Exhibit No.:	126
Issue(s):	Fuel Adjustment Clause
Witness:	Gary M. Rygh
Sponsoring Party:	Ameren Missouri
Type of Exhibit:	Rebuttal Testimony
Case No.:	ER-2011-0028
Date Testimony Prepared:	March 25, 2011

MISSOURI PUBLIC SERVICE COMMISSION

Case No. ER-2011-0028

REBUTTAL TESTIMONY

OF

GARY M. RYGH

ON

BEHALF OF

AMEREN MISSOURI

St. Louis, Missouri
March 2011

REBUTTAL TESTIMONY

OF

GARY M. RYGH

CASE NO. ER-2011-0028

Q. Please state your name and business address.

A. My name is Gary M. Rygh. My business address is 745 Seventh Avenue - 25th Floor, New York, New York 10019-6801.

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

A. I am employed by Barclays Capital Inc. as a Managing Director.

Q. Please describe Barclays Capital Inc.

A. Barclays Capital Inc. (Barclays Capital) is the investment banking division of Barclays Bank PLC, a leading global financial institution with over $2.5 trillion of total assets. Using a distinctive business model, Barclays Capital provides large companies, institutions and government clients with solutions to their financing and risk management needs. Barclays Bank PLC is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services, with an extensive international presence in Europe, the United States, Africa and Asia. With over 300 years of history and expertise in banking, Barclays Bank PLC operates in over 50 countries with over 145,000 employees.

Q. Please describe your employment history with Barclays Capital.

A. Prior to joining Barclays Capital, I worked in the power and utility area at Morgan Stanley beginning in 1998, was in the global power and utility group at Lehman Brothers starting in July 2007, and have been with Barclays Capital since September 2008, when Lehman Brothers became a part of Barclays Capital.

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

A. I am currently a Managing Director in the Global Power and Utility Group. Our group is responsible for the corporate finance analysis of, and strategic and capital markets transactions related to the utility and power sectors. I have been in the utility, power and energy investment banking business for approximately 16 years. I have worked extensively on strategic merger and acquisition assignments, debt and equity capital markets transactions, and other corporate finance related assignments in the electric, water and gas utility sectors. I have a Bachelors of Science degree in Commerce, with a concentration in Finance from the University of Virginia.

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

A. The purpose of my testimony is primarily to respond to the testimony of Missouri Public Service Commission Staff (Staff) witness Lena M. Mantle, who contends that the sharing mechanism in the current Union Electric Company d/b/a Ameren Missouri (Ameren Missouri or the Company) fuel adjustment clause (FAC) should be significantly modified. Not only is this change to the FAC unnecessary, but her testimony runs counter to the uncontested fact that other than technical issues arising from the initial implementation of the FAC that are being reviewed in other proceedings, no issues with the FAC have been raised in the review and monitoring process established by the Missouri Public Service Commission (Commission), and that the review process has demonstrated that Ameren Missouri has consistently acted with prudence and diligence since the FAC became effective in March 2009.

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

A. My rebuttal testimony focuses on the importance of the FAC currently as it pertains to capital and financing related issues, which are increasingly important for Ameren Missouri and utilities in general, given the large capital needs they face now and in the coming years. I also address how the establishment of Ameren Missouri's FAC has had a significant positive impact on the perceived regulatory environment for Ameren Missouri and the effect of that perception on Ameren Missouri's overall financial health and credit quality. These financial market and investor perceptions are important to the Company and its ratepayers because it is these perceptions that drive the overall cost and ability of Ameren Missouri to access needed capital. My testimony explains:

- The critical importance for investors of a highly diligent regulatory process, as well as the need for Ameren Missouri to maintain a constructive relationship with the Commission.
- How perceptions of the regulatory process affect access to and the cost of new capital for Ameren Missouri with investors, underwriters, credit rating agencies and researchers, their keen awareness of the importance of balanced, mainstream ratemaking policy, and their ability to discern key differences among competing issuers of capital and their associated regulators.
- Why investors, credit rating agencies and other market participants view the current Ameren Missouri FAC as a highly valuable tool for risk management, as well as reasonable and timely cost recovery, and how establishment of the current FAC in the ratemaking process has affected credit rating agency analysis of Ameren Missouri, as well as the

