Exhibit No.:	_______________
Issue(s):	Rate of Return (ROR)/Return on Equity/ Capital Structure
Witness/Type of Exhibit:	Murray/Surrebuttal
Sponsoring Party:	Public Counsel
Case No.:	ER-2021-0240

SURREBUTTAL TESTIMONY

OF

DAVID MURRAY

Submitted on Behalf of the Office of the Public Counsel

UNION ELECTRIC COMPANY
D/B/A AMEREN MISSOURI

FILE NO. ER-2021-0240

** **

Denotes Confidential Information that has been Redacted

November 5, 2021

PUBLIC

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Union Electric Company d/b/a Ameren Missouri's Tariffs to Increase its Revenues for Electric Service	))))))	Case No. ER-2021-0240

AFFIDAVIT OF DAVID MURRAY

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

David Murray, of lawful age and being first duly sworn, deposes and states:

1. My name is David Murray. I am a Utility Regulatory Manager for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

David Murray
Utility Regulatory Manager

Subscribed and sworn to me this 5th day of November 2021.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI
TIFFANY HILDEBRAND
My Commission Expires
August 8, 2023
Cole County
Commission #15637121

Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2023.

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SURREBUTTAL TESTIMONY

OF

DAVID MURRAY

UNION ELECTRIC COMPANY d/b/a AMEREN MISSOURI

FILE NO. ER-2021-0240

Q. Please state your name and business address.

A. My name is David Murray and my business address is P.O. Box 2230, Jefferson City, Missouri 65102.

Q. Are you the same David Murray who previously field Direct and Rebuttal Testimony in this case?

A. Yes.

Q. What it the purpose of your testimony?

A. To respond to Company witnesses' Darryl T. Sagel's and Ann E. Bulkley's rebuttal testimonies as it relates to rate of return ("ROR") and capital structure. I will also address the rebuttal testimony of Staff witness Peter Chari.

Q. What are some important practical issues that you raised in your Direct Testimony that the Company did not address in their rebuttal testimony?

A. The Company ignored the following issues I raised in my Direct Testimony:

1. The fact that Ameren Illinois' and Ameren Missouri's cost of capital is very similar, which is easily determined by observing current yields on Ameren Missouri bonds and Ameren Illinois bonds. Based on latest bond yields on 30-year bonds issued by both Ameren Illinois and Ameren Missouri, the cost of capital is essentially the same for both companies; and
2. Considering the cost of capital for Ameren Missouri and Ameren Illinois is essentially the same, the fact that a higher allowed ROR for

investments in Ameren Missouri's integrated electric utility operations ("electric utility) will create more shareholder wealth than an investment in Ameren Illinois' electric transmission and distribution utility.

Q. In what order do you plan to address the issues raised in each of the witnesses' testimonies?

A. I will address capital structure first, which was the sole ROR issue addressed by Mr. Sagel. Ms. Bulkley also discusses Ameren Missouri's proposed capital structure as it relates to other capital structures within the industry. Mr. Chari also disagrees with the premise of using Ameren Corp as a proxy for a fair and reasonable ratemaking capital structure for Ameren Missouri.

I will then address Ms. Bulkley's and Mr. Chari's responses to my recommended allowed ROE of 9.0% for Ameren Missouri's integrated electric utility operations ("electric utility").

Q. Can you summarize the main points related to your disagreement with the other witnesses about an appropriate ratemaking capital structure to set Ameren Missouri's ROR in this case?

A. Yes. The other witnesses support the use of Ameren Missouri's per books capital structure. They maintain this is the appropriate ratemaking capital structure because, in their view, it is independently managed for its own benefit, and presumably for the benefit of Ameren Missouri's ratepayers. While I agree that Ameren Missouri's capital structure is carefully managed, it is managed for one primary purpose, achieving a constant 52% authorized equity ratio regardless of changes in business and economic conditions. This has become quite apparent since 2018. Even in light of Ameren Missouri's reduced business risk due to more favorable ratemaking mechanisms such as plant in service accounting ("PISA") and very favorable (i.e. low) debt costs, Ameren Missouri's equity ratio hasn't budged from the 52% target over the last ten years. Ratepayers footing the bill for a 52% equity ratio would be less egregious if Ameren Corp targeted this more

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conservative level for itself, but instead, it has become more aggressive in issuing debt since 2018.

My response to the other witnesses' capital structure arguments will show that Ameren Missouri's capital structure has not been managed for its own best interests and for the best interests of its ratepayers. Ameren Missouri's ratepayers are paying for the costs of more shareholder friendly ratemaking mechanisms, but not receiving the benefit of the lower-cost capital structure they support (i.e. higher debt capacity).

DARRYL T. SAGEL'S REBUTTAL TESTIMONY

Q. Does Mr. Sagel admit that since Ameren Missouri was allowed to PISA subsequent to the passage of Senate Bill ("SB") 564, Ameren Corp's debt capacity has increased?

A. Yes, but it is his position that this is only one factor Moody's considered in lowering Ameren Corp's funds from operations to debt ("FFO/debt")[1] downgrade threshold to 17% from 19%. Mr. Sagel indicates Ameren Corp's increased debt capacity was also due to "a strong track record of strategy execution within the supportive regulatory frameworks of Ameren Corporation's subsidiaries, Ameren Illinois and ATXI."[2]

Q. Did Moody's lower its FFO/debt downgrade threshold for its other operating subsidiaries, Ameren Illinois or ATXI?

A. Not that I am aware.

Q. Is it logical for the operating subsidiaries, which directly own the assets, not to have increased debt capacity due to supportive regulatory frameworks?

A. No.

[1] Although there are subtle differences between Moody's CFO Pre-WC/Debt ratio and an FFO/debt ratio, I will generally refer to Moody's CFO Pre-WC/Debt ratio as "FFO/debt," which is similar to Mr. Sagel's reference to such in his rebuttal testimony.
[2] Sagel Rebuttal, p. 29, lns. 4-6.

Q. Then why would Moody's lower Ameren Corp's downgrade threshold rather than for each of the "independent" subsidiaries?

A. Because the officers who are representing Ameren Corp, Ameren Missouri, Ameren Illinois and ATXI when interacting with the rating agencies are acting as a fiduciary for Ameren Corp rather than each of its subsidiaries, including Ameren Missouri.

