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**MISSOURI PUBLIC SERVICE COMMISSION**

**FILE NO. ER-2014-0258**

**REBUTTAL TESTIMONY**

**OF**

**GARY M. RYGH**

**ON**

**BEHALF OF**

**UNION ELECTRIC COMPANY**

**d/b/a Ameren Missouri**

New York, NY  
January, 2015

UE Exhibit No. 42  
Date 3-09-15 Reporter FF  
File No. ER-2014-0258

**REBUTTAL TESTIMONY**

**OF**

**GARY M. RYGH**

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

2 A. My name is Gary M. Rygh. My business address is 745 Seventh Avenue - 25th Floor,  
3 New York, New York 10019.

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

5 A. I am employed by Barclays PLC (“Barclays”) as a Managing Director in the  
6 Investment Banking Division.

7 **Q. Please describe Barclays and its Investment Banking Division.**

8 A. Barclays is an international financial services provider engaged in personal banking,  
9 credit cards, corporate and investment banking and wealth management with an  
10 extensive presence in Europe, the Americas, Africa and Asia. With over 300 years of  
11 history and expertise in banking, Barclays operates in over 50 countries and employs  
12 approximately 140,000 people. Barclays Investment Banking Division provides  
13 comprehensive financial advisory, capital raising, financing and risk management  
14 services to corporations, governments and financial institutions worldwide.

15 **Q. Please describe your employment history prior to joining Barclays.**

16 A. Prior to joining Barclays, I worked in the power and utility area at Morgan Stanley  
17 beginning in 1998 before joining the global power and utility group at Lehman

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1 Brothers starting in July 2007, and have been with Barclays since September 2008,  
2 when Lehman Brothers became a part of Barclays.

3 **Q. Please describe your qualifications as well as your duties and responsibilities as a**  
4 **Managing Director.**

5 A. I am currently a Managing Director in the Global Power and Utility Group. Our  
6 group is responsible for the corporate finance analysis of, and strategic and capital  
7 markets transactions related to, the power and utility sectors. I have been in the  
8 utility, power and energy investment banking business for approximately 20 years. I  
9 have worked extensively on strategic merger and acquisition assignments, debt and  
10 equity capital markets transactions, and other corporate finance related assignments in  
11 the electric, gas, and water utility sectors. I have a Bachelor of Science degree in  
12 Commerce – with a concentration in Finance – from the University of Virginia.

13 **Q. Have you testified before the Missouri Public Service Commission before?**

14 A. Yes, I have provided testimony on the subjects I am addressing in this testimony on  
15 four separate occasions, three times for Ameren Missouri on fuel adjustment clause  
16 (“FAC”) issues and once for Kansas City Power & Light Company-Greater Missouri  
17 Operations Company, also on fuel adjustment clause issues.<sup>1</sup> I first testified before  
18 the Commission in 2008.

19 **Q. What is the purpose of your rebuttal testimony in this case?**

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<sup>1</sup> The Commission has cited to my testimony in each case, including three times on propositions that I testify about in this testimony. Schedule GMR-R1 to this testimony contains excerpts from the Commission’s orders in those cases.

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1 A. The purpose of my testimony is to respond to the testimony of Office of the Public  
2 Counsel (“OPC”) witness Lena Mantle about Ameren Missouri’s FAC.

3 **Q. What are the key points made in your rebuttal testimony?**

4 A. My rebuttal testimony focuses on the significance of the FAC currently as it pertains  
5 to capital and financing related issues, which are increasingly important for Ameren  
6 Missouri and utilities in general, given the large capital needs they face now and in  
7 the coming years related to, among other things, environmental regulations (including  
8 for carbon), deployment of renewable generation resources and replacement and  
9 modernization of aging transmission and distribution systems and generating plants. I  
10 also address how the establishment of Ameren Missouri’s FAC has had a significant  
11 positive impact on the perceived regulatory environment for Ameren Missouri and  
12 the effect of that perception on Ameren Missouri’s overall financial health and credit  
13 quality. These financial market and investor perceptions are important to the  
14 Company and its customers because it is these perceptions that play a considerable  
15 role in the overall cost of, and ability of Ameren Missouri to access, needed capital.  
16 Key points in my testimony include the following:

- 17 • Investors, underwriters, credit rating agencies and researchers continue to have  
18 concerns about the value and stability the FAC provides for Missouri utilities in  
19 light of continued attempts to eliminate or to materially change it, especially in  
20 the absence of compelling evidence that the utility has not prudently managed its  
21 fuel supply costs, or that the facts are materially different than when the FAC was  
22 designed and implemented. These concerns do not mean that a highly diligent  
23 regulatory process is not desired by or important to investors, in fact it is, as is the

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1           need for Ameren Missouri to maintain a constructive relationship with the  
2           Commission.