- assessments of investors and their views of the regulatory climate in which Ameren Missouri is operating.
- Why the potential exists for significant and long-term detrimental repercussions to the cost of capital of Ameren Missouri if adverse changes are made to the FAC incentive sharing mechanism, considering that no issues (except technical issues relating to its initial implementation) regarding the FAC's operation have been identified in the established review process, and given that the only verifiable information detailed in this proceeding is that the FAC has proven to be a critical tool in maintaining the financial health of Ameren Missouri.
- Why unwarranted changes to the sharing mechanism of the FAC significantly reduces the ability of investors to rely upon it.

Q. Why would the perceptions of financial investors, credit rating agencies and other Wall Street entities regarding the continuation of the existing FAC create potential issues?

A. The positive reaction to the establishment of the Ameren Missouri FAC was based on the Commission's willingness to diligently address the volatility and financial risk created by the absence of a FAC with such investigation correctly determining the critical need for the establishment of the FAC for Ameren Missouri. It was also well understood that the FAC was established after an exhaustive regulatory review, was sufficiently consistent[1] with those created in other regulatory jurisdictions and that in general it appropriately balances the concerns

[1] I say "sufficiently consistent" because there are aspects of Ameren Missouri's FAC that make it less supportive of investor confidence, including the fact that it is in the minority in having sharing at all, the fact that it uses historical, not projected costs, and the fact that there is a considerable lag in cash recovery due to the long processing and recovery times inherent in its design.

of ratepayers and investors. It was never expected that major components of the FAC would be called into question in every possible proceeding and that technical issues such as an interpretational disagreement regarding the inclusion or exclusion of certain contracts in the calculation off-system sales would be trumped up as "imprudence" by the Staff, or that a mere calculation error (made by the Company and the Staff without fault of either) would be used as an excuse to suggest substantive changes in an FAC that is working well.

Q. What is the potential downside to ratepayers if there is a consistent effort to make substantive modifications to the FAC in the absence of substantial, credible evidence that the Company is acting without integrity, or is otherwise doing a poor job of managing its net fuel costs?

A. As Moody's Investor Services, Inc. (Moody's) outlined in August 2009, the majority of the criteria on which a utility is rated is based on regulatory framework, and the ability to recover prudently incurred costs and to earn fair returns. As stated by Moody's: "*For a regulated utility, the predictability and supportiveness of the regulatory framework in which it operates is a key credit consideration and the one that differentiates the industry from most other corporate sectors"*.... "*These include how developed the regulatory framework is; its track record for predictability and stability in terms of decision making; and the strength of the regulator's authority over utility regulatory issues.*" Moody's went on to address mechanisms to recover costs, chief amongst them being fuel: *"The ability to recover prudently incurred costs in a timely manner is perhaps the single most important credit consideration for regulated utilities as the lack of timely recovery of such costs has caused financial stress for utilities on several occasions."* The diligent balancing of ratepayer and investor concerns are the cornerstones of investor confidence for utilities. When investors are confident that regulators are balancing these concerns appropriately, they can focus their influence to ensure that the utility performs accordingly and makes good on the regulatory construct. However, those investors who provided the necessary financial capital to Ameren Missouri regard this cost recovery as necessary to compensate them for the risk of being obligated to incur these costs. The continued call for significant modifications to the FAC make it such that investors are hard pressed to rely upon its usefulness in recovering prudently incurred expenses.

