Exhibit No.: 005P
Issue(s): Capital Structure
Witness: Darryl T. Sagel
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Union Electric Company
File No.: GR-2019-0077
Date Testimony Prepared: June 7, 2019

MISSOURI PUBLIC SERVICE COMMISSION

FILE NO.

GR-2019-0077

REBUTTAL TESTIMONY

OF

DARRYL T. SAGEL

ON

BEHALF OF

UNION ELECTRIC COMPANY

d/b/a AMEREN MISSOURI

****DENOTES CONFIDENTIAL INFORMATION****

St. Louis, Missouri
June, 2019

TABLE OF CONTENTS

REBUTTAL TESTIMONY

OF

DARRYL T. SAGEL

FILE NO. GR-2019-0077

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Darryl T. Sagel. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

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

A. I am employed by Ameren Services Company ("Ameren Services"), a wholly-owned subsidiary of Ameren Corporation ("Ameren"), as Vice President and Treasurer. I also serve as Vice President and Treasurer of Union Electric Company d/b/a Ameren Missouri ("Ameren Missouri" or "Company"). Ameren Services provides various corporate support services to Ameren's subsidiaries, including Ameren Missouri, such as accounting, legal, financial, and treasury services.

Q. Please describe your educational background and employment experience.

A. See my Statement of Qualifications attached as Appendix A to my rebuttal testimony.

II. PURPOSE OF TESTIMONY

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

A. The purpose of my rebuttal testimony is to respond to the Missouri Public Service Commission Staff ("Staff") Cost of Service Report ("Staff Report") submitted in this proceeding by the Missouri Public Service Commission (the "Commission"), as it relates to Staff's recommended capital structure for the Company presented by Staff witness Jeffrey Smith.

Q. Are you sponsoring any schedules in connection with your testimony?

A. Yes, I am sponsoring, and have attached to my rebuttal testimony, the following schedules, which have been prepared under my direction:

- Schedule DTS-R1 – Historical Ameren Consolidated Capital Structure
- Schedule DTS-R2 – Ameren Holding Company Historical Debt Balances (2013-2018)
- Schedule DTS-R3 – Peer Utility Regulatory Capital Structures

III. RESPONSE TO STAFF WITNESS JEFFREY SMITH'S DIRECT TESTIMONY RECOMMENDATION

Q. In the Staff Report, Mr. Smith intimates that Ameren Missouri's capital structure is not appropriate for ratemaking purposes in this proceeding due to Ameren's increased holding company leverage, and that rates should instead be based on a recommended 50% ceiling on Ameren Missouri's common equity ratio. Do you agree?

A. I strongly disagree with Mr. Smith's position. Ameren Missouri's actual capital structure is appropriate and reasonable for purposes of setting rates in this proceeding for the following reasons, each of which I will specifically address later in my rebuttal testimony:

- Ameren Missouri's financial profile, including its capital structure, is independently evaluated, developed and managed over time in a manner that appropriately considers its stand-alone financial health and risk profile, while ensuring timely access to both equity and debt capital at reasonable costs.

- Ameren Missouri's capital structure specifically and exclusively finances Ameren Missouri rate base, with parent company common equity infusions sourced from actual third-party common equity raised by Ameren, and long-term debt issued by Ameren Missouri and secured by Ameren Missouri's assets.
- The primary drivers of Ameren's more leveraged capital structure relative to Ameren Missouri's, including the divestiture of Ameren's merchant energy business and Ameren's investment support of electric transmission projects under the jurisdiction of the Federal Energy Regulatory Commission's ("FERC's") low-risk ratemaking framework within Ameren Illinois and Ameren Transmission Company of Illinois ("ATXI"), have actually improved Ameren's consolidated credit profile and have not resulted in any negative impact on Ameren Missouri's stand-alone credit profile.
- Ameren Missouri's proposed common equity ratio for ratemaking purposes of 51.84% projected as of May 31, 2019, is consistent with common equity ratios maintained by its utility peers and consistent with common equity ratios the Company has actually achieved over the past several years.
- Ameren Missouri's capital structure supports strong and stable investment grade credit ratings, allowing the Company to access debt capital at a

competitive cost through various market cycles, to the benefit of Ameren Missouri's customers. The arbitrary use of a "hypothetical" capital structure that incorporates an equity ratio below Ameren Missouri's actual equity ratio would weaken the Company's credit profile, including cash flows and key credit metrics, thereby increasing the likelihood of Ameren Missouri suffering a ratings downgrade and Ameren experiencing stock price pressure, both of which would increase the Company's cost of capital and potentially result in higher customer rates.

Q. What rationale does Mr. Smith provide for disregarding Ameren Missouri's actual capital structure?

A. Mr. Smith's only justification is the fact that Ameren and Ameren Missouri's capital structures have diverged in the recent past. He neither demonstrates that this difference has caused, nor even proposes that this difference will cause, any type of risk to Ameren Missouri customers. In fact, the one paragraph on this matter in the Staff Report provides no explanation for why this particular fact in this particular circumstance justifies using a hypothetical capital structure.

IV. AMEREN MISSOURI'S STRUCTURE IS INDEPENDENTLY MANAGED AND EXCLUSIVELY FINANCES AMEREN MISSOURI RATE BASE

Q. Is Ameren Missouri's financial position and credit profile independently evaluated and managed?

A. Yes. Ameren Missouri's financial position and credit profile, including its capital structure, is independently managed in a manner that supports maintaining the Company's financial strength and integrity at a reasonable cost to its customers. Ameren

Missouri finances itself through its own public issuances, maintains its own credit ratings and produces separate filings for the Securities and Exchange Commission ("SEC"). Evaluation and management of a suitable Ameren Missouri capital structure over time involves sensible consideration of Ameren Missouri-specific business and financial risks, including key rating agency-defined credit metrics required to support our strong and stable investment grade credit ratings. Despite Ameren owning and financing other regulated businesses not directly related to Ameren Missouri, Ameren Missouri's capital structure is specifically managed over time to ensure continued financial strength, as well as to maintain a credit profile that provides the Company timely access to required capital to fund Ameren Missouri operations at a competitive cost for the benefit of Ameren Missouri customers.

