Exhibit No.:	
Issue:	Revenue Requirement
Witness:	Michael P. Gorman
Type of Exhibit:	Surrebuttal Testimony
Sponsoring Party:	Missouri Industrial Energy Consumers
Case No.:	ER-2014-0258
Date Testimony Prepared:	February 6, 2015

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

Surrebuttal Testimony and Schedules of

Michael P. Gorman

Regarding Revenue Requirement Issues

On behalf of

Missouri Industrial Energy Consumers

February 6, 2015

BRUBAKER & ASSOCIATES, INC.

Project 9913

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

STATE OF MISSOURI)
) **SS**
COUNTY OF ST. LOUIS)

Affidavit of Michael P. Gorman

Michael P. Gorman, being first duly sworn, on his oath states:

1. My name is Michael P. Gorman. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Missouri Industrial Energy Consumers in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes are my surrebuttal testimony and schedules which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2014-0258.

3. I hereby swear and affirm that the testimony and schedules are true and correct and that they show the matters and things that they purport to show.

Michael P. Gorman

Subscribed and sworn to before me this 5th day of February, 2015.

MARIA E. DECKER
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis City
My Commission Expires: May 5, 2017
Commission # 13706793

Maria E. Decker
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

Surrebuttal Testimony of Michael P. Gorman

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q ARE YOU THE SAME MICHAEL P. GORMAN WHO HAS PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A Yes. I have previously filed both direct and rebuttal testimony on revenue requirement issues presented in this proceeding.

Q ARE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE OUTLINED IN YOUR PRIOR TESTIMONY?

A Yes. This information is included in Appendix A to my direct testimony filed December 5, 2014.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A This testimony is presented on behalf of the Missouri Industrial Energy Consumers ("MIEC").

Q WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A I will respond to the rebuttal testimony of Ameren Missouri witness Robert B. Hevert.

Q DID AMEREN WITNESS HEVERT SUMMARIZE THE RECOMMENDATIONS OF THE OTHER RATE OF RETURN WITNESSES?

A Yes. At pages 3 and 4 of Mr. Hevert's rebuttal testimony, he states that the opposing return on equity witnesses (which include Staff witness David Murray, Office of Public Counsel witness Lance Schafer, Wal-Mart witness Steve Chriss and me), offer recommendations that individually and as a group are far below the returns that investors would expect for a vertically integrated electric utility company. As support for this assertion, he outlines recent authorized returns on equity for electric utility companies as published in *Regulatory Research Associates* ("RRA").

Q PLEASE RESPOND TO MR. HEVERT'S COMMENTS REGARDING THE RECOMMENDED RETURNS ON EQUITY OFFERED BY OPPOSING RETURN ON EQUITY WITNESSES.

A Mr. Hevert's findings are based on incomplete or inaccurate data, and reflect a bias toward a higher return on equity recommendation. I base this conclusion on the following.

First, Mr. Hevert's evaluation of authorized returns on equity limits the amount of information available to investors to inform an outlook on expected commission authorized returns on equity. Mr. Hevert's analysis does not compare authorized returns on equity based on comparable investment risk, nor does he consider whether or not the most recent authorized returns on equity are commissions' findings for the current market cost of equity for the utilities. Indeed, some reported returns on equity are based on a settlement, or finding by a commission to use the same authorized return on equity from a prior rate case rather than adjust the return to the current cost of capital.

If investors are relying on this data to form expectations for commission findings, then it is reasonable to believe that investors would expect risk comparable returns consistent with traditional regulatory practices, and are able to distinguish the difference between a commission finding for a current market cost of equity, from a commission finding that it will not change a return on equity approved in a prior case.

A commission finding on the current market cost of equity is an indication of the utility's current cost of service. In comparison, if a commission chooses to again award the same rate of return found appropriate in a prior proceeding, that is an indication that the commission is only considering limited issues in revising the utility's revenue requirement and rate structure. They are not comparable findings.

Q BASED ON A COMPLETE REVIEW OF ALL AUTHORIZED RETURNS ON EQUITY FOR CALENDAR YEAR 2014, WOULD THE OPPOSING WITNESSES' RETURNS ON EQUITY BE REASONABLE?