- 3           • Investors, underwriters, credit rating agencies and researchers’ perceptions of the  
4           regulatory process affect access to and the cost of capital for Ameren Missouri,  
5           and they have a keen awareness of the importance of balanced, mainstream  
6           ratemaking policy. They also have the ability to discern key differences among  
7           competing issuers of capital and their associated regulators. As Standard and  
8           Poor’s Financial Services LLC (“S&P”) stated recently: *“The foundation of our  
9           opinion of a jurisdiction is the stability of its approach to regulating utilities,  
10           encompassing the principles of transparency, predictability, and consistency.  
11           Given the maturity of the U.S. investor-owned utility industry, the long history of  
12           utility regulation (going back to the early years of the 20th century), and the well-  
13           established constitutional protections accorded to utility investments, we  
14           emphasize the principle of consistency when weighing regulatory stability.”*  
15           (Standard and Poor’s, *Assessing U.S. Investor-Owned Utility Regulatory*  
16           *Environments – January 2014*) (emphasis underlined).
- 17           • Investors, underwriters, credit rating agencies and researchers view the current  
18           Ameren Missouri FAC as a highly valuable tool for risk management, as well as  
19           reasonable and timely cost recovery. Establishment of the current FAC in the  
20           ratemaking process has affected credit rating agency analysis of Ameren  
21           Missouri, as well as the assessments of investors and their views of the regulatory  
22           climate in which Ameren Missouri is operating. S&P has clearly stated how  
23           critical a FAC is to its assessment of a utility’s financial stability: *“When utilities*

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1            *are exposed to major expenses such as fuel and purchased power/gas/water, the*  
2            *presence of separate tariff provisions to facilitate full and contemporaneous*  
3            *recovery is the most prominent factor in this part of our analysis. The timely*  
4            *adjustment of rates in response to changing commodity prices and other expenses*  
5            *that are largely out of the control of utility management is a key component of a*  
6            *credit-enhancing regulatory jurisdiction.” (Id.).*

- 7            • The potential exists for significant and long-term detrimental repercussions to the  
8            cost of capital of Ameren Missouri if adverse changes are made to the FAC  
9            incentive sharing mechanism, or worse if the FAC were eliminated, especially  
10           considering that no substantive issues regarding the FAC’s operation have been  
11           identified in the established prudency review process, and given that the only  
12           verifiable information detailed in this proceeding is that the FAC has proven to be  
13           a critical tool in maintaining the financial health of Ameren Missouri.
- 14           • Investors, underwriters, credit rating agencies and researchers are keenly aware of  
15           the FAC and what it means to the credit quality of Ameren Missouri. In my  
16           opinion, the Commission made the correct decision in allowing Ameren Missouri  
17           to establish its current FAC, and Ameren Missouri has worked with the  
18           Commission and other interested parties to properly implement the FAC while at  
19           the same time prudently managing its net energy costs. The opposition to the  
20           FAC in this case from OPC (or the call to change it) continues to heighten the risk  
21           that Ameren Missouri will be at a disadvantage vis-à-vis the vast majority of the  
22           rest of the industry when securing necessary capital, without justification.

1 **Q. What have been the key points made in your prior testimony on these issues**  
2 **before the Commission?**

3 A. My testimony in this proceeding and in prior proceedings dating back to 2008 has  
4 been consistent with the points outlined above; that is, that reasonable regulation that  
5 reflects the use of adjustment mechanisms that are commonly employed by state  
6 utility regulators helps to attract lower cost capital. By approving a fuel adjustment  
7 clause for Ameren Missouri, the Commission has taken a positive step towards  
8 helping Ameren Missouri procure the large sums of capital it needs to provide service  
9 to its customers at the most reasonable cost. It is fairly evident that the approval of a  
10 FAC for Ameren Missouri is viewed by those who provide capital as a significantly  
11 positive development for Ameren Missouri and Missouri regulation. Due to the fact  
12 that the large majority of, in fact nearly all, regulated electric utilities in the country  
13 already benefited from an established FAC, the absence of an established FAC in  
14 Missouri was perceived as a sign that the state was not using an important tool to  
15 ensure the long-term credit quality and cash flow stability of its electric utilities. After  
16 Missouri law was changed, the approval by the Commission of a properly designed  
17 FAC for Ameren Missouri was a strong message to the financial community that the  
18 regulatory process in Missouri was rigorous and deliberate, and that the Commission  
19 properly balanced its duties to customers and investors and properly recognized the  
20 importance of financial stability for its utilities, and of the long-term health of  
21 utilities, which promotes access to lower cost capital.