Q. Why is the actual capital financing of Ameren Missouri's rate base relevant?

A. Ameren Missouri's actual capital structure is relevant and appropriate for ratemaking purposes because it is the only capital that is financing Ameren Missouri's jurisdictional rate base to which the overall rate of return set in this proceeding will be applied. In contrast, the hypothetical capital structure proposed by Mr. Smith contains capital that does not finance Ameren Missouri's jurisdictional rate base and is not available for investment in Ameren Missouri by Ameren. Thus, Ameren Missouri should be evaluated as a stand-alone entity, including with regard to its capital structure. To do otherwise violates the basic financial principle that the use of funds invested gives rise to the risk of the investment. It is fundamental that individual investors expect a return to commensurate with the risk associated with where their capital is invested. In this proceeding, that capital is both provided by and invested in Ameren Missouri. Therefore, Ameren Missouri must be viewed on its own merits, including the actual capital structure financing its rate base.

Q. Can you specifically identify the sources of Ameren Missouri's independently-managed capital?

A. Ameren Missouri's capital structure represents the actual dollars that are financing the jurisdictional rate base to which the rate of return authorized in this proceeding will be applied. In contrast, the hypothetical capital structure proposed by Mr. Smith contains capital that does not finance Ameren Missouri's jurisdictional rate base.

Ameren Missouri's entire long-term debt balance consists of long-term debt marketed and issued by Ameren Missouri to third-party investors, and those third-party investors pay an interest rate reflective of the business risks and capital structure specific to Ameren Missouri. Ameren Missouri's long-term debt is secured exclusively by its own assets and not the assets of Ameren or the other Ameren utility subsidiaries, Ameren Illinois and ATXI. In addition, Ameren Missouri's assets do not guarantee Ameren's, Ameren Illinois', or ATXI's long-term debt. Moreover, whenever Ameren Missouri seeks to raise long-term external capital, it must navigate a lengthy process to achieve financing authority from the Commission, whereby the Company must demonstrate that such financing is being utilized to fund long-term assets and the regulated operations of the business.

Similarly, Ameren Missouri's entire preferred stock balance consists of preferred stock marketed and issued by Ameren Missouri to third-party investors. Ameren Missouri's common equity balance consists of common equity contributions from Ameren and retained Ameren Missouri earnings. Ameren's common equity infusions have been specifically financed with common equity raised by Ameren from third-party investors.

Furthermore, all of Ameren Missouri's capital supports Ameren Missouri's rate base and no portion of the Company's rate base is supported by capital outside of Ameren Missouri.

Q. Have any Ameren common equity infusions into Ameren Missouri ever been funded with proceeds of Ameren short-term or long-term debt issuances?

A. No. As indicated above, all Ameren common equity infusions have been specifically funded by Ameren common equity issuances to third-party investors. The most recent infusion of common equity into Ameren Missouri by Ameren, in September 2009 in the amount of $436 million, was sourced directly from an external Ameren common stock offering in September 2009. The only other cash transfers from Ameren to Ameren Missouri since that September 2009 infusion have been modest non-discretionary tax-related contributions. These equity contributions are a function of a consolidating tax-sharing agreement among Ameren and its subsidiaries, and the contributions are typically promptly returned by Ameren Missouri to Ameren in the form of a dividend, such that there is no net impact on Ameren Missouri's equity balance.

Q. Are any of Ameren Missouri's assets pledged to support obligations of Ameren or any of its subsidiaries?

A. As discussed above, Ameren Missouri's assets are not used in any way to provide support or guarantee for obligations of Ameren, Ameren Illinois, or ATXI.

Q. Does Ameren Missouri rely on Ameren to support any Ameren Missouri long-term debt obligations?

A. No. To summarize the discussion thus far:

- Ameren Missouri's capital structure is independently managed;
- Ameren Missouri issues its own long-term debt that is priced independently in the market and secured by Ameren Missouri assets and the Company maintains its own credit ratings;
- Ameren Missouri produces separate regulatory filings with the Securities and Exchange Commission;
- Equity infusions from Ameren are sourced from Ameren market equity issuances to third-party equity investors (and not debt);
- Ameren Missouri's capital structure finances all of, and only, Ameren Missouri assets;
- Ameren Missouri assets do not support Ameren obligations; and
- Ameren Missouri does not rely on Ameren to support its long-term debt obligations.

Each of these factors support the use of Ameren Missouri's actual capital structure for the purpose of setting rates in this proceeding.

V. AMEREN'S MORE LEVERAGED CAPITAL STRUCTURE RELATIVE TO AMEREN MISSOURI HAS NOT NEGATIVELY IMPACTED AMEREN MISSOURI'S FINANCIAL AND CREDIT POSITION

Q. In the Staff Report, Mr. Smith suggests a diverging trend over the past several years between the equity ratios at Ameren as compared to those at Ameren Missouri as the key concern supporting the 50% ceiling on Ameren Missouri's common equity ratio in this proceeding. Schedule JS-6-2 in the Staff Report

compares Ameren's consolidated common equity ratio to that of Ameren Missouri over the period 2014-2018. Why does Ameren Missouri's capital structure contain more equity than Ameren's?

A. As I noted above, Ameren Missouri's capital structure is independently managed, based on consideration of Ameren Missouri-specific business and financial risks, to support continued Company financial health and integrity at a reasonable capital cost. In addition to Ameren Missouri, Ameren also owns and operates other regulated businesses, principally Ameren Illinois and ATXI, and Ameren's consolidated capital structure is meaningfully influenced by the respective capital structures of each of Ameren's regulated subsidiaries. Like Ameren Missouri's capital structure, the capital structures of Ameren, Ameren Illinois and ATXI, respectively, are managed independently based on relevant business and financial risks applicable to the parent company and those other subsidiaries. Given the higher-risk nature of Ameren Missouri's vertically-integrated business relative to the risk of Ameren's other primary subsidiaries (Ameren Illinois operates electric transmission and distribution businesses and natural gas delivery businesses, while ATXI operates exclusively electric transmission businesses), it stands to reason that Ameren Missouri would maintain a common equity ratio that is higher than Ameren's consolidated equity ratio.

Q. What are the primary drivers of the difference between Ameren Missouri's capital structure and Ameren's consolidated capital structure?