Q. Do investors value diligent regulation?

A. Yes, they do. There is a common misperception that investors are looking for lackadaisical and weak regulation. This could not be more incorrect with regard to investing in regulated utilities. Investors who put capital to work at regulated utilities not only appreciate strong regulators, they rely on them. Investors count on regulators and their staffs to ensure the safety of their capital by consistently monitoring utilities to ensure reliability, performance and prudent risk management. Investors not only place a great deal of significance on the quality of regulation, but also on the ability of a utility to maintain a healthy and productive relationship with its regulators, especially in the current challenging economic environment. As stated by Standard and Poor's Financial Services LLC (S&P) in November 2007 when overhauling its rating methodologies for domestic utilities: "*Regulated utilities and holding companies that are utility-focused virtually always fall in the upper range of business risk profiles. The defining characteristics of most utilities--a legally defined service territory generally free of significant competition, the provision of an essential or near-essential service, and the presence of regulators that have an abiding interest in supporting a healthy utility financial profile underpin the business risk profiles of the electric, gas, and water utilities.*" A well-run utility produces the stability of cash flow, earnings and financial performance that investors in utilities prize and need to ensure that the risk inherent in their investment is appropriate for the return they are receiving. Since investors lack the technical expertise and oversight capabilities of regulators, they consider quality regulation critical. In fact, diligent and consistent regulation is essential, as noted in 2009 by Moody's when describing the criteria used to assign utility credit ratings: "*A utility operating in a stable, reliable, and highly predictable regulatory environment will be scored higher on this factor than a utility operating in a regulatory environment that exhibits a high degree of uncertainty or unpredictability.*"

Q. Then what are investors' concerns with potential modifications to the FAC incentive sharing mechanism at this time?

A. The concern with the Commission adopting the FAC sharing mechanism modification recommended by Mrs. Mantle is that it will communicate several very negative impressions to investors, including: (1) that the Commission is not concerned about the volatility and operational / financial difficulties created for Ameren Missouri by fuel cost changes; (2) that the Commission has little regard for regulatory certainty and stability in Missouri; (3) that the Commission does not believe Ameren Missouri deserves the opportunity to earn a fair return on capital; and, most concerning, (4) that the Commission must believe that Ameren Missouri is not prudently managing its fuel and purchased power costs and off-system sales, or has some other reason to make a severely negative modification to the FAC.

Fuel and purchased power expenses are the most volatile expense for Ameren Missouri, and represent a substantial risk. Moreover, the volatility of these expenses is beyond the control of Ameren Missouri. As Moody's stated in June 2010 regarding fuel adjustment clauses: "*These clauses work to insure that a utility recovers fuel related revenues fairly close to the time it incurs the fuel expense, minimizing the delay in the recovery of these costs. They also reduce the* *level of regulatory uncertainty for the recovery of these costs...*" A properly designed fuel adjustment clause was identified in this Moody's report (entitled "Cost Recovery provisions Key to Investor Owned Utility Ratings and Credit Quality") as probably the most critical of mechanisms when evaluating a utility's ability to recover costs and earn its allowed returns.

In addition, S&P stated in January 2010 in a report entitled "Top 10 Investor Questions: U.S. Regulated Electric Utilities": *"Many companies have authorized recovery mechanisms for fuel, trackers for pension and uncollectible expenses, and passing costs for renewable energy wind and solar projects through to customers. We view all of these adjustors as conducive for credit quality because they can generally help to smooth cash flows and keep balance-sheet deferrals to manageable levels."*

Q. Why would changing the sharing mechanism to 85% significantly reduce the ability for investors and credit rating agencies to rely upon the FAC?

A. Given the fact that Ms. Mantle has been unable to support her contention that Ameren Missouri has not been provided with enough incentive, any change by the Commission to the FAC sharing mechanism will be very difficult for investors to understand. What is of particular concern to the financial community is that the surprising recommendations are occurring outside of the well established prudency and true-up review process already in place, and are being suggested based upon technical implementation issues that have nothing to do with whether Ameren Missouri is prudently managing its net fuel costs and based upon arguments which, as I understand it, are inherently flawed.[2] Given the substantial capital needs of the utility sector as a whole in the United States, investors have a plethora of opportunities to invest their money. In a recent survey of fuel adjustment clauses, less than 20% had any sharing mechanism of total fuel and purchased power cost at all. If Ameren Missouri were to be found in the normal FAC review process to be violating the terms or the intent of the FAC, investors would want to know the details and would punish Ameren Missouri accordingly by either refusing to provide capital or charging higher costs for capital. As stated above, investors and rating agencies expect the Commission to thoroughly review every aspect of the FAC and report on any issues found on a regular basis. However, if the Commission decides to make significant modifications to the FAC, investors want to be assured that a proper investigation was conducted and that sufficient justification, backed up by real and proven evidence of imprudence, indeed exists. Therefore, an unwarranted alteration of the sharing mechanism or other critical attributes of the FAC would cast significant doubt as to the longer term ability to rely upon it, especially when market sentiment shifts and investors can no longer assume the Commission is supportive of a mainstream FAC at Ameren Missouri.