**Q. Mr. Sagel indicates that Moody's rejected Ameren Corp's management's argument to ** **

****[3] Is Mr. Sagel's recollection of these events accurate?**

A. No. **

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[3] *Id.,* p. 21, lns. 6-10.

Q. Has Ameren Corp taken advantage of this lower downgrade threshold in its financing strategies?

A. Yes. Since 2019, Ameren Corp has doubled the percentage of holding company debt it uses to finance its subsidiaries.

Q. Has Ameren Corp shared this lower cost of capital with Ameren Missouri's ratepayers by lowering the equity ratio it requests the Commission apply its authorized ROE?

A. No.

Q. Are you aware of other companies the Commission should consider when evaluating Ameren Corp's arguments that Ameren Missouri's assets cannot support more debt and lower FFO/debt ratios?

A. Yes. The Commission should consider the ratings treatment given to Missouri's other major electric utility companies, Evergy Metro and Evergy Missouri West.

Q. What is Evergy Metro's current Moody's rating?

A 'Baa1,' which is the same as Ameren Missouri's.

Q. What have Evergy Metro's FFO/debt ratios been the last three years?

A. 18.8% in 2020, 17.8% in 2019, and 18.7% in 2018.[4]

Q. Has Evergy Metro been placed on a "negative watch" or even a more general "negative outlook" because its FFO/debt ratios have been below the 19% threshold Mr. Sagel claims Ameren Missouri is required to maintain to avoid being downgraded by Moody's?

A. No. Evergy Metro currently has a "stable outlook" despite its FFO/debt ratio being below 19% for the last three years. Moody's indicates that it expects Evergy Metro's FFO/debt ratios to be in the "high teens" for the next 12-18 months. Moody's indicates it may consider a downgrade if Evergy Metro's FFO/debt falls below 18% on a sustained basis.

[4] Moody's Credit Opinion, Evergy Metro Inc., April 29, 2021, Exhibit 2, p. 3.

Q. Are you aware of any compelling reasons why Moody's should view Evergy Metro's financial risk thresholds differently than Ameren Missouri's?

A. No.

Q. What was Evergy Metro's last authorized capital structure for purposes of setting its allowed ROR?

A. In Evergy Metro's (f/k/a Kansas City Power & Light Company) last fully litigated rate case, Case No. ER-2016-0285, the Commission authorized Evergy Metro a ratemaking capital structure consisting of 49.2% common equity and 50.8% long-term debt.

Q. Was Evergy Metro placed on a "negative watch" or "negative outlook" after the Commission Order?

A. No.

Q. Did Evergy Metro recommend an equity ratio similar to that which the Commission authorized?

A. Yes. Evergy Metro recommended a common equity ratio of 49.72%.

Q. Mr. Sagel warns of potential negative credit and cost of capital ramifications if the Commission were to authorize Ameren Missouri a lower common equity ratio than that shown on Ameren Missouri's books.[5] Did Ameren Corp use the same strategy when disputing a lower authorized common equity ratio for its subsidiary, Ameren Illinois?

A. Yes. Ameren Corp used the same strategy. In testimonies filed in Ameren Illinois rate cases, Ameren Illinois witnesses recommended and vigorously defended the use of Ameren Illinois' actual capital structure, which contained a common equity ratio as high as 54.279% in Docket No. 12-0001.[6] The arguments in the Ameren Illinois rate cases were

[5] Sagel Rebuttal, p. 23, ll. 1-14.
[6] Illinois Docket No. 12-0001, Schedule D-1 Sponsored by Ryan J. Martin

quite similar to those in this case. Ameren Illinois' witnesses indicated Ameren Illinois had to maintain a higher common equity ratio in order to offset higher business risks associated with the Illinois regulatory environment.[7]

Q. What equity ratio did the Illinois Commerce Commission (ICC) Staff witness recommend in that case?

A. 51.49%.

Q. What did the ICC authorize?

A. 51.49%

Q. What common equity ratio did Ameren Illinois recommend in Docket No. 13-0301?

A. 54.62%.

Q. What common equity ratio did the ICC Staff recommend?

A. 51%.

Q. What was the premise for ICC Staff's recommended common equity ratio?

A. Ameren Corp's average consolidated common equity ratio for 2011.

Q. What common equity ratio did the ICC authorize in that case?

A. 51%.

Q. What common equity ratio did Ameren Illinois recommend in Docket No. 14-0317?

A. 51%.

[7] Illinois Docket No. 12-001, Ryan J. Martin Rebuttal Testimony, p. 5, l. 97 through p. 6, l. 116.

Q. What about the ICC Staff?

A. 51%.

Q. Why did they recommend the same common equity ratio?

A. Because the ICC Staff and Ameren Illinois agreed to use a 51% common equity ratio for purposes of that case.

Q. Did they agree to use this equity ratio in subsequent cases?

A. No. They agreed to use a 50% common equity ratio, which was later codified into law.

Q. Over the period of all of these cases in which Ameren Illinois' fair and reasonable ratemaking capital structure was debated and decided by the ICC, were Ameren Illinois' credit ratings put on a negative outlook or watch?

A. No.

Q. Are you surprised management only lobbied to have Ameren Corp's credit metrics relaxed, but not Ameren Missouri's?

A. No.

Q. Why?

A. Because Ameren Corp's and Ameren Missouri's officers and directors often serve in multiple and revolving functions/positions within the Ameren Corp family of companies.

Q. What is Mr. Sagel's position with Ameren Missouri?

A. He is the Vice President and Treasurer.

Q. Does Mr. Sagel hold this same position with Ameren Corp and its subsidiaries?

A. Yes. Mr. Sagel is Vice President and Treasurer for Ameren Corp, Ameren Illinois and Ameren Transmission Company of Illinois (ATXI).

Q. Do you have concerns about Mr. Sagel's lack of bargaining for Ameren Missouri's financial interest?

A. Yes. The fact that Mr. Sagel seems to simply accept that Ameren Missouri has not received any credit for its reduced business risk profile is disturbing. It certainly illustrates to the extent Ameren Missouri does have its own board of directors ("BOD") and officers, they clearly are not looking out for Ameren Missouri's financial interest and the interest of its customers. If Ameren Missouri's interest, and that of its ratepayers, were being protected, then Ameren Missouri's officers would have bargained for Ameren Missouri's rightful debt capacity. As I will demonstrate later, this is even more concerning considering the fact that Ameren Missouri's cash flows have supported Ameren Corp's ability to finance its investments in its other subsidiaries as well as paying dividends to Ameren Corp's shareholders over the last several years.