A. There are five primary drivers:

First, Ameren Illinois maintains a common equity ratio of approximately 50%, which is lower than Ameren Missouri's common equity ratio and consistent with the amount of equity content allowed for ratemaking purposes by the Illinois Commerce Commission ("ICC") as determined in recent regulatory proceedings addressing the rate structure of this division for both electric operations and gas operations, respectively.[1] The current lower common equity ratio relative to Ameren Missouri's common equity ratio reflects Ameren Illinois' lower-risk, diversified regulated electric transmission and delivery and gas delivery businesses and a regulatory framework that includes formula ratemaking, forward test years, revenue decoupling and other adjustment mechanisms. Like the Company's capital structure, Ameren Illinois' capital structure is independently managed, evaluated and supported.

Second, the equity ratio difference also reflects the impact of the 2013 divestiture of Ameren's merchant energy business, Ameren Energy Resources Company ("Ameren Energy Resources"), upon Ameren. In connection with the divestiture, Ameren recognized a $2.6 billion pre-tax loss, which reduced Ameren's consolidated common equity balance by an equivalent tax-effected amount. In addition, $425 million of Ameren holding company long-term debt, which historically supported Ameren Energy Resources activities, was retained and subsequently refinanced by Ameren. Despite the significant loss and the retention of a modest amount of holding company debt, the divestiture resulted in an immediate improvement in Ameren's consolidated credit profile and triggered credit rating upgrades by both Standard and Poor's Ratings Services ("S&P") and Moody's Investor Services ("Moody's").

Third, Ameren's lower consolidated common equity ratio also reflects the use of long-term debt to fund investment in electric transmission projects within the ATXI

[1] Illinois Commerce Commission Dockets 18-0463 and 18-0807.

subsidiary. Ameren's equity investment in ATXI (capital infusions funded with Ameren short-term and long-term debt, as well as ATXI retained earnings) is approximately $660 million as of December 2018, which represents approximately 9% of Ameren consolidated common equity as of such date. By comparison, at year-end 2014, Ameren's equity investment in ATXI was $124 million, representing approximately 2% of Ameren's consolidated common equity at that time. This investment by Ameren into ATXI, and the lack of dividend distribution from ATXI to Ameren in recent years, have been meaningful drivers of increased Ameren debt (both short-term and long-term) over the past several years.

Fourth, Ameren's consolidated equity ratios as calculated in Schedule JS-6-2 in the Staff Report reflect $411 million of goodwill held on Ameren's and Ameren Illinois' balance sheet in each of the years 2014 through 2018. The goodwill represents the excess of the purchase price of Illinois regulated utility acquisitions Ameren completed in 2003 (CILCORP) and 2004 (Illinois Power Company) versus the fair market value of the net assets acquired. During the 2014-2018 timeframe covered by Schedule JS-6-2, Ameren Missouri held no goodwill on its balance sheet. Ameren and Ameren Illinois perform an annual qualitative assessment for their goodwill impairment test and, to date, the results of such assessments indicate that it is more likely than not that the fair value of Ameren Illinois and its reporting units significantly exceed their carrying values, resulting in no impairment of Ameren's or Ameren Illinois' goodwill over time. As Ameren Illinois is not currently recovering goodwill through rates charged to customers, any future impairment, despite being highly unlikely based on recent impairment tests, would have no impact on the financial health and integrity of Ameren Illinois and Ameren, and certainly would have no bearing on the financial health and integrity of Ameren Missouri. In addition, Ameren financed the $3.7 billion of acquisitions using a combination of debt and equity. Therefore, it is inappropriate to exclude goodwill as an assumed 100% equity component when the underlying transactions were funded with a mix of both debt and equity and the rate base of Ameren Illinois was not increased to reflect the goodwill. Per Schedule DTS-R1, if goodwill were not adjusted from the calculation of Ameren consolidated equity, the five-year (2014-2018) average equity ratio would be 48.6%, higher than the 47.6% suggested by Mr. Smith's analysis.

Finally, Ameren's consolidated equity ratios as calculated in Schedule JS-6-2 in the Staff Report are based on financials included in Ameren's SEC filings, and therefore are not consistent with the methodology utilized to determine Ameren Missouri's regulatory capital structure, which typically applies various adjustments to SEC-reported financial statements. For instance, Ameren Missouri's regulatory capital structure excludes capital lease obligations. In addition, Ameren's consolidated equity ratios as calculated in schedule JS-6-2 fail to include consolidated preferred stock, which I believe is appropriate to factor into the capitalization analysis. If these typical regulatory capital structure adjustments for Ameren Missouri and Ameren Illinois were also applied to Ameren's consolidated capital structure, as we have shown in Schedule DTS-R1, Ameren's five-year (2014-2018) average equity ratio would be 50%, incrementally higher than the 47.6% implied in Mr. Smith's analysis in Schedule JS-6-2.

Q. Mr. Smith suggests that recent use of Ameren holding company debt has caused Ameren to be more leveraged, referencing in Schedule JS-6-2 the growing

divergence between the Ameren holding company equity ratio and the Ameren Missouri equity ratio between 2014 and 2018. Do you agree with this statement?

A. No. I do concur that Ameren's consolidated equity ratio (adjusted for goodwill) has declined over the 2014-2018 period, as suggested by the calculations in Schedule JS-6-2, though as noted previously, I question Mr. Smith's approach to exclude goodwill as an assumed 100% equity-financed component and his failure to include consolidated preferred stock and other adjustments typically used to calculate the regulatory capital structure. However, the use of Ameren holding company long-term debt is only one of many drivers of the decline and cannot be characterized as the primary driver.

Per Schedule DTS-R2, Ameren's holding company long-term debt has increased from $0 at year-end 2014 to $700 million at year-end 2018, with the increase entirely due to the $700 million November 2015 financing, whose proceeds were used to repay Ameren commercial paper (short-term debt) borrowings that funded the maturity of Ameren's $425 million note in May 2014 and ongoing investment by Ameren in ATXI.

It is noteworthy that the increase in Ameren holding company long-term debt was more modest if one looked at the period with year-end 2013 as the starting date. Between year-end 2013 and year-end 2018, Ameren's holding company long-term debt increased less significantly from $425 million to $700 million. During that same period, Ameren's consolidated long-term debt has increased from $6,038 million at year-end 2013 to $8,439 million at year-end 2018. As a percentage of consolidated long-term debt, Ameren holding company long-term debt has not increased significantly, representing 7.0% of consolidated long-term debt at year-end 2013 and 8.3% of consolidated long-term debt at year-end 2018. Given this moderate proportionate increase in Ameren's holding company long-term debt, I would not characterize the recent use of Ameren holding company debt as the primary driver of the declining equity ratio at Ameren over the past several years.