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

A. It simply is a matter of risk and reward. From an investor's perspective, there is little to gain if Ameren Missouri does not manage its net fuel costs in the most effective way possible under a steady and fair regulatory process. However, there is considerable risk if the process is viewed as flawed. The debate over the 95% pass-through provision is not only about dollars at risk, but more importantly about the operational skills of Ameren Missouri. If it is ever the Commission's view that Ameren Missouri lacks the capability to procure fuel in a cost-effective manner or is the type of organization that would risk long-term regulatory stability for

[2] Those other facts to which I am referring, including Ms. Mantle's contentions regarding the price and level of off-system sales that have been made, and regarding generation performance, are addressed by Ameren Missouri witnesses Jaime Haro and Mark C. Birk.

minimal short-term financial gain, investors want to be informed because that is not consistent with their views of the Ameren Missouri they have capitalized.

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

Q. Do the rating agencies and investors have existing concerns that would be exacerbated by unwarranted modifications of the FAC?

A. In this situation it is helpful to focus on what many consider to be the most positive development for Ameren Missouri and Missouri regulation overall in the last several years which was the approval and implementation of the FAC. The reaction to the establishment of the FAC was very positive. Beyond the financial stability that is inherent in operating with a properly designed FAC, many in the financial community perceived the FAC approval as a significant event for the Company as it pertained to the quality of regulation in Missouri and

Ameren Missouri's future prospects in the regulatory process. Due to the fact that the large majority of, in fact nearly all, regulated electric utilities in the country already benefited from an established FAC, the absence of an established FAC in Missouri was perceived as a sign that the state was not using an important tool to ensure the long-term credit quality and cash flow stability of its utilities. After Missouri law was changed, the approval by the Commission of a properly designed FAC for Ameren Missouri was a strong message to the financial community that the regulatory process in Missouri was rigorous and deliberate, and that the Commission properly balanced its duties to ratepayers and investors. However, Ameren Missouri's ability to recover prudently incurred capital and operating expenses is still an issue of concern for the rating agencies. Recounted below is a sample of rating agency considerations (that already reflect continued concern even with the existing FAC and its 5% sharing for the Company) that would undoubtedly become quite negative if the FAC sharing mechanism modification was implemented:

- *"Significant regulatory lag results in low earned returns UE continues to experience significant regulatory lag that has consistently prevented it from earning its allowed return on equity, contributed to a long-term decline in its credit quality over the last several years. In 2009, the company's earned ROE was in the range of only 7% despite an allowed ROE of 10.7% due to a combination of factors including lengthy 11 month base rate cases, a lack of interim rate relief, and the requirement in Missouri that fuel costs be recovered through the normal base rate case process. The company's most recent base rate case outcome resulted in an even lower allowed ROE of 10.1% which, although an improvement over the MPSC staff recommendation of 9.35%, is likely to only marginally* *reduce regulatory lag going forward. Although the MPSC approved some cost trackers, including trackers for vegetation and infrastructure costs, the company's requests for environmental cost and storm restoration cost trackers were denied. The rate case proceedings were plagued by a high degree of public attention and controversy driven by an organized group of consumers and industrial users that opposed various aspects of the rate case. Considering the vocal atmosphere surrounding the rate proceedings, Moody's considers the outcome to be largely credit neutral to UE, with regulatory lag continuing to be a constraining factor in UE's rating and credit quality."* –Moody's August 2010