A Yes. As shown on the attached Schedule MPG-SR-1, the authorized returns on equity for electric utility companies, both integrated and delivery companies, range from 9.17% to 10.4%, with an average of 9.76%.[1] As shown on page 1 of Schedule MPG-SR-1, I excluded authorized returns on equity for utility rate cases where the commission either approved a settlement return on equity, or simply used the same return on equity in the current case as was approved in a prior case. Under these conditions, the industry average return for 2014 was 9.63%.

[1]Excluding Virginia rider cases.

Further, I also show only the integrated electric utility companies used by Mr. Hevert in his testimony in Chart 1. However, I excluded returns on equity for utilities where the commission did not make a return on equity finding, but, instead, relied on a previously awarded return on equity or was based on a settlement. Based on this adjustment to Mr. Hevert's Chart 1 information, industry authorized returns on equity averaged 9.85%.

Based on this expanded evaluation of the information available to investors, I believe it reasonable and rational for an investor to believe that if the Commission is attempting to measure the current market cost of equity for a utility in this rate case, as I believe the Missouri Commission is attempting to do here for Ameren Missouri, investors would expect an authorized return on equity of approximately 9.63%, which is generally consistent with my estimated return on equity range of 9.00% to 9.60%, Further, this data demonstrates that Mr. Hevert's proposed 10.4% return on equity for Ameren Missouri is far out of line with reasonable estimates of the current cost of capital for low risk electric utilities.

Q HOW DO YOU RECOMMEND THE COMMISSION USE THIS DATA CONCERNING COMMISSION AUTHORIZED RETURNS ON EQUITY FOR ELECTRIC UTILITY COMPANIES?

A Reviewing the Commission authorized returns on equity for electric utility companies around the country, if they measure the current market cost of equity, they are another data point the Commission can use to help determine a fair and reasonable return on equity for Ameren Missouri. However, this data should not be used in lieu of reasonable estimates of the current market cost of equity, nor should settlements or non-findings of current market cost of equity be used to influence the Commission on what reasonable estimates are for Ameren Missouri's current cost of equity.

This market evidence shows that my estimated return on equity range is reasonable in relationship to authorized returns on equity found by other regulatory commissions around the country. While I recognize that the average is approximately at the high end of my recommended range, I encourage the Commission to carefully consider market-based estimates of the return on equity in support of a reasonable finding in this case. Ameren Missouri's and other electric utilities' capital costs are at historically low levels. These low capital market costs help offset increases in electric utility rates caused by commodity prices, and increased rate base investment. In my judgment, a balanced regulatory decision reflects the increase in utilities' cost of capital, and decreases in their cost of capital. The current market environment has offered a significant decline in utilities' cost of capital, that should be considered in setting Ameren Missouri's revenue requirement, and determining a fair and reasonable return on equity.

Authorized returns on equity have recognized declining capital market costs for utilities over many years recently, and continue to decline in response to these very low capital market costs. Importantly, I believe authorized returns on equity are useful information in gauging what other commissions have found to be reasonable for rate-setting purposes, but a finding on a commission authorized return on equity should be heavily weighted toward what the estimate of the current market cost of equity is for the utility in the specific case. Commissions may have had external factors in awarding returns on equity which are not relevant or useful for the Missouri Commission to determine a fair return on equity in this case.

For all these reasons, I believe that the recent awards for industry authorized returns on equity support my recommended return on equity range, and the specific circumstances of this case support my point estimate of 9.3% for Ameren Missouri in this case.

Q AT PAGE 6 OF MR. HEVERT'S REBUTTAL TESTIMONY, HE STATES THAT THE CURRENT INTEREST RATE ENVIRONMENT DOES NOT SUPPORT A REDUCTION TO AMEREN MISSOURI'S CURRENT AUTHORIZED RETURN ON EQUITY OF 9.8%. DO YOU BELIEVE THAT THE CURRENT CAPITAL MARKET ENVIRONMENT SUPPORTS A REDUCTION TO AMEREN MISSOURI'S CURRENT AUTHORIZED RETURN ON EQUITY?

A Yes. I state this for several reasons. First, interest rates used in my most recent Ameren Missouri rate of return are lower than the interest rates reflected in my testimony in Ameren Missouri's last rate case filing. This is shown below in Table 1.

TABLE 1

Ameren Missouri Bond Yield

Description	Current Case[1]	Direct Testimony[3]	Case No. ER-2012-0166[3]
"A" Rated	3.90%	4.13%	4.27%
"Baa" Rated	4.63%	4.71%	5.01%
13 Week Period Ending	1/23/2015	11/7/2014	6/15/2012

Sources:
[1]Schedule MPG-SR-2.
[2]Schedule MPG-14, page 1 filed with my direct testimony.
[3]Case ER-2012-0166, Schedule MPG-14, page 1.