Q. Please explain the drivers of the declining equity ratio at Ameren during the 2014-2018 timeframe.

A. I would point to several key factors that have contributed to the recent decline in Ameren's equity ratio:

1) Non-cash charges, taken primarily at the parent company, for the revaluation of deferred taxes resulting from a December 2017 change in federal law that decreased the federal corporate income tax rate (the benefit of which was proportionately passed through to Ameren Missouri customers), which reduced retained earnings by $154 million in 2017 and an additional $13 million in 2018.
2) Ameren declaring and paying dividends to its common shareholders over the past several years at levels that are well in excess of dividend distributions received from its regulated subsidiaries, including Ameren Missouri. This is a function of Ameren Missouri, and other regulated subsidiaries, reinvesting significant operating cash flow and retained earnings into their long-term regulated assets.
3) As discussed previously, Ameren funding increasing investment to support ATXI equity needs.

VI. THE USE OF A HYPOTHETICAL CAPITAL STRUCTURE FOR AMEREN MISSOURI IN THIS PROCEEDING IS NOT JUSTIFIED

Q. Are there ever situations when it would be appropriate to use a parent company/hypothetical capital structure to set rates for a regulated subsidiary?

A. There may be situations under which it would be more appropriate to use a parent/hypothetical capital structure, but this case is not one of those situations.

Q. What factors should typically be considered when determining whether to use a regulated subsidiary's or parent company/hypothetical capital structure for ratemaking purposes for the regulated subsidiary?

A. The factors typically considered in determining whether to use a regulated subsidiary's actual capital structure or a parent company's capital structure for ratemaking are provided by David C. Parcell in The Cost of Capital – A Practitioner's Guide ("CRRA Guide") prepared for the Society of Utility and Regulatory Financial Analysts ("SURFA") and provided as the study guide to candidates for SURFA's Certified Rate of Return Certification Examination. The CRRA Guide notes that these factors will "help determine whether the utility vs. parent capital structure is appropriate."[2] They are:

1) Whether the subsidiary utility obtains all of its capital from its parent, or issues its own debt and preferred stock;
2) Whether the parent guarantees any of the securities issued by the subsidiary;

[2] David C. Parcell, The Cost of Capital – A Practitioner's Guide. Prepared for the Society of Utility and Regulatory Financial Analysts, 2010 Edition.

3) Whether the subsidiary's capital structure is independent of its parent (i.e., existence of double leverage, absence of proper relationship between risk and leverage of utility and non-utility subsidiaries); and

4) Whether the parent (or consolidated enterprise) is diversified into non-utility operations.

While Mr. Smith does not recommend using Ameren parent company's capital structure, he does suggest using a hypothetical capital structure that meaningfully departs from Ameren Missouri's actual capital structure. Consequently, I believe that the CRRA Guide factors are still relevant for consideration here.

Q. Does the application of these factors to Ameren Missouri support the use of Ameren Missouri's actual capital structure for ratemaking purposes?

A. Yes. Application of the factors highlighted in the CRRA Guide listed above to Ameren Missouri supports the use of Ameren Missouri's actual capital structure for ratemaking purposes. As previously discussed, Ameren Missouri does not obtain any long-term debt or preferred stock from Ameren, but rather issues its own long-term debt and preferred stock to outside investors. In addition, Ameren Missouri's long-term debt is secured by its own assets and not the assets of Ameren. Double leverage cannot be said to exist since no proceeds of Ameren long-term debt issuances, including the most recent $700 million November 2015 Ameren long-term debt financing, have been used to support Ameren Missouri operations or were used as an equity infusion. Finally, Ameren is not meaningfully diversified into non-utility operations.

In view of the foregoing, Ameren Missouri has an independently determined capital structure. Therefore, the only conclusion to be drawn is that Ameren Missouri's stand-alone capital structure at the true-up date, May 31, 2019, is appropriate for ratemaking purposes.

Q. In the Staff Report, Mr. Smith suggests that a 50% ceiling on Ameren Missouri's common equity ratio would be reasonable for setting rates for Ameren Missouri as it resembles an agreement Ameren Illinois has with the Illinois Commerce Commission to limit the amount of equity to 50% in rate of return calculations for its gas and electric operations. How do you respond?

A. Staff's recommended common equity ratio ceiling is not appropriate for Ameren Missouri. By using a hypothetical capital structure and justifying such a capital structure by pointing to its application in other jurisdictions (i.e., Illinois), Mr. Smith suggests setting rates at Ameren Missouri based on the aggregate impact of financing decisions, capital requirements, operational decisions and regulatory practices undertaken in multiple jurisdictions through other business entities with different business activities and risks. As a result, Mr. Smith's approach would set rates based not on what the Commission has determined to be the discrete financing needs and requirements of the Company, but based on what utilities and/or their regulators in other jurisdictions have decided should be done to meet the financial requirements of their distinct operations. This approach is an ineffective manner of protecting or insulating Ameren Missouri from the activities of its parent company and other affiliates, and is certainly not consistent with the Commission's obligation to make decisions for its own utilities rather than delegating the task out to other regulators.

As previously discussed, the respective capital structures for Ameren Missouri and Ameren Illinois are managed independently, based on, among many factors, relative business risk. In the case of Ameren Illinois, maintenance of a lower common equity ratio is currently reasonable based on a number of factors, including, notably, the lower inherent business risk associated with Ameren Illinois' transmission and delivery only business model and the lower financial risk associated with the more predictable and credit supportive frameworks for Ameren Illinois' electric delivery business (formulaic ratemaking, with a revenue decoupling mechanism), electric transmission business (formulaic ratemaking) and gas delivery business (forward test year, with a decoupling mechanism and an interim rate adjustment mechanism for qualifying rate base additions). In contrast, Ameren Missouri's ownership and operation of generating assets, including a single-unit nuclear plant, results in a higher degree of operating risk. In addition, the Missouri ratemaking framework, while demonstrating improvement following the passage in 2018 of Senate Bill 564 and the related implementation of partial plant-in-service accounting, still utilizes a historic test year approach, exposing Ameren Missouri to regulatory lag, thereby resulting in a higher degree of financial risk.