Q. What evidence do you have that Ameren Missouri's officers have not bargained for its own independent interests?

A. Ameren Corp's December 17, 2018 presentation to Moody's (Schedule DM-S-1) clearly shows that ** ____________________

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Q. How do you know Ameren Missouri's reduced business risk resulted in a lower FFO/debt threshold for Ameren Corp?

A. Because Ameren's management made this argument to Moody's in order to convince them that Ameren's FFO/debt threshold should be reduced. Ameren indicated the following during the Ameren Corp Finance Committee Meeting on February 7, 2019:

> ** ____________________
> ____________________

> ______________________________
> ______________ **[8]

Ameren also indicated the following during it Financing Committee Meeting on May 2, 2019:

> **______________________________
> ______________________________
> ______________________________
> ______________________________
> ______________ **[9]

Q. Did Ameren Missouri make a case for a lower FFO/debt threshold for purposes of the credit rating Moody's assigns to Ameren Missouri's debt?

A. I found no evidence of Ameren Corp performing an analysis on Ameren Missouri's behalf, or Ameren Missouri performing this analysis on its own behalf, to compare Ameren Missouri's FFO/debt metrics to that of its peers in order to attempt to persuade Moody's to reduce Ameren Missouri's FFO/debt threshold.

Q. Who presented information to the rating agencies on behalf of Ameren Corp, Ameren Missouri, and Ameren Illinois?

A. According to a December 2018 rating agency presentation, Marty Lyons, Bruce Steinke and Darryl Sagel provided the presentation to the rating agencies.

Q. Were these individuals officers of Ameren Corp at the time?

A. Yes. Marty Lyons was Executive Vice President and Chief Financial Officer; Bruce Steinke was Senior Vice President, Finance and Chief Accounting Officer; and Darryl Sagel was Vice President and Treasurer.

[8] Ameren Corp's Finance Committee Meeting, February 7, 2019, p. 24.
[9] Ameren Corp's Finance Committee Meeting, May 2, 2019, p. 87

Q. Did they serve in the same capacity for Ameren Missouri and Ameren Illinois at the time?

A. Yes.

Q. Are these individuals employed by Ameren Corp?

A. No. Ameren Services Corporation employs each of these individuals.

Q. Were any officers solely representing Ameren Missouri for purposes of the rating agency presentation?

A. No.

Q. What do you conclude based on this information?

A. The only way to ensure Ameren Missouri's ratepayers are given their due consideration for providing the Company more certain cost recovery from PISA, which allows for higher debt capacity, is to adjust Ameren Missouri's common equity ratio to be consistent with that of Ameren Corp's on a consolidated basis. This is the level at which Ameren Corp is balancing its business risk and financial risk to achieve a lower cost of capital and still maintain a reasonably stable investment grade credit rating. Adopting a capital structure consistent with Ameren Corp's consolidated capital structure ensures Ameren Missouri's ratepayers receive the benefit of the additional debt capacity made possible by SB 564. Although Mr. Sagel acknowledges that SB 564 was at least the tipping point for Ameren Corp being allowed a more leveraged profile, he stands firm in not giving any consideration to Ameren Missouri's customers in the form of a more leveraged and cost efficient capital structure. In my opinion, this is one of the clearest examples of the need for the Commission to assert its authority to ensure a fair and reasonable outcome for ratepayers. Otherwise, Ameren Corp's shareholders are unfairly enriched through the use of Ameren Missouri's ratepayer supported debt capacity.

Q. Are there other reasons as to why the Companies' officers haven't bargained to have Ameren Missouri's FFO/debt thresholds reduced?

A. Yes. Ameren Missouri's FFO/debt ratios have typically been more consistent with that of an 'A' rated credit rather than a 'Baa' credit.[10]

Q. What Stand-Alone Credit Profile ("SACP") did S&P assign to Ameren Missouri in past?

A. Until September 2019, S&P assigned Ameren Missouri a SACP of an 'A-', but it was ultimately assigned a 'BBB+' due to its affiliation with Ameren Corp.

Q. What was the primary cause for S&P assigning Ameren Missouri a stronger SACP?

A. Because of Ameren Missouri's healthier financial risk profile, e.g. higher FFO/debt ratios. However, because Ameren Corp did not have as strong of a financial risk profile ("FRP"), Ameren Missouri's S&P credit rating was limited to a 'BBB+'.

Q. Did Ameren Missouri's stronger FRP provide credit support to Ameren Corp while it financially supported ATXI and AIC?

A. Yes. During the period in which Ameren was supporting investment in ATXI and AIC, Ameren Missouri's FFO/debt ratios were around 24% or higher, which was significantly above the 19% FFO/debt threshold required to maintain a 'Baa1' credit rating. Ameren Missouri could have issued more debt during this period and still had a comfortable FFO/debt margin above 19%. However, if Ameren Missouri had done so, it would have caused Ameren Corp's consolidated FFO/debt ratio to be lower. Maintaining a higher FFO/debt ratio at Ameren Corp over this period was important for Ameren Corp because it was regularly accessing the capital markets, such as to issue commercial paper, in order to fund investment in ATXI, which required significant amounts of capital. After accumulating a significant amount of short-term debt at Ameren due to its investment in ATXI and its refinancing of a $425 million long-term bond, Ameren Corp issued $700

[10] Moody's Credit Opinion, Union Electric Company, September 13, 2021, p. 8.

million of bonds in 2015, which was a year in which Ameren Missouri had a FFO/debt ratio of 26.7%[11]. This compared to Ameren Corp's consolidated FFO/debt ratio of 24.4% during the same year.[12]

Q. Staff witness Mr. Chari claims that if Ameren Missouri's capital structure was managed to a 45% common equity ratio, it may impair Ameren Missouri's credit ratings because it would increase Ameren Missouri's FRP.[13] Does Mr. Chari provide support for his view?

A. Not really. Mr. Chari indicates that if Ameren Missouri's capital structure were managed to a 45% common equity ratio this "might mean that Ameren Missouri's FRP would worsen and jeopardize its current credit ratings, and subsequently lead to an increase it its cost of capital."[14]

Q. What FRP does S&P assign to Ameren Corp at the 45% equity ratio it targets for its own consolidated capital structure?