- *"The stable rating outlook reflects financial metrics that are expected to remain adequate for its current mid-Baa rating, a recent rate case decision that will only marginally decrease regulatory lag and which Moody's considers to be neutral to credit quality, and an expectation that Ameren will replace or renew its bank credit facilities well before their expiration dates."* – Moody's August 2010
- *"In 2009 and 2010, the company received credit supportive rate case orders from the Missouri Public Service Commission that includes more than $390 million of base rate increases, a fuel adjustment clause, pension and OPEB trackers, and a cost tracker for vegetation management and infrastructure inspections. Recently, the company filed for a $12 million gas revenue increase and a $263 million electric rate increase. The commission's orders for the gas and electric rate cases are expected by April 2011 and July 2011, respectively. We expect that Ameren Missouri will continue to file rate cases on a frequent basis to reduce its regulatory lag."* – S&P December 2010

- *"What Could Change the Rating – Up: Future rate case outcomes that support an improvement in credit quality and reduce regulatory lag*"– Moody's August 2010

Q. What are the main criteria applied when a utility is reviewed by the credit rating agencies and how would the modification of the FAC sharing mechanism adversely affect the application of those key criteria for Ameren Missouri?

A. The combination of Moody's evaluation of the regulatory framework and ability to recover costs and earn returns account for 50% of the total rating assessment of a utility. Currently the Company is rated Baa2 by Moody's on a senior unsecured basis while its "scorecard" results in a rating one notch below of Baa3. This implies that Moody's is already factoring in future improvements to the regulatory paradigm and related financial metrics for the Company, but is not anticipating significant setbacks such as the current rate rollback efforts that have been pursued by the Office of the Public Counsel and certain other customer groups, or adverse changes to the FAC. Moody's currently scores the *regulatory framework of the Company as below investment grade*, at Ba, and the ability to recover costs and earn returns as investment grade, at Baa. By examining how Moody's assigns ratings to these criteria and assessing the implications associated with unsupported and unwarranted FAC modifications, it is obvious that if such modifications were implemented there is strong possibility that the Company will be scored lower in these two critical categories. This would likely reduce the overall rating to Baa3, the lowest investment grade rating, or even possibly Ba1, the highest non-investment grade rating. The table below provides additional information on the various rating categories.

Regulatory Framework (25% of Rating)			
A	***Baa***	***Ba***	***B***
Regulatory framework is fully developed, has above average predictability and reliability, although is sometimes less supportive of utilities. Utility regulatory	Regulatory framework is a) well-developed, with evidence of some inconsistency or unpredictability in the way framework has been applied,	Regulatory framework is developed, but there is a high degree of inconsistency or unpredictability in the way the	Regulatory framework is less developed, is unclear, is undergoing substantial change or has a history of

body may be a state commission or national, state, provincial or independent regulator.	or framework is new and untested, but based on well-developed and established precedents, or b) jurisdiction has history of independent and transparent regulation in other sectors. Regulatory environment may sometimes be challenging and politically charged.	framework has been applied. Regulatory environment is consistently challenging and politically charged. There has been a history of difficult or less supportive regulatory decisions, or regulatory authority has been or may be challenged or eroded by political or legislative action.	being unpredictable or adverse to utilities. Utility regulatory body lacks a consistent track record or appears unsupportive, uncertain, or highly unpredictable. May be high risk of nationalization or other significant government intervention in utility operations or markets.
Ability to Recover Costs and Earn Returns (25% of Rating)			
A	***Baa***	***Ba***	***B***
Rate/tariff reviews and cost recovery outcomes are fairly predictable (with automatic fuel and purchased power recovery provisions in place where applicable), with a generally fair return on investments. Limited instances of regulatory challenges; although efficiency tests may be more challenging; limited delays to rate or tariff increases or cost recovery.	Rate/tariff reviews and cost recovery outcomes are usually predictable, although application of tariff formula may be relatively unclear or untested. Potentially greater tendency for regulatory intervention, or greater disallowance (e.g. challenging efficiency assumptions) or delaying of some costs (even where automatic fuel and purchased power recovery provisions are applicable).	Rate/tariff reviews and cost recovery outcomes are inconsistent, with some history of unfavorable regulatory decisions or unwillingness by regulators to make timely rate changes to address market volatility or higher fuel or purchased power costs. AND/OR Tariff formula may not take into account all cost components; investment are not clearly or fairly remunerated.	Difficult or highly uncertain rate and cost recovery outcomes. Regulators may engage in second-guessing of spending decisions or deny rate increases or cost recovery needed by utilities to fund ongoing operations, or high likelihood of politically motivated interference in the rate/tariff review process. AND/OR Tariff formula may not cover return on investments; only cash operating costs may be remunerated.