The lower overall risk profile of Ameren Illinois relative to Ameren Missouri is also evident in Ameren Illinois' stronger issuer rating at Moody's, which rates Ameren Illinois A3 and Ameren Missouri Baa1. Moody's ratings for each of Ameren Illinois and Ameren Missouri are independently developed based on their discrete credit profiles.

Mr. Smith also mischaracterizes the agreement that Ameren Illinois has entered into with the ICC. Ameren Illinois actually does not have a formal agreement with the ICC's Staff as it pertains to the equity ratio that should be utilized as part of the gas ratemaking process or the electric annual formula ratemaking process. Rather, as part of Ameren Illinois' recent gas rate review proceeding before the ICC and Ameren Illinois' required annual electric formula ratemaking filings with the ICC, Ameren Illinois has entered into an agreement with the ICC Staff and the Illinois Industrial Energy Consumers which stipulates that a common equity ratio up to and including 50% is reasonable. Such a stipulation emanated from the passage of the Future Energy Jobs Act ("FEJA") by the Illinois Legislature in 2016 and effective June 1, 2017. The FEJA included an amendment to the 2011 Illinois Energy Infrastructure Modernization Act that provided:

> To enable the financing of the incremental capital expenditures, including regulatory assets, for electric utilities that serve less than 3,000,000 retail customers but more than 500,000 retail customers in the State, the utility's actual year-end capital structure that includes a common equity ratio, excluding goodwill, of up to and including 50% of the total capital structure shall be deemed reasonable and used to set rates.[3]

So, while the Illinois legislation establishes, and key constituencies agree, that an equity ratio up to and including 50% will be deemed reasonable and therefore not litigated in the proceeding, that 50% equity ratio is not a ceiling as Mr. Smith suggests. Rather, the legislation does not preclude Ameren Illinois from filing for a capital structure that uses an equity ratio greater than 50% if Ameren Illinois were able to justify such a capital structure (i.e., if its risk profile increased). I would also note that the legislation clearly directs the ICC to use the utility's actual capital structure in its proceedings, thus prohibiting the use of hypothetical capital structures.

Q. Is there any evidence that the rating agencies view the Missouri regulatory environment as less supportive than the regulatory environment of Illinois?

[3] 220 ILCS 5/8-103B(d)(1).

A. Yes, in its most recent March 29, 2019 credit opinion on Ameren Missouri, Moody's notes the following:

**____
____
____
____
____
____
____
____
____
___________**

In contrast, in a Moody's credit opinion on Ameren Illinois issued the same day **____ __________** These regulatory considerations in part influence Moody's to rate Ameren Illinois stronger (A3 rating) than Ameren Missouri (Baa1).

VII. AMEREN MISSOURI'S PROPOSED COMMON EQUITY RATIO IS CONSISTENT WITH UTILITY INDUSTRY PEERS AND SUPPORTS STRONG AND STABLE CREDIT RATINGS

Q. How does Ameren Missouri's projected common equity ratio as of May 31, 2019, of 51.84% compare to the common equity ratios maintained by comparable utilities?

A. Ameren Missouri's projected May 31, 2019, common equity ratio is consistent with those maintained, on average, by the regulated operating subsidiaries of publicly-traded utilities in an identified peer group. As highlighted in Schedule DTS-R3, the common equity ratios, based upon permanent capital (excluding short-term debt), of the regulated operating subsidiaries of the identified peer group companies based on their most recent rate cases, averaged 53.19%, with a median of 52.57%. Ameren Missouri's projected common equity ratio of 51.84% falls in the 30th percentile of these regulated operating company common equity ratios.

Q. Does this consistency support the reasonableness of Ameren Missouri's proposed capital structure for purposes of setting rates in this proceeding?

A. Yes. I'd call specific attention to a citation from Charles Phillip's The Regulation of Public Utilities – Theory and Practice,[4] which suggests "a hypothetical capital structure is used only where a utility's actual capitalization is clearly out of line with those of other utilities in its industry or where a utility is diversified." Ameren Missouri meets neither of these criteria: it is not meaningfully diversified into non-regulated activities or businesses, and its capital structure is in line with those of its peers.

Q. How does Ameren Missouri's common equity ratio projected as of May 31, 2019, compare with the common equity ratio most recently approved by the Commission in File No. ER-2016-0179?

A. Ameren Missouri's projected common equity ratio as of May 31, 2019, of 51.84% is consistent with the 51.8% common equity ratio authorized by the Commission in File No. ER-2016-0179. The consistency of the Company's equity ratios over the past several years reflects the fact that there have been no significant change to the Company's risk profile over that time. As such, Ameren Missouri continues to target and manage to a long-term common equity ratio in the area of 51.8%.

Q. What are Ameren Missouri's current issuer credit ratings?

[4] Charles F. Phillips, Jr., The Regulation of Public Utilities – Theory and Practice, 1993, Public Utility Reports, Inc., Arlington VA, at 391.

A. Currently, Ameren Missouri's issuer credit ratings at Moody's and S&P are Baa1 and BBB+, respectively. Both credit ratings agencies report stable outlooks for Ameren Missouri's credit ratings.

Q. What are Ameren's current issuer credit ratings?

A. Currently, Ameren's issuer credit ratings at Moody's and S&P are Baa1 and BBB+, respectively. Both credit ratings agencies report stable outlooks for Ameren's credit ratings.

Q. Why do credit ratings matter?

A. Credit ratings have a significant effect on a company's ability to attract debt capital, and in extreme cases, whether the company can access debt capital at all. Credit ratings also impact the pricing and contractual terms at which a company may issue debt securities. This affects the cost of capital and, in Ameren Missouri's case, the rates customers must pay for utility service. In general, a stronger credit rating typically enables a utility to obtain debt capital at a lower cost, to the benefit of customers.