A. 'Significant.'[15]

Q. What FFO/debt ratios does S&P project over the next three years for Ameren Corp on a consolidated basis?

A. 15% to 17%.[16]

Q. What FFO/debt ratio does S&P project over the next three years for Ameren Missouri?

A. 18% to 22%.[17]

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[11] Moody's Credit Opinion, Union Electric Company, March 29, 2019, Exhibit 2, p. 2.
[12] Moody's Credit Opinion, Ameren Corporation, March 29, 2019, Exhibit 2, p. 2.
[13] Chari Rebuttal, p. 20, l. 18 – p. 21, l. 2.
[14] *Id.,* p. 20, lns. 19-21.
[15] S&P Global – RatingsDirect, Ameren Corp, April 27, 2021, p. 14.
[16] *Id.*, p. 6.
[17] S&P Global – RatingsDirect, Union Electric d/b/a Ameren Missouri, April 27, 2021, p. 5.

Q. If Ameren Missouri had a higher percentage of debt in its capital structure, would this cause Ameren Corp's consolidated financial risk to increase to a level that may cause a downgrade to Ameren Corp's credit rating?

A. Yes. However, it is fully within Ameren Corp's control to reduce the amount and percentage of holding company debt to fairly share the debt capacity supported by Ameren Missouri's ratepayers through more favorable ratemaking mechanisms, which provide more certain recovery and reduced regulatory lag. If Ameren Corp reduces the holding company debt by the same amount of the increase in Ameren Missouri's' debt, Ameren Corp's consolidated capital structure would not change.

Q. Did Mr. Sagel provide a quantification of the potential impact the Commission's adoption of your capital structure recommendation would have on Ameren Missouri's FFO/debt ratios?

A. Yes. Mr. Sagel estimates that if Ameren Missouri's revenue requirement in 2020 had been premised on my recommended capital structure containing a 45% common equity ratio, this would have reduced Moody's FFO/debt ratio to 15.2% from 18.9%.[18]

Q. Do you dispute Mr. Sagel's estimate of the pro forma impact your recommended ROR would have on Ameren Missouri's 2020 FFO/debt ratio?

A. No. Assuming the same ROE (9.5%) is applied to Mr. Sagel's recommended capital structure compared to my recommended capital structure, this causes a $49.3 million difference in revenue requirement for both Ameren Missouri's gas and electric rate cases. Assuming Ameren Missouri then issues an additional $768.2 million in long-term debt to target a 45% common equity ratio, then this would create additional after-tax interest expense of approximately $21.2 million if this debt has the same embedded cost as Ameren Missouri's current debt outstanding (3.85%). However, as I explained in my direct testimony,[19] the likely cost of new debt for Ameren Missouri would closer to 2.88%. But

[18] Sagel Rebuttal, p. 36, l. 1 – p. 37, l. 8.
[19] Murray Direct, p. 41, ll. 1-9.

this lower interest expense would only cause Mr. Sagel's FFO/debt ratio to increase by $1/10^{th}$ of a percent (15.3% vs. 15.2%).

Q. What was Ameren Missouri's FFO/debt ratio for the last twelve months through June 30, 2021?

A. 14.8%.[20]

Q. Did Moody's downgrade Ameren Missouri or put it on a negative outlook as a result of this lower FFO/debt ratio?

A. No. Moody's indicated because Ameren Missouri's lower FFO was due to higher fuel costs and power purchases that are recoverable through the fuel adjustment clause (FAC) and the purchased gas adjustment (PGA) regulatory rate recovery mechanisms (i.e. lower business risk), it was not concerned about the long-term expectations of an FFO/debt in the low 20% range.[21]

Q. If the Commission set Ameren Missouri's ROR based on your recommended capital structure, what impact would the approximate 3.5% to 4.0% reduction to Ameren Missouri's FFO/debt ratio have on Ameren Missouri's projected FFO/debt ratios?

A. They would be in the 18.5% to 19.5% range over the next several years, which is above the lower threshold of 17% Moody's set for Ameren Corp. to maintain its 'Baa1' rating.

Q. Would this not cause Ameren Corp's FFO/debt ratios to fall below 17%?

A. Only if Ameren Corp maintains the current proportion of holding company debt in its consolidated capital structure.

[20] Moody's Credit Opinion, September 13, 2021, p. 6.
[21] *Id.*

Q. Has Ameren Corp's other financial interests impaired Ameren Missouri's financing flexibility in the past?

A. Yes. There is no doubt that Ameren Corp's financing and business risks have impacted Ameren Missouri's financing flexibility in the past. Ameren Missouri's was foreclosed access to commercial paper markets in August 2008 due to its Moody's short-term credit rating being downgraded to P-3. Ameren Missouri's short-term rating was downgraded due to Moody's downgrading Ameren Corp' long-term rating to 'Baa3'. This downgrade was primarily caused by financial difficulties at Ameren Missouri's affiliates. Because S&P already rated Ameren Corp at a 'BBB-', which meant Ameren Missouri was also rated 'BBB-', Ameren Missouri had an A-3 short-term rating. These Tier-3 short-term ratings foreclosed Ameren Missouri's access to short-term credit markets, which proved to be quite costly to Ameren Missouri ratepayers because of liquidity concerns. Ameren Missouri ratepayers were charged for carrying costs due to the delay in construction at Ameren Missouri's Sioux Scrubber plants.

Q. How do you know these downgrades foreclosed Ameren Missouri's ability to access commercial paper?

A. Because Kansas City Power & Light Company had at least one Tier-2 rating, it was able to continue to issue commercial paper to fund its power plant construction at the time.

Q. Are you attempting to reopen an issue that was resolved in Case No. ER-2011-0028?

A. No. I am simply providing this testimony to illustrate the hypocrisy of Mr. Sagel's expressed concerns about Ameren Missouri's ratepayers paying a higher ROR to provide financial stability for a parent company that hasn't always reciprocated. If Ameren Corp wants Ameren Missouri's equity ratio to be set around 52%, then Ameren Corp should issue more equity and less debt in order achieve an equity ratio more consistent with the 52% it apparently considers important to maintain financial flexibility.

Q. Mr. Sagel indicates that you have not provided sufficient proof that Ameren Missouri's cost of debt has declined due to the passage of SB 564.[22] Did Mr. Sagel correctly interpret your testimony with this statement?