22 **Q. You indicated that those that impact access to and the cost of capital continue to**  
23 **have concerns about the long term viability of the FAC. Please elaborate.**

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1 A. I work in this area, and regularly deal with credit rating agencies, equity analysts and  
2 other investment bankers, and they do still express concerns. The reason they have  
3 concerns is that despite the fact that there has really been no allegation of significant  
4 impropriety on the part of Missouri utilities in their utilization of the FAC, there seem  
5 to be continued calls to eliminate the FAC or materially reduce its effectiveness in  
6 every rate case. We are seeing that again in this case, where OPC has gone so far as  
7 to ask the Commission to completely eliminate Ameren Missouri's FAC, either for  
8 reasons that appear to be far out of proportion to any claimed problem, or for reasons  
9 that have been repeatedly debated and resolved by the Commission in favor of  
10 allowing utilities (including Ameren Missouri in particular) to utilize a FAC.

11 **Q. Why do the perceptions of financial investors, credit rating agencies and other**  
12 **Wall Street entities regarding the continuation of the existing FAC matter?**

13 A. The positive reaction to the establishment of the Ameren Missouri FAC was based on  
14 the Commission's willingness to diligently address the volatility and financial risk  
15 created by the absence of a FAC with such investigation correctly determining the  
16 critical need for the establishment of the FAC for Ameren Missouri. It was also well  
17 understood that the FAC was established after an exhaustive regulatory review, was  
18 sufficiently consistent with those created in other regulatory jurisdictions, and that in  
19 general it appropriately balances the concerns of customers and investors. It was  
20 never expected that major components of the FAC would be called into question in  
21 every possible proceeding or that technical issues like those that have been brought  
22 up in this case would be cited as a basis to discontinue the FAC.



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1 **Q. To what technical issue do you refer?**

2 A. While I do not claim to be an expert on the detailed filing requirements required by  
3 the FAC, it is my understanding that OPC has claimed and continues to claim that  
4 Ameren Missouri's rate case filings related to the FAC have not contained all of the  
5 details that OPC says they should. It is also my understanding that Ameren  
6 Missouri's rate case filings related to the FAC, including when it was first established  
7 in 2009 and each time a rate case has been filed since then, have contained the same  
8 basic information with the same basic level of detail. My understanding of the issue  
9 is that the Commission's Staff itself has previously opined that the information at the  
10 level of detail Ameren Missouri has always provided meets all of the Commission's  
11 rules, and that the Commission itself has approved significantly less detail than  
12 Ameren Missouri provides as also being in compliance with its rules. OPC has taken  
13 issue with all of this in this case.

14 **Q. Do you know who is "right" and who is "wrong," and does it matter from your  
15 perspective?**

16 A. I am not in a position to "rule" on this dispute, but I will say that given the  
17 Commission's prior rulings on this issue and the Commission Staff's prior opinion, it  
18 would seem that OPC's contentions are not well-taken. Regardless, to suggest that a  
19 utility in effect be punished through the loss of its FAC for filing the same  
20 information that it had filed for four cases in a row, after the Commission's own Staff  
21 had said the information complies (and after the Commission's earlier ruling), is, I  
22 think, an extreme position, and it is the kind of thing that causes concern about what  
23 is going on in Missouri among those that provide capital.

1 Q. What are investors' views of Ameren Missouri's regulatory environment?

2 A. These views are typically reflected in credit rating agency reports, which bear out my  
3 opinions. I have reproduced some excerpts from some of those reports below:

4 • *Ameren Missouri's rating reflects a below average but improving regulatory*  
5 *framework in Missouri and improved key credit metrics that are now strong for*  
6 *its Baa rating. While the implementation of a fuel adjustment clause and cost*  
7 *trackers for pension/OPEB, vegetation management and storm costs have helped*  
8 *to reduce some regulatory lag, the use of a historical test year in its general rate*  
9 *cases continues to create meaningful regulatory lag in investment cost recovery.*  
10 (Moody's Investor Services, *Credit Opinion: Union Electric Company*,  
11 December 9, 2014) (emphasis underlined).