Q. How have Ameren Missouri's issuer credit ratings changed since year-end 2012?

A. On January 31, 2014, Moody's upgraded the issuer rating of Ameren Missouri to Baa1 from Baa2, citing ** ______________________________ ______________________________ ______________________________ ** Since January 31, 2014 to date, Moody's has affirmed Ameren Missouri's issuer rating of Baa1. On March 14, 2013, S&P upgraded the issuer rating of Ameren Missouri to BBB from BBB-, tied to its simultaneous upgrade of Ameren upon Ameren's announced definitive agreement to sell its remaining merchant assets. Note that S&P employs a family rating methodology to assign ratings to Ameren and its utility subsidiaries, including Ameren Missouri. Subsequently, on December 4, 2013, S&P further upgraded the issuer rating of Ameren Missouri to BBB+, highlighting ** [redacted] ** From December 4, 2013 to date, S&P has affirmed Ameren Missouri's issuer rating of BBB+.

It is notable that during the 2014-2018 period of time that Mr. Smith cites as demonstrating a diverging trend between the equity ratios at Ameren consolidated and Ameren Missouri, Ameren Missouri's credit ratings have been affirmed by both agencies, allowing the Company to access debt capital at competitive costs to the benefit of the Company's customers.

Q. How have Ameren's issuer credit ratings changed since year-end 2012?

A. On January 31, 2014, Moody's upgraded the issuer rating of Ameren to Baa2 from Baa3, calling out Ameren's ** [redacted] ** Subsequently, on April 7, 2015, Moody's further upgraded Ameren to Baa1, primarily driven by the upgrade of utility subsidiary Ameren Illinois, but also citing ** [redacted] ** Since that date, Moody's has affirmed Ameren's issuer rating of Baa1. On March 14, 2013, S&P upgraded the issuer rating of Ameren to BBB from BBB-, referring to ** [redacted]

[redacted]** Subsequently, on December 4, 2013, S&P upgraded the issuer rating of Ameren to BBB+, mentioning the company's **[redacted]** Since December 4, 2013 to date, S&P has affirmed Ameren's issuer rating of BBB+.

It is notable that during the 2014-2018 period of time that Mr. Smith cites as demonstrating a diverging trend between the equity ratios at Ameren consolidated and Ameren Missouri, Ameren's credit ratings have been upgraded by Moody's and affirmed by S&P, demonstrating that Ameren has retained, and arguably enhanced, its strong credit profile and financial health over the past several years.

Q. Are you aware of any evidence in rating agency reports suggesting that Ameren Corporation's unrelated financing activities have any negative impact on Ameren Missouri's credit ratings?

A. No. Neither rating agency that rates Ameren Missouri's stand-alone credit profile, S&P and Moody's, has expressed any concerns about the impact of Ameren financing activities on Ameren Missouri's credit profile. This is likely the case because Ameren financing activities over the past several years have supported the divestiture of Ameren Energy Resources and the investment in ATXI electric transmission projects, both activities that the rating agencies have highlighted as improving Ameren's consolidated credit profile. Neither S&P's nor Moody's most recent credit opinions on Ameren Missouri (February 14, 2019 and March 29, 2019, respectively) specifically make any mention of Ameren's holding company leverage. However, in its March 29, 2019, credit opinion on

Ameren, Moody's highlighted as a credit strength the **______________________________ ____________________**

Q. What would be the consequence on Ameren Missouri's credit profile and credit ratings of using a hypothetical equity ratio for ratemaking purposes below Ameren Missouri's actual equity ratio, as suggested by Mr. Smith?

A. Using a hypothetical common equity ratio below Ameren Missouri's actual common equity ratio to establish rates in this proceeding would weaken the Company's credit metrics, including key metrics evaluated by the rating agencies for purposes of assigning credit ratings. While it is difficult to predict the ultimate impact of weaker credit metrics on the Company's credit ratings, as such ratings are a function of a number of qualitative and quantitative factors, it is without a doubt that weaker credit metrics would contribute to increased financial risk and higher likelihood of a ratings downgrade. Additionally, rejection by the Commission of Ameren Missouri's proposed ratemaking capital structure, absent compelling evidence that the proposed capital structure is inappropriate or unreasonable, could deepen rating agency concerns regarding the supportiveness of the Missouri regulatory environment, which would pressure Ameren Missouri's credit ratings. To the extent that Ameren Missouri's credit ratings were downgraded, Ameren Missouri's access to required debt capital to finance its operations could become more challenging and likely more expensive, which would be harmful to Ameren Missouri customers.

Q. Do you have any evidence that the rating agencies would view Commission acceptance and approval of a hypothetical capital structure for ratemaking purposes as a credit negative outcome?

A. Yes. I would specifically highlight a credit opinion written by Moody's on February 5, 2018, shortly after the Commission conducted an initial discussion in the Laclede Gas and Missouri Gas Energy (collectively, "Spire Missouri") rate proceedings (Case Nos. GR-2017-0215 and GR-2017-0216) suggesting that parent company Spire Inc.'s ("Spire's") equity ratio should be used for ratemaking purposes rather than the actual equity ratio of Spire Missouri. **[redacted]**

[redacted]

Furthermore, following the February 21, 2018 order in the Spire Missouri rate cases, in which the Commission ultimately approved the use of Spire Missouri's actual capital structure rather than Spire's capital structure, Moody's, in a March 1, 2018 credit opinion, stated that:

> **[redacted]**

Moody's negative reaction to both the initial discussion and the positive reaction to the final Commission order in Spire Missouri's rate cases demonstrates that ratings agencies would likely view Commission approval of a hypothetical equity ratio below Ameren Missouri's actual equity ratio as a credit negative outcome.

Q. What would be the consequence on Ameren's stock price and inherent cost of equity of using a hypothetical equity ratio for ratemaking purposes that is below Ameren Missouri's actual equity ratio, as suggested by Mr. Smith?

A. Using a hypothetical common equity ratio that is below Ameren Missouri's actual common equity ratio to establish rates in this proceeding would likely place pressure on Ameren's share price. A lower relative share price makes it more challenging and expensive for Ameren to deploy equity capital to fund operations at Ameren Missouri and may support a corporate decision to reduce capital spending in the jurisdiction.

Q. Do you have any evidence that Ameren's stock price would face pressure if the Commission approved a hypothetical equity ratio below Ameren Missouri's actual equity ratio?