A. No. My argument is that Ameren Missouri's regulated utility assets can support a greater portion of debt in its capital structure than it has in the past. Ameren Missouri's lower business risk creates additional debt capacity while still being able to maintain the same credit rating. I argue that the reduced business risk ultimately supported by ratepayers allows for a lower cost of capital due to higher debt capacity. This benefit should be shared with ratepayers in the form of a more leveraged ratemaking capital structure. Being that debt has a much lower cost than equity, this would result in a lower cost of capital charged to Ameren Missouri ratepayers. It is not fair to keep Ameren Missouri's equity ratio constant over time when there have been fundamental changes to Ameren Missouri's ability to recover investments through the PISA tracker and RESRAM rider. This unfairness is magnified due to the fact that Ameren Corp is using this reduced business risk to support the issuance of more holding company debt to leverage shareholder returns.

Q. Mr. Sagel discusses Moody's concerns about the strain the Tax Cut and Jobs Act ("TCJA") could have on the utility industry's credit metrics such as the FFO/debt ratio. He indicates that the Commission can help support Ameren Missouri's ability to retain its current credit ratings by authorizing its requested higher equity ratio of 51.93%.[23] How do you respond to Mr. Sagel's plea?

A. It is offensive. First, it is noteworthy that it has been 3-4 years since the TCJA was passed and dealt with in regulatory proceedings with the Commission. Second, it is hypocritical to request Ameren Missouri's ratepayers to pay a higher amount of net income on a more conservative 52% common equity ratio, while at the same time Ameren Corp's more aggressive use of holding company debt has lowered its common equity ratio to 45% from approximately 50% in prior years. Mr. Sagel indicates that on November 9, 2019, Moody's changed its outlook for the utility industry to "stable" from "negative" as a result of the

[22] Sagel Rebuttal, p. 23, l. 15 – p. 24, l. 6.
[23] Id., p. 24, l. 7 – p. 25, l. 10.

"implementation of more proactive regulatory and **financial** actions to address sector cash flows following the passage of the TCJA, with regulatory actions including increased authorized equity layers" (emphasis added). While the Commission may certainly be supportive by authorizing a reasonable common equity ratio for ratemaking, it should require Ameren Corp to demonstrate more conservative financial policies before it does so. Instead of being more conservative to promote financial stability since the passage of the TCJA, Ameren Corp has been more aggressive with its use of holding company debt to leverage shareholder returns.

Q. Does the use of holding company debt cause financial instability of the entire family of companies?

A. Yes. S&P RatingsDirect is very clear that it does not consider Ameren Missouri as having significant insulation mechanisms in place to allow it to have a separate and distinct credit rating from Ameren Corp. Therefore, Ameren Corp's financial and business risks impact the rating S&P assigns to Ameren Missouri.

Q. Have other jurisdictions denied proposed acquisitions due in part to the financial instability that would be caused by issuing too much holding company debt to fund the acquisition?

A. Yes. This was one of the factors cited by the Kansas Corporation Commission's (KCC) in its disapproval of Great Plains Energy's proposed acquisition of Westar Energy.

Q. What was the final outcome of the proposed transaction between Great Plains Energy and Westar Energy?

A. They restructured the proposed transaction as a merger of equals ("MOE"), which is essentially a transaction in which each company's shareholders swap their shares for a pro-rated ownership interest in the combined company. Unlike the initial proposed transaction, this type of transaction did not involve use of leverage at the holding company.

Q. Did the KCC impose any conditions on the merger to control the potential of Evergy issuing a disproportionate share of holding company debt to leverage its returns after the transaction was completed?

A. Yes. A condition of the KCC's approval of the merger was to institute an Earnings Review and Sharing Plan ("ERSP"). The KCC understood that the newly formed entity, Evergy, could attempt to keep more earnings by using more leverage at the holding company level as compared to its subsidiaries. Consequently, to the extent Evergy's consolidated common equity ratio was lower than its subsidiaries' common equity ratios by 2.5% to 3.5%, the percentage of equity allowed to be counted for the ERSP would be reduced by a proportionate amount.

Q. How much lower is Ameren Corp's equity ratio compared to Ameren Missouri's common equity ratio?

A. Since September 30, 2020, Ameren Corp's equity ratio has been 7.29% to 8.2% lower than Ameren Missouri's common equity ratio.

Q. What common equity ratio did the KCC allow Evergy's subsidiaries for purposes of the ERSP?

A. 51% in 2019, 50.5% in 2020 and 50% in 2021 through 2022.

Q. What common equity ratios has Evergy had over for the past year?

A. Evergy's common equity ratios have been in the range of 47% to 48%.

Q. What is Ameren's consolidated common equity ratio?

A. Around 42% to 43%.

Q. Mr. Sagel takes issue with your suggestion that equity investors now view Ameren as a "premium utility," and whether this resulted in Ameren Corp realizing a lower cost of common equity. Do investors view Ameren Corp as a premium utility?

A. Yes. This has been due to a combination of higher expected growth and a lower risk profile. In my Direct Testimony, I provided several examples of equity analysts views of Ameren's investment profile, which has caused them to assign higher valuation multiples to earnings generated by each of Ameren's subsidiaries-Ameren Missouri, Ameren Illinois and ATXI.

Q. Mr. Sagel testifies that equity infusions in Ameren Missouri are traceable to Ameren external equity issuances, and therefore because this is the capital that supports Ameren Missouri's rate base, this is the capital structure that should be used for the authorized ROR.[24] First, do you agree that tracing the capital to external issuances should be the determining factor of a fair and reasonable capital structure?

A. No. Ameren's equity issuances benefit the entire family's credit profile, not just that of Ameren Missouri. A recognized principle of finance is that the source of the funds does not define the cost of capital, the risk of the investment does. Based on Mr. Sagel's logic, if Ameren Corp only sourced third-party equity for equity infusions into Ameren Missouri, but issued holding company debt to infuse equity into its other subsidiaries, only Ameren Missouri's capital structure would be legitimate. It is this type of logic that supports S&P's family ratings approach to assigning credit ratings based on the parent company's consolidated credit profile.

[24] Sagle Rebuttal, p. 9, lns. 14-16.

Q. Mr. Sagel indicates that your direct testimony suggests that Ameren Missouri's dividend payout policy should be similar to Ameren Corp's.[25] Did he interpret your testimony correctly?

A. No. My testimony indicated that if Ameren Missouri were managed as if it were a stand-alone entity, it would have a carefully managed dividend payment policy, similar to how Ameren manages its targeted dividend payout ratio in the range of 55% to 70%.