The remaining 50% of the credit rating is determined by Moody's assessment of diversification (10%) where the Company already scores a Ba, with the remaining 40% based on various measures of financial strength, liquidity and financial metrics which are currently 30% Baa and 10% Ba respectively. Exhibit 1 provides the Moody's ratings assessment for Ameren Missouri in its entirety. S&P currently rates Ameren Missouri as BBB- on a senior unsecured basis, its lowest investment grade rating. While S&P does not produce a quantitative scorecard for Ameren Missouri, Exhibit 2 shows the S&P ratings matrix for utilities.

Q. Please describe the potential adverse effects of altering the 95% pass-through mechanism of the FAC, as suggested by Mrs. Mantle.

A. The reduction of the established pass-through mechanism in this proceeding would have material negative consequences to investor perception of Ameren Missouri, the it

1Commission and the quality of the regulatory process in Missouri. Not only would a reduction in the pass-through mechanism represent a major adverse modification to the FAC and make it even more challenging for Ameren Missouri to earn the return on equity granted by the Commission,[3] it would be a far worse signaling event to the investors whose capital is needed to ensure the continued safe and reliable operations of Ameren Missouri. As previously stated, equity and fixed income investors that evaluate allocating capital to Ameren Missouri are not at odds with the overall goals of the Commission. The financial and operational characteristics that create a safe, reliable and low-cost electric power provider are largely the same as those that produce cash flow stability, prudent risk management and strong regulatory relationships that investors are attracted to.

The reduction of the 95% pass-through mechanism would create major investor concerns, chief among those being:

- Investors would be concerned that the Commission has reversed its prior findings that the FAC was necessary. They would expect the cost-recovery quality of the FAC to erode or for the FAC to be removed entirely over time. They would perceive continued uncertainty (i.e., risk) about whether the FAC will exist, or if it does exist, whether it will be effective. Given today's uncertain economic outlook, volatile commodity markets, and Ameren Missouri's need to attract capital, the FAC is more critical to the financial health and credit quality of Ameren Missouri now than in 2009 when the FAC was established.

[3] As Ameren Missouri witness Lynn Barnes indicates in her rebuttal testimony, net base fuel costs are very likely to be lower than net fuel costs that will actually be experienced. As a consequence, increasing the sharing percentage is tantamount to an increased disallowance of fuel costs. For example, a greater sharing percentage would have forced Ameren Missouri to absorb an additional approximately $15 million of costs that have not been shown to have been imprudently incurred during the 12 months ending February, 2011. Such a result would be of considerable concern to investors.

- The need for a properly designed FAC to allow Ameren Missouri to earn fair returns was crucial to the original FAC approval and design, which was the result of a very intensive regulatory review. 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.
- The arguments offered in support of a reduction in the 95% pass-through mechanism are little more than generic and unsupported accusations that Ameren Missouri is not performing its fiscal duties to ratepayers to the best of its ability. Consequently, any changes to the FAC by the Commission would, in investors' minds, call into question the motives of the decision-makers.
- More than 90% of integrated electric utilities across the country operate with a FAC and the vast majority of those have no sharing mechanism at all. A finding by the Commission that Ameren Missouri needs greater incentive to prudently manage its largest operating expense than apparently is needed for nearly all of its peers will lead investors to believe that Ameren Missouri would risk its long-term regulatory stability for the sake of short-term and relatively insignificant monetary gain, that the Company is held in very little regard by the Commission or, worse, that the Company cannot competently implement a tool that the vast majority of other integrated electric utilities have successfully utilized for years.

Q. What would be the likely result of a reduction of the 95% pass through mechanism from a cost of capital perspective?

A. Ratepayers would be burdened with excessive costs each time Ameren Missouri accesses the capital markets. The reason for this is that investors will be unable to rely on the two most important tenets of utility regulation: <u>fairness</u> and <u>consistency</u>. Fairness and consistency are the foundation of investors' evaluation of regulators. Any criteria used to judge the level of risk and associated capital cost assumes that these core principles exist. From an investor perspective, any investment in a utility that lacks the benefit of regulatory fairness and consistency is a risky investment that requires an additional return.