12 • *Although the most recent rate case concluded in 2012 pointed to a constructive*  
13 *working relationship between Ameren Missouri and the MoPSC, we consider*  
14 *Missouri's regulatory environment to be below average. For example, Missouri*  
15 *lacks interim base rate recovery mechanisms, resulting in longer regulatory lag.*  
16 *The weaker regulatory environment is further exacerbated by an active*  
17 *intervener base in Missouri. For example, one of Ameren Missouri's largest*  
18 *industrial customers, Noranda Aluminum, and 37 residential customers filed a*  
19 *rate shift complaint case against Ameren Missouri with the MoPSC in February*  
20 *2014. The MoPSC has rejected the complaint and the rehearing requests, a*  
21 *credit positive. However, the MoPSC stated that a rate shift discussion would be*  
22 *more appropriate in the rate proceeding forum, potentially providing Noranda*  
23 *another opportunity to continue its complaint in Ameren Missouri's current*

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1           *general rate case. By providing Noranda this opportunity, we believe additional*  
2           *contentions have been added to the rate case proceeding, a credit negative.*  
3           *Other examples of the MoPSC's limited credit supportiveness include the lack of*  
4           *a forward test year, the inability to include construction work in progress*  
5           *(CWIP) in rate base, and no tracker for capital investments. The company's*  
6           *efforts to establish a rider for infrastructure replacement investments through*  
7           *legislation failed in May 2013. To mitigate Missouri's longer regulatory lag,*  
8           *Ameren Missouri has filed frequent rate cases over the last several years. It has*  
9           *made some progress with the implementation of a fuel adjustment clause (FAC)*  
10           *and cost trackers for pension/OPEB, vegetation management, and storm costs. It*  
11           *has also benefitted from the Missouri Energy Efficiency Investment Act (MEEIA),*  
12           *which facilitates the recovery of energy efficiency program costs and projected*  
13           *lost revenues as well as incentive rewards based on performance compared to*  
14           *the target. Overall, Ameren Missouri has taken action to reduce lag and we*  
15           *believe it will continue to do so given its significant capex plan. (Id.) (emphasis*  
16           *underlined).*

17           • *We view the Missouri regulatory jurisdiction as "strong/adequate" and we view*  
18           *AM's management of regulatory risk as average compared with peers. This*  
19           *reflects the company's use of various riders and trackers that include a fuel*  
20           *adjustment clause and pension and storm trackers. However, under our base*  
21           *case scenario of slower-than-average economic growth, continued regulatory*  
22           *lag, and higher capital spending, we view the company's ability to consistently*

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1                    *earn its allowed return on equity as challenging.* (Standard and Poor's, *Union*  
2                    *Electric Company d/b/a Ameren Missouri*, May 2014) (emphasis underlined).

3    **Q.    Those observations seem to be, in general, somewhat positive, do you agree?**

4    A.    They are certainly far more positive than we observed prior to the establishment of  
5           Ameren Missouri's FAC, but they still reflect the absence of a number of regulatory  
6           features or mechanisms that are often available and utilized in other jurisdictions. As  
7           a consequence, a reasonably mainstream FAC has become even more important to  
8           investors. If Ameren Missouri were to go back to not having an FAC, or if material  
9           changes were made to the one it has, in my opinion the somewhat positive tone of  
10          reports such as those quoted above would become decidedly negative, as they were  
11          prior to the establishment of the FAC for Ameren Missouri.

12   **Q.    You seem to be describing a potential downside to customers if there continue to**  
13   **be unjustified attempts to make substantive modifications to the FAC in the**  
14   **absence of substantial, credible evidence that the Company is acting without**  
15   **integrity, or is otherwise doing a poor job of managing its net energy costs. Is**  
16   **that a fair assessment?**

17   A.    Yes, it is. The majority of the criteria on which a utility is rated are based on  
18          regulatory framework, and the ability to recover prudently incurred costs and to earn  
19          fair returns. The ability to recover prudently incurred costs in a timely manner is  
20          perhaps the single most important credit consideration for regulated utilities as the  
21          lack of timely recovery of such costs has caused financial stress for utilities on several  
22          occasions. The diligent balancing of ratepayer and investor concerns are the

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1 cornerstones of investor confidence for utilities. When investors are confident that  
2 regulators are balancing these concerns appropriately, they can focus their influence  
3 to ensure that the utility performs accordingly and makes good on the regulatory  
4 construct. Put another way, they can focus on the performance of the utility's  
5 management. Investors, ultimately, can effect a change in utility management, but  
6 cannot impact the makeup of state regulatory commissions or their actions. However,  
7 when investors are concerned about the regulatory environment, it impacts their view  
8 of the risks faced by the utilities in the jurisdiction, tending to increase the cost of  
9 capital and it does this, in part, because it is a factor that investors cannot control.  
10 Investors who provide the necessary financial capital to Ameren Missouri regard cost  
11 recovery as necessary to compensate them for the risk of their investment. The  
12 continued call for elimination of an FAC or of significant modifications to an FAC  
13 make it such that investors are less able to rely upon its usefulness in recovering  
14 prudently incurred expenses, thus increasing the risk of the investment and thus the  
15 cost of the capital invested. As I noted, this is particularly true where the reasons for  
16 the continuing calls for elimination or change seem to be lacking in substance,  
17 repetitive and otherwise limited in their justification.