As shown in the table above, interest rates have declined by approximately 37 basis points since Ameren Missouri's last rate case. On this basis alone, Ameren Missouri's authorized return on equity of 9.8% should be reduced closer to about 9.4%. Moreover, as this table also shows, interest rates have declined even further since the filing of my direct testimony in this case which further supports the reasonableness of my recommended return on equity for Ameren Missouri.

Further, utility stock prices have increased and their dividend yields have gone down. This is an indication that utilities' cost of capital has declined because the utilities need to sell fewer shares in order to generate enough capital to support their capital investment program. In the last case, the 13-week average proxy group stock price was $36.25 based on an annualized dividend of $1.54. This produced an unadjusted dividend yield of 4.2%.[2] In the current case, my Discounted Cash Flow ("DCF") studies show an annualized dividend of $1.58 based on a 13-week average stock price of $42.80 for an unadjusted dividend yield of 3.7%.

This 50 basis point decline in electric utility dividend yield is an indication that utilities' cost of capital has declined since Ameren Missouri's last rate case. When stock prices increase, all else equal, utilities' cost of capital declines.

[2]Schedule No. MPG-4; Case No. ER-2012-0166, Tariff No. YE-2012-0370; Schedule MPG-4, July 6, 2012.

Q AT PAGE 5 OF HIS REBUTTAL TESTIMONY, MR. HEVERT ASSERTS THAT UTILITIES' PRICE TO EARNINGS ("P/E") RATIOS ARE AT ELEVATED LEVELS, AND THERE IS NO REASON TO BELIEVE THAT THESE ELEVATED P/E RATIOS WILL BE SUSTAINABLE. HE CONCLUDES THAT THESE ELEVATED P/E RATIOS DOWNWARDLY BIAS THE RESULTS OF THE DCF STUDIES. PLEASE RESPOND.

A Mr. Hevert's analyses are simply incomplete and not based on relevant data. He measures P/E ratios by comparing current prices relative to <u>historical earnings</u> per share. Based on this relationship, he is measuring elevated P/E ratios. However, many electric utility companies, including Ameren Missouri, have stronger near-term earnings outlooks, relative to what they have had in the past.

For example, as shown on my Schedule MPG-5 filed with my direct testimony, my proxy group's earned return on equity from 2013 to the three- to five-year projections, increased from $2.46 to $3.18, or an approximate 29.3% increase in earning over a three- to five-year period. This strong improvement in expected earnings is causing stock prices to adjust to stronger future earnings outlooks. Mr. Hevert's P/E ratio is tied to historical earnings and ignores the expected earnings. Reflecting the proxy group's forward-looking earnings, the P/E ratio of the proxy group's prevailing stock price is actually below the historical normal.

The 13-week average current observable proxy group stock price of $42.80, and a projected earnings per share three to five years out for the proxy group of $3.18, produce a P/E ratio of 13.5x.[3] A P/E ratio of 13.5x is below the historical P/E ratios for the electric utility industry and my proxy group (approximately 16.0x), as shown in Mr. Hevert's Chart 9 at page 92 of his rebuttal. Therefore, Mr. Hevert's

[3]See Schedule MPG-6 filed with my direct testimony.

claim that current P/E ratios are elevated and throw into question the reliability of the DCF results, is based on a faulty analysis and inappropriate data inputs.

Q DO YOU HAVE ANY OTHER COMMENTS CONCERNING MR. HEVERT'S OBSERVATION ON P/E RATIOS AND THE IMPLICATIONS THAT HIGH P/E RATIOS SUGGEST THAT DCF RETURN ESTIMATES ARE NOT RELIABLE CURRENTLY?

A Yes. High P/E ratios also correspond to very low dividend yields, which are an indication of reductions to utilities' cost of capital. As noted above, dividend yields for utility companies have decreased to well below 4% more recently, where in the last case they were above 4%, which at that time was relatively low. All of this is an indication that current utility capital costs are very low relative to the past. While Mr. Hevert and others may have opinions that capital market costs will increase sometime in the future, increasing capital costs and the timing of when the increase will occur are highly uncertain and not easily reconciled for measuring the current market cost of capital for utility companies. Because customers are burdened by increasing fuel costs, and increasing costs associated with capital investments, they should not be denied the benefits of declines in cost of service related to reductions in utilities' cost of capital. For all these reasons, Mr. Hevert's incomplete and erroneous data suggesting the current DCF return estimates are unreliable should be denied, and the Commission should consider all viable and accurate measures of the current market cost of equity in setting a fair return on equity in this proceeding.