In summary, the Commission's prior order regarding Ameren Missouri's FAC, coupled with its approval of similar FACs for the other Missouri electric utilities that are eligible to utilize one, suggested that the Commission was on its way to building a track record of consistent, thoughtful and high quality examination of key issues that affect the Company and the ratepayers it serves. The establishment of the FAC was critical to investors, and the Commission's position in granting it was highly visible. A reduction in the 95% pass-through mechanism in this rate case, without a significant basis in fact supporting that adjustment, would create negative perceptions of the regulatory climate in Missouri and jeopardize the financial stability of the Company, causing significant harm to the ratepayers over the long term.

Investors expect and rely on the Commission to hold Ameren Missouri accountable when it does not perform or does not act prudently. However, from an investor perspective, it is my opinion that making a significant adjustment to the sharing mechanism of the FAC in the absence of evidence-based justification would be viewed as lacking sufficient cause and doing so would create a much less favorable environment in which to consider deploying capital to Ameren Missouri.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a AmerenUE for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in the Company's Missouri Service Area.	)))))	Case No. ER-2010-0028

AFFIDAVIT OF GARY M. RYGH

STATE OF NEW YORK)
) ss
COUNTY OF ALBANY)

GARY M. RYGH, being first duly sworn on his oath, states:

1. My name is **GARY M. RYGH**. I am employed by Barclays Capital Inc. as Managing Director.

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 18 pages, 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 24 day of March, 2011.

Margherita DeLouisa
Notary Public

My commission expires:

MARGHERITA DeLOUISA
Registration # 01DE4842124
New York County, State of New York
License Expires 5/10/2011

Exhibit 1

Moody's Rating Factors

Rating Factors	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Framework (25%)					X	
Factor 2: Ability to Recover Costs and Earn Returns (25%)				X		
Factor 3: Diversification (10%)						
a) Market Position (10%)				X		
b) Generation and Fuel Diversity (N/A)				X		
Factor 4: Financial Strength, Liquidity & Financial Metrics (40%)						
a) Liquidity (10%)					X	
b) CFO pre-WC + Interest / Interest (7.5%) (3 yr Avg)				X		
c) CFO pre-WC / Debt (7.5%) (3 yr Avg)				X		
d) CFO pre-WC - Dividends / Debt (7.5%) (3 yr Avg)				X		
e) Debt / Capitalization or Debt / RAV (7.5%) (3 yr Avg)				X		
Rating:						
a) Methodology Implied Senior Unsecured Rating				Baa3		
b) Actual Senior Unsecured Rating				Baa2		

S&P Business Risk/Financial Risk Framework

Financial Risk Profile			
Debt / Cap	FFO / Debt	Debt / EBITDA	Financial Risk Profile (Below)
<25%	>60%	<1.5x	Minimal
25-35%	45-60%	1.5-2x	Modest
35-45%	30-45%	2-3x	Intermediate
45-50%	20-30%	3-4x	Significant
50-60%	12-20%	4-5x	Aggressive
> 60%	<12%	>5x	Highly Leveraged

Dependent

Business Risk Profile						
Business Risk Profile ->	Excellent	Strong	Satisfactory	Fair	Weak	Vulnerable
Minimal	AAA	AA	A-	--	--	--
Modest	AA	A	BBB+	BBB-	--	--
Intermediate	A	A-	BBB	BB+	BB	--
Significant	A-	BBB	BB+	BB	BB-	B+
Aggressive	BBB	BB	BB-	BB-	B+	B-
Highly Leveraged	--	BB-	B+	B	B-	CCC+

- Rating outcome refers to issuer credit rating
- Ratings indicated in the matrix are the midpoints of a range of likely rating possibilities
  - Range would ordinarily span one notch above and below the indicated rating

Source: S&P "Criteria Methodology: Business Risk/Financial Risk Matrix Expanded". Dated May 27, 2009.