18 **Q. Do the reasons being cited in this case seem to be lacking in substance, repetitive**  
19 **or otherwise limited in their justification?**

20 A. Yes, they do. I already addressed why this is so regarding the technical arguments  
21 raised by OPC about the Commission's filing requirement rules. In terms of the  
22 sharing percentage arguments, the same or very similar arguments have been made in  
23 varying ways and to varying degrees, both in the case where Ameren Missouri

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1 initially obtained its FAC (when I first testified) and in Ameren Missouri cases since  
2 that time. The Commission has rejected these same or very similar points and has  
3 consistently stuck with 95%/5% sharing for FACs in Missouri. When I read OPC's  
4 testimony, I see no new or materially different justifications for making a sharing  
5 percentage change now than the ones rejected in the past. I'm not saying the  
6 Commission couldn't change the sharing percentage if the utility was not acting with  
7 integrity in the use of its FAC, or if the Commission had concluded based on sound  
8 evidence that more sharing would correct imprudent management of net energy costs.  
9 In such a case, diligent regulation in the form of FAC changes might be warranted.  
10 However, no one is even arguing that the sharing percentage should be changed for  
11 those reasons. Instead, the arguments appear to me to be philosophical.

12 **Q. Do investors value diligent regulation?**

13 **A.** Yes, they do. There is a common misperception that investors are looking for  
14 lackadaisical and weak regulation. This could not be more incorrect with regard to  
15 investing in regulated utilities. Investors who put capital to work at regulated utilities  
16 not only appreciate strong regulators, they rely on them. Investors count on regulators  
17 and their staffs to ensure the safety of their capital by consistently monitoring utilities  
18 to ensure reliability, performance and prudent risk management. Investors not only  
19 place a great deal of significance on the quality of regulation, but also on the ability  
20 of a utility to maintain a healthy and productive relationship with its regulators,  
21 especially in the current challenging economic environment. As S&P noted when  
22 addressing the key criteria of transparency of regulatory framework and the  
23 regulatory attitude toward credit quality: "*We believe regulation works best when it is*

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1           *rule-based. Bondholder interests are better protected by the presence of and*  
2           *adherence to a pre-set code of rules and procedures that we can look to when*  
3           *assessing risk. Risk is lower when the rules are more transparent and when they take*  
4           *into account utilities' financial integrity. Jurisdictions that require regulators to*  
5           *protect the financial soundness of utilities and have transparent policies and*  
6           *procedures earn the best assessments. We assign lower assessments on jurisdictions*  
7           *where policies and procedures support financial integrity but where inconsistency*  
8           *can selectively arise.” (Standard and Poor's, Assessing U.S. Investor-Owned Utility*  
9           *Regulatory Environments – January 2014).*

10          S & P has also observed:

11           *“An established, dependable approach to regulating utilities is a hallmark of a*  
12           *credit-supportive jurisdiction. Bondholders lend capital to utilities over long periods*  
13           *to fund the development of long-lived assets. A firm understanding of the basic*  
14           *“rules” that will govern how the utility will recover its costs, including servicing its*  
15           *debt and the return of its capital over an extended period, is essential to accurately*  
16           *assess credit risk.” (Id.).*

17          **Q. Please summarize investor concerns with potential modifications to the FAC**  
18          **incentive sharing mechanism at this time.**

19          A. The concern with the Commission eliminating the FAC or adopting sharing  
20          mechanism modifications as recommended by Ms. Mantle is that it will communicate  
21          several very negative impressions to investors, including: (1) that the Commission is  
22          not concerned about the volatility and operational / financial difficulties created for

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1 Ameren Missouri by net energy cost changes; (2) that the Commission has little  
2 regard for regulatory certainty and stability in Missouri; (3) that the Commission has  
3 reversed its prior findings and does not believe Ameren Missouri deserves to utilize  
4 an FAC even though virtually all other utilities have one (and the vast majority have  
5 one that has no sharing at all); and, most concerning, (4) that the Commission must  
6 believe that Ameren Missouri is not prudently managing its fuel and purchased power  
7 costs and off-system sales, or has some other reason to make a severely negative  
8 modification to the FAC.