A. Yes. On January 31, 2018, the date that the Commission initially discussed the Spire Missouri rate cases, suggesting that parent company Spire's equity ratio should be used for ratemaking purposes rather than the actual equity ratios of Spire Missouri, Spire's share price declined 3.3% as compared to a 1.0% increase in the PHLX Utility Sector Index (the "UTY"). On the following day, February 1, 2018, Spire's stock price declined an additional 5.0% as compared to a 1.6% decline in the UTY.

The stock price decline during that period was in part a response to commentary published by several prominent Wall Street equity analysts that was negative in tone. For instance, Wells Fargo analysts Sarah Akers and Neil Kalton stated in a report published on February 1, 2018, that

> we view this stance by the Commission as somewhat punitive considering customers are benefitting from deal-related cost savings, which may not have been possible absent Spire's ability to use leverage to make the acquisitions economically viable.

Another equity analyst from Guggenheim Securities, Shahriar Pourreza, wrote on February 1, 2018:

> MoPSC's deliberations on pending rate case sent a concerning message. Investors likely expected management to send a stronger message to MoPSC that they would not hesitate to direct capital elsewhere if they are not afforded the mechanisms to necessitate adequate recovery of that capital.

The negative share price reaction to the initial Commission discussion in Spire Missouri's rate cases demonstrates that Ameren's stock price could face similar pressure if the Commission approves a hypothetical equity ratio below Ameren Missouri's actual equity ratio. The effect of a lower relative share price is a more challenging and expensive outlook for Ameren to deploy equity capital to fund operations at Ameren Missouri and may result in lower capital deployment in the state.

VIII. CONCLUSION

Q. Please summarize why the use of Ameren Missouri's capital structure, rather than a hypothetical capital structure that incorporates less equity content, is appropriate and reasonable for setting rates in this proceeding?

A. As I have noted several times throughout this testimony, Ameren Missouri's capital structure is independently managed, while supported and sourced from third-party investors. Its capital structure supports strong investment grade credit ratings that afford

Ameren Missouri ongoing access to required debt capital at a competitive cost. The primary drivers of Ameren's slightly more leveraged capital structure relative to Ameren Missouri's over the past several years, including the divestiture of its merchant energy businesses and significant investment in electric transmission assets under FERC's lower-risk ratemaking framework, have actually improved Ameren's consolidated credit profile. Meanwhile, Ameren Missouri's credit ratings remain strong and have been affirmed in recent years in spite of Ameren's slightly more leveraged capital structure relative to Ameren Missouri. Finally, the reasonableness of Ameren Missouri's proposed capital structure is affirmed by the consistency of its common equity ratio with those of its utility peers and the Ameren Missouri common equity ratio most recently approved by the Commission in File No. ER-2016-0179.

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 Ameren Missouri's Tariffs to Increase Its Revenues for Natural Gas Service.	)))	File No. GR-2019-0077

AFFIDAVIT OF DARRYL T. SAGEL

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

Darryl T. Sagel, being first duly sworn on his oath, states:

1. My name is Darryl T. Sagel. I work in the City of St. Louis, Missouri, and I am employed by Union Electric Company d/b/a Ameren Missouri as Vice President and Treasurer.

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 ____ pages and Schedule(s) DTS-R1 through DTS-R3 & Appendix A, 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.

Darryl T. Sagel
Darryl T. Sagel

Subscribed and sworn to before me this 6th day of June, 2019.

Geri A. Best
Notary Public

My commission expires:

GERI A. BEST
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis County
My Commission Expires: February 15, 2022
Commission Number: 14839811

APPENDIX A

STATEMENT OF QUALIFICATIONS

DARRYL T. SAGEL

My name is Darryl T. Sagel. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri, 63103. I am employed by Ameren Services Company as Vice President and Treasurer. As Treasurer, I am responsible for all areas of the treasury functional area of Ameren Corporation and its subsidiaries, including corporate finance, cash and investment management, insurance, credit risk management, investor services and corporate development. Within the areas of corporate finance, I am responsible for, among other things, managing Ameren Corporation's and its subsidiaries' capital raising initiatives and capital structure, including their short-term and long-term financing activities, such as debt and equity issuances and credit facility arrangements. I am also responsible for monitoring and managing Ameren's and its subsidiaries' liquidity positions, key credit metrics, and debt agreement compliance, overseeing relationships with credit rating agencies and banks, and monitoring capital markets for key developments, emerging risks, and opportunities, among other corporate finance-related activities.

I received my Bachelor of Arts degree in Quantitative Economics in 1994 from Stanford University.

I have more than 25 years of experience in various finance and strategy roles. Upon graduating from college in 1994, I joined the Investment Research Department at Goldman Sachs, & Co. based in New York City, where I aided in the research coverage of approximately 100 domestic and international electric and gas utility companies. In 1996, I transferred to Goldman Sachs' Investment Banking Division, within which I advised energy and utility clients in the U.S. and internationally in raising capital and structuring merger and acquisition ("M&A") transactions. In 2000, I took a position at Morgan Stanley & Co., working within the company's Mergers & Acquisitions group and focusing predominantly on assisting global power and utilities clients on M&A-related matters. After over three years on the Morgan Stanley investment banking platform, in 2003, I moved to Lazard Freres & Co. ("Lazard"), where I continued to originate and execute financial advisory assignments for a broad range of domestic and international power and utility companies and alternative energy companies. For several years during my tenure, I was a partner and co-head of Lazard's North American Power & Utilities practice. In 2010, I left Lazard to join Rothschild Inc. to head its North American Power & Utilities group. In total, I amassed over 18 years of experience as an investment banker covering the broad power & utilities sector, working on a wide array of transformative and incremental M&A transactions, corporate restructurings and capital raising initiatives. In mid-2012, I joined Ameren Services as Director of Corporate Development, overseeing the company's M&A functional area, as well as originating and executing direct investment and corporate partnership opportunities. I was promoted to Assistant Vice President, Corporate Development in 2016 and again promoted to Vice President, Corporate Development in 2017. In July 2018, I inherited oversight of all of Ameren's treasury functions and my title changed to Vice President and Treasurer.