S&P Business Risk/Financial Risk Framework (cont'd)

"Our ratings analysis starts with the assessment of the business and competitive profile of the company. Two companies with identical financial metrics can be rated very differently, to the extent that their business challenges and prospects differ."

- Business risk factors
  - Country risk
  - Industry risk
  - Competitive position
  - Profitability/peer group comparison
- Financial risk factors
  - Accounting
  - Financial governance and policies/risk tolerance
  - Cash flow adequacy
  - Capital structure/asset protection
  - Liquidity/short-term factors

"We do not have any predetermined weights for these categories."

"We tend to weight business risk slightly more than financial risk when differentiating among investment-grade ratings. Conversely, we place slightly more weight on financial risk for speculative-grade issuers…There also is a subtle compounding effect when both business risk and financial risk are aligned at extremes (i.e., excellent/minimal and vulnerable/highly leveraged)."

Source: S&P "Criteria Methodology: Business Risk/Financial Risk Matrix Expanded". Dated May 27, 2009.

S&P Business Risk Factors for Corporate Ratings

Risk Factor	S&P Commentary / Description	Key Considerations
Country Risk	The risk of doing business in a particular country including, importantly, any sovereign-related stress	▪ Country specific economic, financial, regulatory, and industry-related risks ▪ Growth prospects of a country ▪ Political factors influencing the business environment ▪ Labor market constraints or incentives ▪ The strength and political direction of labor unions
Industry Risk	Assessment of a company's business environment including strength of industry prospects, as well as the competitive factors affecting that industry	▪ Pattern of business cycles ▪ Sector growth and profit potential ▪ Degree of cyclicality ▪ Ease of entry and nature and degree of competition ▪ Capital intensity, operational and cost structure, regulation, and technology
Competitive Position	Represents a critical input in assessing a company's level of business risk. Differences in competitive positioning can justify substantial differences in credit standing among industry players	▪ Company size and diversification ▪ Product positioning (quality, pricing) and brand reputation ▪ Market shares / installed customer base / geographic coverage ▪ Distribution capabilities ▪ Customer relationships ▪ Technology/manufacturing capabilities ▪ Meaningful barriers to entry, such as transportation, capital or technology intensiveness, and regulation.
Profitability, Peer Group Comparison	Profit potential is a critical determinant of credit protection. Earnings power ultimately attests to the value of the company's assets, as well	▪ Comparison of peer companies on key profit metrics

Source: S&P "Guide to Credit Ratings Essentials" and "2008 Corporate Criteria: Analytical Methodology".

S&P Financial Risk Factors for Corporate Ratings

Risk Factor	S&P Commentary / Description	Key Considerations
Accounting	Analysis of financial statements beginning with a review of accounting characteristics	▪ Accounting basis a company uses to prepare its financial reports ▪ Changes in accounting standards ▪ Information risk, restatements, and disclosure of significant events
Financial Governance & Policies / Risk Tolerance	Covers a broad array of topics relating to how a company is managed; its relationship with shareholders, creditors, and others; and how its internal procedures, policies, and practices can create or mitigate risk	▪ The nature of the owner (e.g., government, family, holding company, or strategically linked business) ▪ Management philosophies and policies involving financial risk
Cash Flow Adequacy	Focus on understanding and forecasting how cash is generated and spent by a business	▪ Levels of funds from operations (FFO) and its relation to total debt burden ▪ Working capital swings ▪ Capital spending requirements ▪ Shareholder distributions
Capital Structure / Asset Protection	Level and mix of debt employed (i.e., fixed/variable rate, maturity, currency, secured/unsecured)	▪ Asset mix ▪ Debt on the balance sheet ▪ Leases ▪ Pension and retiree medical liabilities ▪ *Guarantees, and contingent liabilities*
Liquidity / Short Term Factors	Focus on the downside: whether the company can meet its obligations on a rainy day, rather than just under the expected circumstances	▪ Surplus cash and near cash on the balance sheet ▪ Other internal sources of liquidity ▪ Ability to curtail operations / divest assets with negative cash flow ▪ External sources of liquidity ▪ Financial covenants and triggers

Source: S&P "Guide to Credit Ratings Essentials" and "2008 Corporate Criteria: Analytical Methodology".