Q. If Ameren Missouri had been managed as a stand-alone entity, based on Ameren's own internal dividend strategy whitepapers, what would its targeted payout ratio have been over the last ten years?

A. Being that Ameren Missouri only grew its rate base by 2.2% to 3% over the last ten years, it would only need to retain 68% to 77% of its EPS to have sufficient internal equity capital to fund its investment and maintain a balanced capital structure. Because Ameren Missouri had only been minimally reinvesting in its system, it would have made no sense to retain a higher amount of capital. Therefore, if Ameren Missouri were managed as a stand-alone entity, it would not accumulate excessive amounts of equity as Mr. Sagel suggests because the Company simply wouldn't have the need for retaining this equity. The most appropriate dividend policy for Ameren Missouri over this period would be to target a dividend payout ratio of around 75%.

Q. Doesn't this prove Mr. Sagel's argument that deploying Ameren Missouri's excess capital to Ameren Corp's other subsidiaries and for dividend payments to Ameren shareholders was an efficient use of capital?

A. Yes. My point was not that Ameren Missouri should retain capital if it is not reinvesting. I was simply indicating that if Ameren Missouri was managed as a stand-alone company responsible to outside investors, these investors would demand a consistent dividend payment with the possibility for a little growth. If this were the case, Ameren Missouri could not pay Ameren Corp $430 million in dividends in 2019 and then reduce the dividend

[25] Sagel Rebuttal, p. 11, ll 12-15

payment to $66 million the very next year (2020). Instead, Ameren Missouri would not only have been required to provide its shareholders a consistent dividend that represented around 75% of its earnings over annual periods, but it would also have been compelled to pay a quarterly dividend consistent with its DPS commitment, which may have required Ameren Missouri to issue short-term debt to fund such dividends during quarters in which there was lower cash available from operations.

Q. Mr. Sagel discusses market responses to the Commission's deliberations in the Spire Missouri gas rate cases, GR-2017-0215 and GR-2017-0216, to attempt to justify why the Commission should accept Ameren Missouri's proposed capital structure.[26] Do you think this should be the Commission's primary focus?

A. No. While even as a consumer advocate witness, I do consider the potential impact on a company's investors in my recommendations; a negative stock price reaction is not proof of a bad Commission decision. Investors' expectations are impacted by many different factors, with anticipated Commission decisions being one of the primary factors. As I explained in my Direct Testimony, investors price in the probability that utility companies may have their authorized ROEs reduced due to persistently low long-term interest rates. However, the company guidance greatly influences investors' expectations. For example, many companies, including Ameren Corp, provide investors earnings guidance. Ameren Corp has consistently communicated to investors that it expects a long-term CAGR in EPS of approximately 6-8% based on a 2018 normalized EPS. However, this earnings guidance has many assumptions underlying it. The key factors typically influencing the earnings guidance of a pure-play regulated utility such as Ameren are anticipated rate base growth, the probability of recovery of this increased investment, and the parameters applied to the rate base for purposes of allowed returns (which include an assumed capital structure and potential allowed ROEs). ** ____
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____________________ ** Consequently, to the extent Ameren Corp's earnings guidance

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[27] Bulkley Rebuttal, p. 11, lns. 1-4.

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assumes shareholder friendly regulatory outcomes, it should not be surprising when stock prices react negatively to an outcome that considers ratepayers' interests.

ANN E. BULKLEY'S REBUTTAL TESTIMONY

Q. What is your response to Ms. Bulkley's view that Ameren Missouri's proposed equity ratio is reasonable because it is within the range of authorized equity ratios?[27]

A. I provided information about authorized equity ratios for other companies in Missouri, which in Evergy Metro's case was consistent with that which the company recommended, and also in Kansas and Illinois. Although a 52% equity ratio may be within average authorized equity ratios, the primary evidence that should be considered is the interrelationship and comparison of Ameren Missouri's capital structure to that of its parent company. Based on this evidence, Ameren Missouri's request equity ratios of ~52% is unreasonable.

Q. Ms. Bulkley claims that you abandoned/discarded your COE estimates for purposes of your recommended allowed ROE range of 8.5% to 9.25%, point recommendation of 9.0%.[28] Is this an accurate representation of your testimony?

A. No. My recommended authorized ROE of 9.0% takes into consideration many different factors. A fundamental principle of shareholder value creation is for a company to invest in projects that allow the company to at least earn its cost of capital. An allowed ROE of 9.0% allows for a margin of approximately 225 basis points over my estimate of Ameren Missouri's COE in the range of 6.5% to 7.0%. I am aware investors have become accustomed to regulators allowing utility companies returns that are higher than their cost of capital. In fact, some investors, such as Evercore ISI, use investment models that assume that regulators currently allow an ROE to COE spread of approximately 440 basis points (9.75% ROE – 5.35% COE), but will eventually reduce the spread to a range of 225 to 285

[27] Bulkley Rebuttal, p. 11, lns. 1-4.
[28] Bulkley Rebuttal, p. 4, lns. 4-8, p. 13, lns. 17-19 and p. 51, lns. 7-9.

basis points as either the COE increases, the allowed ROEs decrease or a combination of both.[29]

The fact that the COE for utilities is this low establishes the reasonableness of my recommended authorized ROE, which actually allows Ameren Missouri to increase shareholder value above the classic economically efficient amount, which is at least theoretically supposed to be no greater than the value created from earning a return consistent with the cost of capital. Regardless, my determination that the COE is much lower than Ameren Missouri's last authorized ROE of 9.53% provides support for reducing Ameren Missouri's authorized ROE. However, I also understand from past Commission decisions that the Commission has set a zone of reasonableness ("ZOR") that has generally been 100 basis points (1%) above and below recent average authorized ROEs. Recent average authorized ROEs have been around 9.5% or a bit lower. Therefore, this established the low end of my recommended authorized ROE range because the Commission has indicated it won't consider anything below this level.

Q. Ms. Bulkley suggests that you should have reconsidered the validity of the inputs and assumptions you used in your analysis considering your COE estimates are so much lower than the average level of ROEs authorized around the country.[30] What appears to be the underlying assumption that Ms. Bulkley considers fact when making this criticism?