9 Fuel and purchased power expenses and off-system sales are the most volatile items  
10 for Ameren Missouri, and represent a substantial risk. Moreover, the volatility of  
11 these items is largely beyond the control of Ameren Missouri. As Moody's very  
12 recently stated: "*Consistent regulatory support for cost-recovery is the key driver of*  
13 *our stable outlook - Our stable outlook for the US regulated utility industry for 2015*  
14 *is based on our expectation that regulatory support will continue to help utilities*  
15 *recover costs and maintain stable cash flow, even with competition from distributed*  
16 *generation (when customers generate their own power) or energy-efficiency efforts*  
17 *(that reduce sales volume) that keep overall demand growth low. The consistency and*  
18 *predictability of the regulatory environment is a fundamental driver of our outlook*  
19 *because it allows utilities to manage their cash flow and capital spending based on*  
20 *expectations for adequate cost-recovery. We have seen examples of regulatory*  
21 *commissions designing rate structures in ways that help utilities expedite cost-*  
22 *recovery and stabilize cash flow. These designs include mechanisms like cost*  
23 *trackers, which allow utilities to recover costs faster and with more certainty than*



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1           *filing a general rate case. Regulators also allow higher fixed charges for all*  
2           *customers to bolster the recovery of utilities' fixed costs, regardless of the volumes*  
3           *used by customers." (Moody's Investor Services: Regulatory Support Drives Our*  
4           *Stable Outlook, December 5, 2014).*

5   **Q.   More specifically, why would changing the sharing mechanism to 90%/10%**  
6           **significantly reduce the ability for investors and credit rating agencies to rely**  
7           **upon the FAC?**

8   A.   Given the fact that Ms. Mantle has been unable to support her contention that Ameren  
9           Missouri has not been provided with enough incentive to prudently manage net  
10          energy cost risk or her accusations that Ameren Missouri lacks diligence when  
11          completing its FAC paperwork, any change by the Commission to the FAC sharing  
12          mechanism will be very difficult for investors to understand. If the sharing  
13          mechanism can be altered based on specious arguments, it can be eliminated just as  
14          easily; therefore its value to investors as a mechanism to reduce risk is severely  
15          degraded. What is of particular concern to the financial community is that these  
16          surprising recommendations are occurring outside of the well-established prudence  
17          review process already in place. Moreover, the recommendations are being made  
18          based upon technical implementation issues that have nothing to do with whether  
19          Ameren Missouri is prudently managing its net energy costs and based upon  
20          arguments which, as I discussed earlier, appear to lack merit (although as I discussed  
21          earlier, even if they had merit the punishment certainly does not appear to fit the  
22          crime).

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1           Given the substantial capital needs of the utility sector as a whole in the United  
2           States, investors have a plethora of opportunities to invest their money. In a recent  
3           survey of fuel adjustment clauses, less than 20% had any sharing mechanism at all. If  
4           Ameren Missouri were to be found in the normal FAC review process to be violating  
5           the terms or the intent of the FAC, investors would want to know the details and  
6           would punish Ameren Missouri accordingly by either refusing to provide capital or  
7           charging higher costs for capital. As stated above, investors and rating agencies  
8           expect the Commission to thoroughly review every aspect of the FAC and report on  
9           any issues found on a regular basis. However, if the Commission decides to make  
10          significant modifications to the FAC, investors want to be assured that a proper  
11          investigation was conducted and that sufficient justification, backed up by real and  
12          proven evidence of imprudence, indeed exists. Therefore, an unwarranted alteration  
13          of the sharing mechanism or other critical attributes of the FAC would cast significant  
14          doubt as to the longer term ability to rely upon it, especially when market sentiment  
15          shifts and investors can no longer assume the Commission is supportive of a  
16          mainstream FAC at Ameren Missouri.

17          As previously stated, equity and fixed income investors that evaluate allocating  
18          capital to Ameren Missouri are not at odds with the overall goals of the Commission.  
19          The financial and operational characteristics that create a safe, reliable and low-cost  
20          electric power provider are largely the same as those that produce cash flow stability,  
21          prudent risk management and strong regulatory relationships to which investors are  
22          attracted.

1 **Q. Why are consistent and thorough reviews of the FAC by the Commission**  
2 **important from an investor's perspective?**

3 A. Investors want reasonable regulation and utilities that can work with their regulators.  
4 When investors perceive a regulatory jurisdiction as less than reasonable, they avoid  
5 it, leaving the affected utilities with having to pay a higher cost capital to compensate  
6 those investors for additional regulatory risk. When investors see reasonable  
7 regulation, they invest their money in the companies in that jurisdiction. If it turns  
8 out the utility they invested in can't be counted on to work with regulators on behalf  
9 of customers, they don't abandon the regulators and customers, they use their  
10 considerable rights and influence to replace the underperforming management team.  
11 Utility investors count on utility commissions and that is what gives the FAC  
12 prudence reviews such weight. From an investor's perspective, there is little to gain if  
13 Ameren Missouri does not manage its net energy costs in the most effective way  
14 possible under a steady and fair regulatory process. However, there is considerable  
15 risk if the process is viewed as flawed. The debate over the 95% pass-through  
16 provision is not only about dollars at risk, but, more importantly, about the  
17 operational skills of Ameren Missouri. If it is ever the Commission's view that  
18 Ameren Missouri lacks the capability to manage its net energy costs in a proper  
19 manner or is the type of organization that would risk long-term regulatory stability for  
20 short-term financial gain, investors want to be informed because that is not consistent  
21 with their views of the Ameren Missouri they have capitalized.

