been addressed by the Company, and may be severely restricted if IP sells its transmission assets. IP has

acknowledged that using letters of credit to securitize its financial obligations will reduce its borrowing capacity to meet other cash requirements, including funding system improvements and meeting debt retirements (IP's response to ICC Staff FIN-9). Further, IP has also acknowledged that in order to issue a line of credit, [

]. (IP response to IIEC-IP-1-17)

**Q HOW DOES IP'S PROPOSED SALE OF ITS TRANSMISSION ASSETS AFFECT ITS ABILITY TO COLLATERALIZE ITS PURCHASED POWER OBLIGATIONS IN 2005 AND 2006?**

A IP's ability to collateralize its purchased power obligations in 2005 and 2006 will be impacted by a reduction to its bondable property, and a reduction to the Company's amount of operating income and cash flow used in additional mortgage bond issuance tests. Further, IP did not provide an answer to IIEC's request for its estimate of the amount of mortgageable property in the asset sale and no asset sale scenarios (IP response IIEC-IP-17b) . For these reasons, IP's proposal to sell its transmission assets may inhibit and restrict IP's ability to provide safe and reliable bundled service through the end of the MTP.

**Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

A Yes, but I reverse the right to file additional testimony responding to IP's late filed testimony of Ms. Carter and Mr. Mortland on February 13, 2003.

# Qualifications of Michael Gorman

**Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A Michael P. Gorman. My business mailing address is P. O. Box 412000, 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000.

**Q PLEASE STATE YOUR OCCUPATION.**

A I am a consultant in the field of public utility regulation and a principal at Brubaker & Associates, Inc., energy, economic and regulatory consultants.

**Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.**

A In 1983 I received a Bachelors of Science Degree in Electrical Engineering from Southern Illinois University, and in 1986, I received a Masters Degree in Business Administration with a concentration in Finance from the University of Illinois at Springfield. I have also completed several graduate level economics courses.

In August of 1983, I accepted an analyst position with the Illinois Commerce Commission (ICC). In this position, I performed a variety of analyses for both formal and informal investigations before the ICC, including: marginal cost of energy, central dispatch, avoided cost of energy, annual system production costs, and working capital. In October of 1986, I was promoted to the position of Senior Analyst. In this position, I assumed the additional responsibilities of technical leader on projects, and my areas of responsibility were expanded to include utility financial modeling and financial analyses.

In 1987, I was promoted to Director of the Financial Analysis Department. In this position, I was responsible for all financial analyses conducted by the staff. Among other things, I conducted analyses and sponsored testimony before the ICC on rate of return, financial integrity, financial modeling and related issues. I also supervised the development of all Staff analyses and testimony on these same issues. In addition, I supervised the Staff's review and recommendations to the Commission concerning utility plans to issue debt and equity securities.

In August of 1989, I accepted a position with Merrill-Lynch as a financial consultant. After receiving all required securities licenses, I worked with individual investors and small businesses in evaluating and selecting investments suitable to their requirements.

In September of 1990, I accepted a position with Drazen-Brubaker & Associates, Inc. In April 1995 the firm of Brubaker & Associates, Inc. (BAI) was formed. It includes most of the former DBA principals and Staff. Since 1990, I have performed various analyses and sponsored testimony on cost of capital, cost/benefits of utility mergers and acquisitions, utility reorganizations, level of operating expenses and rate base, cost of service studies, and analyses relating industrial jobs and economic development. I also participated in a study used to revise the financial policy for the municipal utility in Kansas City, Kansas.

At BAI, I also have extensive experience working with large energy users to distribute and critically evaluate responses to requests for proposals (RFPs) for electric, steam, and gas energy supply from competitive energy suppliers. These analyses include the evaluation of gas supply and delivery charges, cogeneration and/or combined cycle unit feasibility studies, and the evaluation of third-party asset/supply management agreements. I have also analyzed commodity pricing

indices and forward pricing methods for third party supply agreements. Continuing, I have also conducted regional electric market price forecasts.

In addition to our main office in St. Louis, the firm also has branch offices in Corpus Christi, Texas; Plano, Texas; Asheville, North Carolina; Denver, Colorado; and Chicago, Illinois.

**Q HAVE YOU EVER TESTIFIED BEFORE A REGULATORY BODY?**

A Yes. I have sponsored testimony on cost of capital, revenue requirements, cost of service and other issues before the Federal Energy Regulatory Commission and state regulatory commissions in Arizona, Colorado, Delaware, Florida, Georgia, Illinois, Indiana, Iowa, Michigan, Missouri, New Mexico, New York, Oklahoma, South Carolina, Tennessee, Texas, Utah, Vermont, West Virginia, Wisconsin and Wyoming. I have also sponsored testimony before the Commission of Public Utilities in Kansas City, Kansas; presented rate setting position reports to the regulatory Commission of the municipal utility in Austin, Texas, and Salt River Project, Arizona, on behalf of industrial customers; and negotiated rate disputes for industrial customers of the Municipal Electric Authority of Georgia in the LaGrange, Georgia district.

**Q PLEASE DESCRIBE ANY PROFESSIONAL REGISTRATIONS OR ORGANIZATIONS TO WHICH YOU BELONG.**

A I earned the designation of Chartered Financial Analyst (CFA) from the Association for Investment Management and Research (AIMR). The CFA charter was awarded after successfully completing three examinations which covered the subject areas of financial accounting, economics, fixed income and equity valuation and professional and ethical conduct. I am a member of AIMR's Financial Analyst Society.