A. Ms. Bulkley's position assumes that commission authorized ROEs reflect investors' required returns for providing utilities' equity capital. I do not agree with Ms. Bulkley. More importantly, investors do not agree with Ms. Bulkley. However, I do agree that investors expect commissions to continue to authorize ROEs higher than the COE.

[29] Durgesh Chopra and Michael Lonegan, "On the Heels of Deals, A Look at Utilities M&A" Evercore ISI, October 31, 2021, p. 5.
[30] Bulkley Rebuttal, p. 15, ll. 12-14.

Q. Following Ms. Bulkley's logic related to her testimony that because authorized ROEs are so much higher than your COE estimates, do you have any suggestions for Ms. Bulkley for purposes of testing the reasonableness of her inputs and assumptions?

A Yes. I'd suggest she review the specific utility investor reports I reviewed to determine the assumptions they used when valuing utility stocks. I also suggest that she review Ameren Corp's own internal materials which discuss inputs and assumptions Ameren Corp consider reasonable when analyzing dividend strategies and capital structure management.

Q. Ms. Bulkley claims that you are incorrect in stating that investors expect authorized ROEs to be at risk due to continued low long-term interest rates. Did you provide corroborating investment materials to support your position?

A. Yes. I provided information from Evercore ISI and Wells Fargo.

Q. Did Ms. Bulkley provide corroborating support for her testimony that investors do not expect authorized ROEs to decline?

A. No. In response to OPC Data Request No. 3016, Ms. Bulkley indicated her testimony is based on her observations related to the typical correlation of utility stock valuations as it relates to changes in interest rates. Of course, her position assumes that projected increases in long-term interest rates aren't already factored into the price investors are willing to pay for utility stocks. The key determining factor of whether utility stock valuation levels will increase or decrease from current levels is not whether interest rates will increase, but whether they will be different from investors' expectations.

Q. What do you mean?

A. Current utility stock prices already reflect investors' expectations on potential changes in long-term rates. While it is fairly difficult to agree on the actual consensus expected long-term rate factored into current utility stock prices, investors are factoring in increases in long-term rates. For example, JP Morgan's recent regression analysis of utility forward P/E ratios to 10-year United States Treasury ("UST") yields indicates that current utility stock prices imply investors are factoring in a forward yield on the 10-year UST of approximately 5%.[31] This compares to the recent current 10-year UST yield of approximately 1.6%. Based on JP Morgan's analysis, if 10-year UST yields increase to less than 5%, this could allow for further expansion in utility P/E ratios, which is contrary to Ms. Bulkley's views.

Q. Does Ameren Missouri's own witness, Mr. Sagel, question anyone's ability to have the foreknowledge to accurately predict changes in interest rates?

A. Yes. Mr. Sagel claimed I do not have foreknowledge of interest rate changes and corporate debt markets over the next 10 to 30 years, a claim I do not dispute.[32] Consequently, I asked him if he was aware of anyone that he trusts to have this foreknowledge. He indicated he is "not aware of any individual with such foreknowledge." Mr. Sagel's statement is consistent with the efficient market hypothesis which dictates that current security prices, including UST bonds, reflect all potential changes in economic, monetary and fiscal policy changes in the future.

Q. What is the relevance of these issues as it relates to Ms. Bulkley's rebuttal testimony?

A. Ms. Bulkley appears to believe she has foreknowledge that isn't already priced into current security prices. This forms the basis for her opinion that a DCF analysis underestimates the cost of equity. It also forms the basis for her decision to use projected interest rates in her CAPM and Bond Yield Plus Risk Premium (BYPRP) analysis. She claims that these are factors that explain why my COE estimates are unreasonably low.

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[31] Jeremy Tonet, CFA, et. al., "North American Utilities – Thoughts Into 3Q Earnings: Summer Breeze Makes 3Q Feel Fine," October 21, 2021, p. 6.
[32] Sagel Rebuttal, p. 27, lns. 16-19.

Q. **

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[redacted]

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Q. What steady-state ROEs and payout ratios do investors assume for the electric utility industry?

A. 9% to 9.25% ROEs and payout ratios of 65% to 75%.[33]

<u>**PETER CHARI'S REBUTTAL TESTIMONY**</u>

Q. Staff witness Mr. Chari and Ms. Bulkley criticize your recommended ROE of 9.0% because they note that the COE has increased since the Commission determined an authorized ROE of 9.25% was reasonable for Empire. How do you respond?

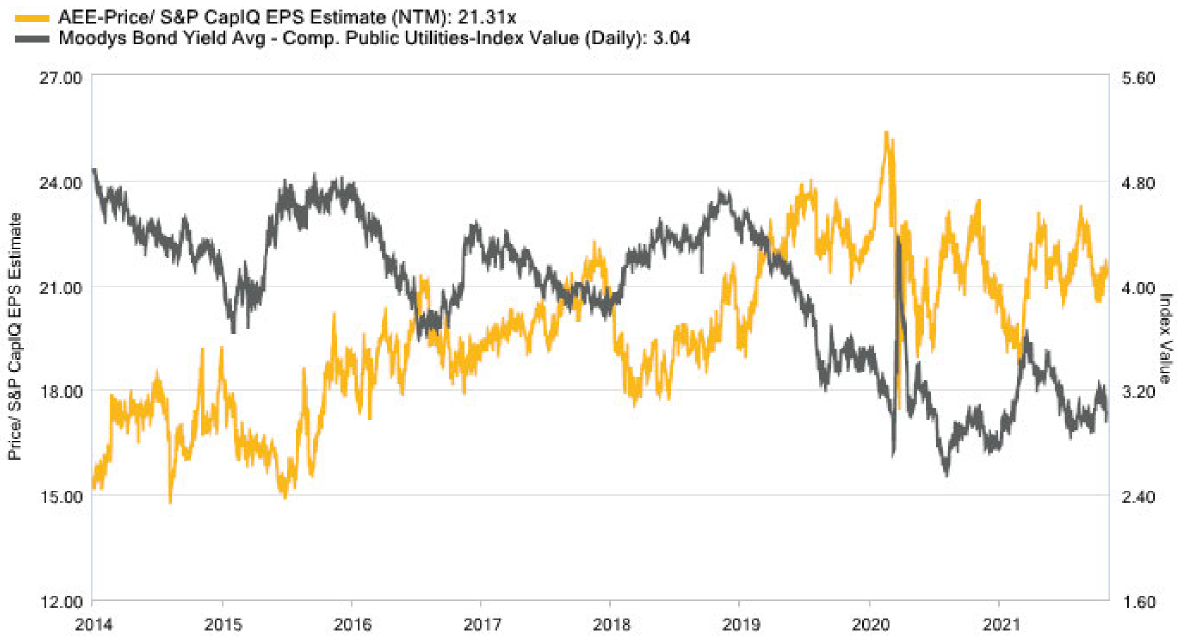
A. I obviously agree that the COE increased since I performed my COE analysis for Empire's and Ameren Missouri's rate cases in 2019. However, as I explained in those cases, electric utility stock valuation levels were at all-time highs at the time. Naturally, this translated into very low COE estimates. While it was certainly my opinion that this justified at least some consideration by the Commission for a lower ROE for Missouri's electric utilities, I also recognized that it is important to gradually reduce authorized ROEs rather than reducing them in one fell swoop.