Historical Consolidated Capital Structure

$ in millions

Ameren GAAP Capital Structure (Consolidated)

per 10-K

	2014	2015	2016	2017	2018	Average 2014-2018
Short-term debt	714	301	558	484	597	
Long-term debt	6,205	7,275	7,276	7,935	8,439	
Preferred stock	142	142	142	142	142	
Common equity (no goodwill adjustment)	6,713	6,946	7,103	7,184	7,631	
Total capitalization	13,774	14,664	15,079	15,745	16,809	
% of equity	48.7%	47.4%	47.1%	45.6%	45.4%	
% of equity (excluding ST debt)	51.4%	48.4%	48.9%	47.1%	47.1%	48.6%

Ameren Regulatory Capital Structure (Consolidated)

	2014	2015	2016	2017	2018	Average 2014-2018
Short-term debt	714	301	558	484	597	
Long-term debt - GAAP	6,205	7,275	7,276	7,935	8,439	
Regulatory adjustments						
MO: Capital leases	(294)	(288)	(282)	(276)	(270)	
IL: Bonds held by Ameren	(18)	(18)	(18)	(18)	(18)	
Unamortized loss on reacquired debt	(152)	(138)	(124)	(111)	(98)	
Long-term debt - Regulatory	5,741	6,831	6,853	7,531	8,053	
Preferred stock	142	142	142	142	142	
Common equity	6,713	6,946	7,102	7,184	7,631	
Total capitalization	13,310	14,220	14,655	15,341	16,423	
% of equity	50.4%	48.8%	48.5%	46.8%	46.5%	
% of equity (excluding ST debt)	53.3%	49.9%	50.4%	48.4%	48.2%	50.0%

Schedule JS-6-2 Ameren Equity Ratio

	2014	2015	2016	2017	2018	Average 2014-2018
As specified	50.4%	47.3%	47.9%	46.0%	46.1%	47.6%
No goodwill adjustment	52.0%	48.8%	49.4%	47.5%	47.5%	49.0%
No goodwill adjustment / including preferred stock	51.4%	48.4%	48.9%	47.1%	47.1%	48.6%

Ameren Holding Company Historical Debt Balances

$ in millions

	2013	2014	2015	2016	2017	2018
Ameren Corp. 2.70% Senior unsecured notes due 2020	$0	$0	$350	$350	$350	$350
Ameren Corp. 3.65% Senior unsecured notes due 2026	-	-	350	350	350	350
Ameren Corp. 8.875% Senior unsecured notes due 2014	425	-	-	-	-	-
Total Parent long-term debt	$425	$0	$700	$700	$700	$700
Consolidated long-term debt (per Schedule DTS-R1)	$6,038	$6,205	$7,275	$7,276	$7,935	$8,439
Parent as % of long-term debt	**7.0%**	**0.0%**	**9.6%**	**9.6%**	**8.8%**	**8.3%**

Peer Utility Regulatory Capital Structures

Most Recently Approved Equity Ratio

Company	State	Docket	Date	Decision Type	Common Equity to Total Capital (%)	
Atmos Energy Corp.	Colorado	D-13AL-0496G	03/16/2014	Settled	52.57%	
Atmos Energy Corp.	Georgia	D-30442	03/31/2010	Fully Litigated	47.70%	
Atmos Energy Corp.	Kansas	D-16-ATMG-079-RTS	03/17/2016	Settled	NA	[2]
Atmos Energy Corp.	Kansas	D-14-ATMG-320-RTS	09/04/2014	Settled	53.00%	[3]
Atmos Energy Corp.	Kentucky	C-2018-00281	05/07/2019	Fully Litigated	58.06%	
Atmos Energy Corp.	Tennessee	D-18-00067	12/04/2018	Fully Litigated	51.40%	
Atmos Energy Corp.	Texas	D-GUD-10359 (Mid-Tex Division)	07/28/2015	Settled	NA	[2]
Atmos Energy Corp.	Texas	D-GUD-10170 (Mid-Tex)	12/04/2012	Fully Litigated	51.69%	[3]
Atmos Energy Corp.	Texas	D-GUD 10174 (West Texas)	10/02/2012	Settled	NA	[1]
Chesapeake Utilities Corp.	Delaware	D-18-0934	08/02/2018	Fully Litigated	NA	[1]
New Jersey Natural Gas Co.	New Jersey	D-GR-15111304	09/23/2016	Settled	52.50%	
Northwest Natural Gas Co.	Oregon	D-UG-344	10/26/2018	Settled	50.00%	
Kansas Gas Service Co.	Kansas	D-18-KGSG-560-RTS	02/05/2019	Settled	NA	[1]
Oklahoma Natural Gas Co	Oklahoma	Ca-PUD201800028	01/08/2019	Settled	NA	[2]
Oklahoma Natural Gas Co	Oklahoma	Ca-PUD201700079	08/09/2017	Settled	NA	[2]
Oklahoma Natural Gas Co	Oklahoma	Ca-PUD201500213	01/06/2016	Settled	60.50%	[3]
Texas Gas Service Co.	Texas	D-GUD-10526	11/15/2016	Settled	NA	[2]
Texas Gas Service Co.	Texas	D-GUD-10506	09/27/2016	Fully Litigated	60.10%	[3]
Elizabethtown Gas Co.	New Jersey	D-GR-16090826	06/30/2017	Settled	46.00%	
South Jersey Gas Co.	New Jersey	D-GR-17010071	10/20/2017	Settled	52.50%	
Missouri Gas Energy	Missouri	C-GR-2017-0216	02/21/2018	Fully Litigated	54.16%	
Spire Missouri Inc.	Missouri	C-GR-2017-0215	02/21/2018	Fully Litigated	54.16%	
Southwest Gas Corp.	Arizona	D-G-01551A-16-0107	04/11/2017	Settled	51.70%	
Southwest Gas Corp.	California	A-12-12-024 (SoCal)	06/12/2014	Fully Litigated	55.00%	
Southwest Gas Corp.	California	A-12-12-024 (NoCal)	06/12/2014	Fully Litigated	55.00%	
Southwest Gas Corp.	California	A-12-12-024 (LkTah)	06/12/2014	Fully Litigated	55.00%	
Southwest Gas Corp.	Nevada	D-18-05031 (Southern)	12/24/2018	Fully Litigated	49.66%	

Average	53.19%
Median	52.57%

Source: S&P Global Market Intelligence

[1] No equity ratio disclosed since at least 2010

[2] Most recent case(s) did not disclose equity ratio

[3] Most recent case which disclosed equity ratio