22 Given the influence the Commission has over the financial health of Ameren  
23 Missouri (and its ability to revoke the FAC), the presence of the FAC should not be

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1 expected to change the focus of the Company on prudently managing its net fuel  
2 costs. The stability of Ameren Missouri's relationship with the Commission is at risk  
3 in the event the Company fails to manage its net fuel costs properly with the FAC –  
4 even if the pass-through mechanism were raised to 100%, like most FACs throughout  
5 the country. If there were evidence that Ameren Missouri needed an additional  
6 financial incentive to abide by its regulatory mandates or that the Company was not  
7 competently managing its largest operating expense, the financial community might  
8 understand a change in the FAC. But if changes are made to the FAC in the absence  
9 of such evidence, it would suggest to investors that the Commission harbors a  
10 suspicion that Ameren Missouri is not prudently managing net fuel costs. That would  
11 suggest a much larger regulatory problem than the percentage pass-through issue and  
12 would create considerable concern for investors.

13 **Q. Given the critical importance of Ameren Missouri's continued access to capital,**  
14 **what would be the likely result of implementing the punitive measures that Ms.**  
15 **Mantle has proposed?**

16 A. Customers would be burdened with excessive costs each time Ameren Missouri  
17 accesses the capital markets. As discussed earlier, the reason for this is that investors  
18 will be unable to rely on the two most important tenets of utility regulation: fairness  
19 and consistency.

20 **Q. Do you have verifiable evidence that Ameren Missouri's FAC and continued**  
21 **progress with the Commission has actually assisted in lower-cost attraction of**  
22 **capital?**

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1 A. Yes, I do. Ameren Missouri borrows significant amounts of money to service the  
2 needs of its customers, and will continue to do so because of the highly capital-  
3 intensive nature of the electric utility business. In the table below I have highlighted  
4 the four most recent debt offerings for Ameren Missouri. The first in 2008 was prior  
5 to Ameren Missouri being awarded the FAC, which as noted was an important  
6 milestone in investor perception of Missouri regulation and the overall credit quality  
7 of Ameren Missouri. What the table below shows is that the last three bond offerings  
8 (after the FAC was in place) have been much better received and Ameren Missouri no  
9 longer raises capital at a premium to the BBB utility index but rather at a discount.

10 **Q. When you refer to a premium to the BBB<sup>2</sup> utility index what do you mean?**

11 A. While different companies carry a BBB rating, the debt costs for those companies  
12 vary depending on their financial condition, credit quality and the perception of their  
13 regulatory environments. Ameren Missouri's credit quality was improved by the  
14 FAC. This is evidenced by the fact that since 2009 Ameren Missouri has raised  
15 approximately \$1.2 billion of debt, and each time the cost of that debt came in below  
16 the prevailing index at the time instead of above the cost of the index which was the  
17 case in prior Ameren Missouri debt offerings. The savings total about \$8.6 million in  
18 interest costs every year for the life of the bonds that Ameren Missouri issued. While  
19 some might argue that these savings are relatively small on an annual basis, the  
20 savings are over the life of the bonds which when totaled is approximately \$210  
21 million. Those savings end up reflected in customer rates.

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<sup>2</sup> The "BBB" Utility Index is an index of publicly-issued investment-grade U.S. corporate bonds in the Utility Sector.

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Date	Amount (\$MM)	Tenor	AM Offering (% Coupon)	BBB Utility Index %	AM vs. Index
6/12/2008	450	10 Year	6.70	6.520	0.18
3/13/2009	350	30 Year	8.45	8.726	(0.28)
9/6/2012	485	30 Year	3.90	4.977	(1.08)
4/1/2014	350	10 Year	3.50	4.200	(0.70)

1 **Q. Could the savings be greater than the \$8.6 million per year?**

2 A. In my opinion, the savings are greater. This is because before Ameren Missouri had a  
3 FAC it was not able to borrow even at the index itself. My calculation of the \$8.6  
4 million was as compared to the index, but in point of fact, the difference is really  
5 between where Ameren Missouri was able to borrow before the FAC versus after the  
6 FAC. The point is that there is ample evidence that the absence of a FAC weighed  
7 heavily on investors' perceptions of the Missouri regulatory environment, and  
8 because of these negative perceptions, Ameren Missouri's access to lower-cost  
9 capital was negatively impacted, and having a FAC has helped it significantly.