Q. Mr. Chari suggests that because your COE estimates have increased since the Empire rate case, this supports authorizing Ameren Missouri an ROE of 9.5%. What is the problem with Mr. Chari's logic?

A. It fails to consider the longer-term trend in Ameren Missouri's cost of capital both due to macro trends and more investor friendly rate mechanisms. Ameren Missouri's current authorized ROE of 9.53% was decided in Case No. ER-2014-0258. Although the cost of capital was low at that time based on historical standards, it pales in comparison to today's capital markets. Additionally, Ameren Missouri's business risk has declined over this period. The below chart shows the change in Ameren Corp's P/E ratios and Moody's

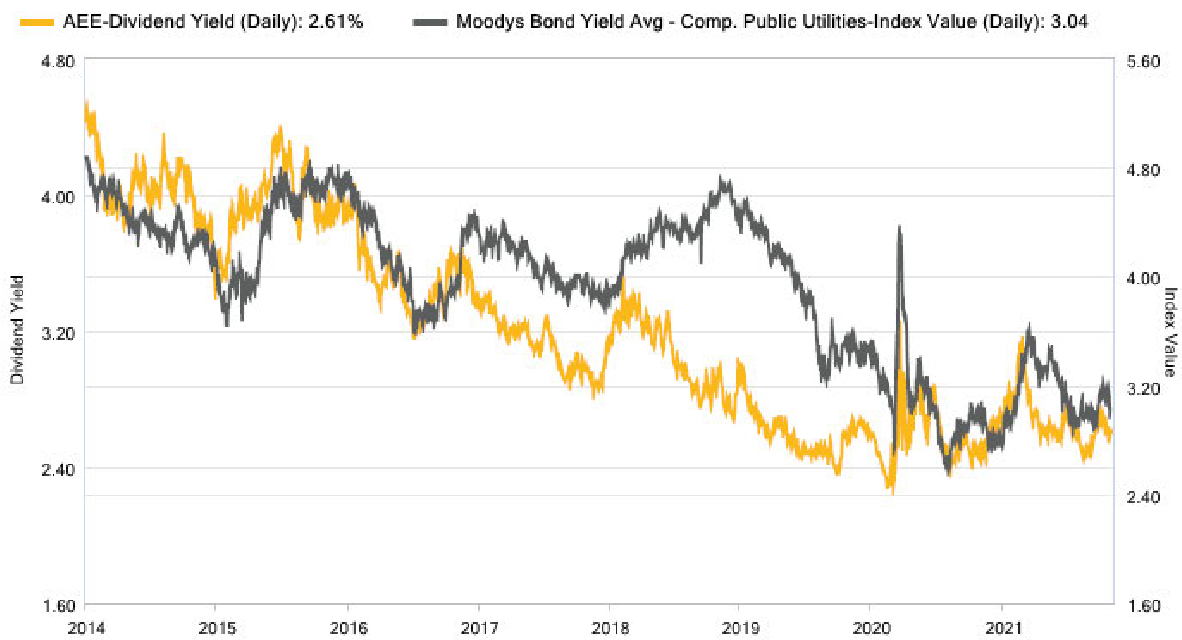
[33] Durgesh Chopra and Michael Lonegan, "On the Heels of Deals, A Look at Utilities M&A" Evercore ISI, October 31, 2021, p. 5 and Neil Kalton, et. al., "DDM Analysis Supports Sector Valuation & Quality/Growth Trade," August 19, 2019, Wells Fargo.

utility bond yields since January 1, 2014:



As is clearly shown in the above graph, during the period in which the Commission authorized Ameren Missouri an ROE of 9.53%, Ameren Corp's P/E ratio was in the 15x to 18x range and Moody's composite utility bond yields were in the 4% to 4.8% range. Now, Ameren Corp's P/E ratios are trading in the 21x to 22x range with Moody's composite utility bond yields in the 2.9% to 3.4% range. This clearly demonstrates that the current cost of capital is much lower than the 2015 time frame when the Commission deemed a 9.53% ROE fair and reasonable.

Another way observe the favorability of Ameren Corp's cost of capital is to observe the change in Ameren's dividend yield over the same period, which I provide in the following chart:



This chart makes it even more clear how closely Ameren Corp's stock valuation has been to changes in bond yields. Other than the period in 2019 when utility dividend yields actually declined while bond yields increased, the correlation has been quite high.

SUMMARY AND CONCLUSIONS

Q. Can you summarize your surrebuttal testimony??

A. Yes. This is not the first time Ameren Corp has tried to preserve a higher equity ratio at its regulated subsidiary after significant legislative strategies allowed for more favorable ratemaking. It is also not unique to compare the parent company's financing structure to that of its subsidiaries when evaluating a fair and reasonable ratemaking capital structure. The Commission need look no further than its two neighboring states, Illinois and Kansas, for some guidance on this issue. Illinois went as far as codifying a 50% ratemaking equity ratio into law, but not until after the ICC Staff stood its ground in arguing for a more reasonable common equity ratio than that shown in Ameren Illinois' "independently" managed capital structure. Kansas required a cap on equity ratios for purposes of

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approving the merger of equals transaction between Great Plains Energy and Westar Energy, with the cap being adjusted downward if the new holding company used too much leverage. As it relates to Missouri's ability to limit excessive common equity ratios, it is up to this Commission to do so in context of this rate case. Doing so will not cause a decline in Ameren Missouri's credit quality unless Ameren Corp refuses to offset this financial risk by reducing the amount of holding company debt in its capital structure.

Q. Does this conclude your testimony?

A. Yes.