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

11 A. Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

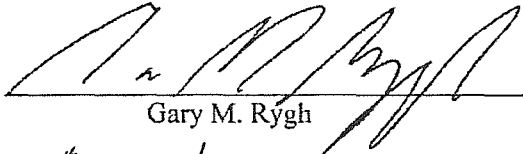
In the Matter of Union Electric Company )  
d/b/a Ameren Missouri's Tariffs to ) Case No. ER-2014-0258  
Increase Its Revenues for Electric Service. )

**AFFIDAVIT OF GARY M. RYGH**

STATE OF MISSOURI )  
 ) ss  
CITY OF ST. LOUIS )

Gary M. Rygh, being first duly sworn on his oath, states:

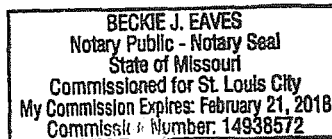
1. My name is Gary M. Rygh. I work in the City of New York, New York, and I am the Managing Director of Barclays Capital.
2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Union Electric Company d/b/a Ameren Missouri consisting of 21 pages, and Schedule(s) GMR-R1, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

  
\_\_\_\_\_  
Gary M. Rygh

Subscribed and sworn to before me this 16<sup>th</sup> day of January, 2015.

  
\_\_\_\_\_  
Notary Public

My commission expires:



*Report and Order, File No. ER-2008-0318 (footnotes omitted)*

“Gary M Rygh, a Senior Vice President at Barclays Capital Inc., the investment banking division of Barclays Bank PLC, testifying on behalf of AmerenUE, convincingly described the problem as follows:

[T]he majority of utilities with which AmerenUE has to compete for capital benefit from the inclusion of an FAC in their ratemaking process. As I addressed earlier, that competition for capital now and in for the foreseeable future will be difficult and intense, and will be even more difficult for AmerenUE if it must compete for capital without the benefit of an FAC.

Indeed, investors, credit rating agencies and others will likely penalize AmerenUE for the risk associated with the inability to better manage the burden associated with procuring fuel for customers unless an FAC is approved for AmerenUE. In a good environment these penalties would be visible, in the current environment and the environment we expect for the foreseeable future, they could be severe. This will likely cause an increase in the cost of capital which will create a longer term and greater cost for customers. The lack of inclusion of a reasonable FAC will continue to keep AmerenUE in the minority of its peers who have these procedures in place and will also be going to market to raise capital.

It would be easy to join with Public Counsel in criticizing the credit rating agencies as “greedy and focused on short-term profits”. However, while Public Counsel’s witness, Ryan Kind, may not “take a whole lot of stock in what they say as a group,” a whole lot more investors care about what Moody’s and the other rating agencies say about AmerenUE than care about Ryan Kind’s opinion.

Right or wrong, the opinions of credit rating agencies do matter. And they matter to AmerenUE’s ratepayers as well as its investors. A further investment rating downgrade of AmerenUE would increase the company’s cost to borrow the capital it needs to meet the electricity needs of its customers. Those increased borrowing costs will ultimately be passed along to ratepayers in a future rate case”.



**Report and Order, File No. ER-2011-0028 (footnotes omitted)**

“19. Furthermore, changing the sharing percentage without a good reason to do so would lead investors to question the future of Ameren Missouri’s fuel adjustment clause. In the words of Gary Rygh, a managing director at Barclays Capital, Inc.:

If the Commission were willing to significantly degrade the existing FAC and pass-through mechanism apart from findings in the established review processes, and despite the lack of credible evidence that Ameren Missouri in fact is mismanaging its net fuel costs, investors would view such a change as capricious and designed to inflict significant harm on the Company.

Because of investors concerns, ratepayers would be burdened with excessive costs each time Ameren Missouri accesses the capital markets”.

**Report and Order, File No. ER-2010-0356 (footnotes omitted)**

“572. GMO Witness Gary M. Rygh, a Managing Director of Barclays Capital Inc., testified that there would be potential adverse effects of altering the 95/5 sharing mechanism to a 75/25 ratio. He was generally familiar with fuel adjustment clauses being utilized by integrated electric utilities in the United States, most of which do not have a sharing mechanism.

573. The Commission finds Mr. Rygh’s background and experience relevant to this issue, and finds that his opinions are authoritative and credible”.