Q DOES MR. HEVERT MAKE CERTAIN CRITICISMS OF YOUR APPLICATION OF A CONSTANT GROWTH DCF ANALYSIS?

A Yes. His comments include the following:

1. A concern about the reliability of the constant growth DCF model based on current P/E ratios. As I responded to this argument above, Mr. Hevert's concerns are based on faulty analyses, incomplete data, and a flawed assessment of market prices and relative valuation.

2. An assertion that certain estimates should be excluded in measuring a constant growth DCF return. He argues that certain returns should be excluded if they are outside authorized returns on equity for the electric utility industry. This practice biases an estimate of Ameren Missouri's current market cost of equity using a DCF study.

Q PLEASE EXPLAIN WHY MR. HEVERT'S PROPOSAL TO EXCLUDE DCF ESTIMATES BASED ON COMMISSION AUTHORIZED RETURNS ON EQUITY DOES NOT PRODUCE AN UNBIASED LEGITIMATE ESTIMATE OF THE CURRENT MARKET COST OF EQUITY BASED ON A DCF MODEL.

A Mr. Hevert simply excludes certain DCF estimates based on external factors rather than a legitimate estimate based on a reliable and accurate DCF model development. Mr. Hevert cannot accurately measure a DCF estimate of the current market cost of equity for a utility if he excludes a DCF return based on factors that have nothing to do with the development of a legitimate and reliable DCF return estimate. If the Commission follows Mr. Hevert's advice, the constant growth DCF estimate will be manipulated and will not be a useful and accurate data point available to measure Ameren Missouri's current market cost of equity.

I agree that after all cost studies are performed in an independent unbiased and reliable manner, external factors can be used by the Commission to interpret model results and support its finding of a fair and balanced return on equity. However, Mr. Hevert proposes to bias the DCF model results before they are presented to the Commission and thereby manipulates the data point available to the Commission to determine a fair return on equity.

Q DID MR. HEVERT ALSO MAKE COMMENTS CONCERNING YOUR SUSTAINABLE GROWTH DCF ANALYSIS?

A Yes. These are the same arguments I have had with Mr. Hevert in previous rate cases concerning the sustainable growth DCF model. However, one of the major difficulties I have with Mr. Hevert's arguments is that his criticisms of this model are simply disingenuous. Mr. Hevert's multi-stage growth DCF model is constructed based on the principles of sustainable growth. Therefore, his criticism of this model, can be used as criticism of his own multi-stage growth DCF model.

Specifically, my sustainable growth rate model assumes that there is a relationship between earnings growth, dividend growth, and dividend payout ratios. Similarly, Mr. Hevert's multi-stage growth DCF model shows a relationship between earnings growth, dividend growth, and dividend payout ratios.

My sustainable growth DCF model and Mr. Hevert's multi-stage growth model are based on the same sustainable growth mathematical construct. Again, Mr. Hevert's criticism of my sustainable DCF model is simply without merit because he uses a version of the same sustainable growth model himself.

Q PLEASE OUTLINE MR. HEVERT'S CRITICISMS OF YOUR MULTI-STAGE GROWTH DCF MODEL.

A Mr. Hevert primarily makes two complaints concerning my multi-stage growth DCF model. Those include the following:

1. He believes that I did not reflect the quarterly payment of dividends in my model and therefore understate the DCF return estimate.

2. He believes my Gross Domestic Product ("GDP") growth rate understates a long-term sustainable GDP growth.

Q PLEASE COMMENT ON MR. HEVERT'S PROPOSAL TO ADJUST YOUR DCF MODEL TO REFLECT QUARTERLY DIVIDEND PAYMENTS.

A Mr. Hevert's proposal to modify the timing of the cash flows in the DCF model simply does not reflect reality. In my DCF model, I assume the utility investor will receive four quarterly dividend payments after it owns the stock for one year. In contrast, Mr. Hevert assumes a utility investor will receive four quarterly dividend payments after owning the stock for only two quarters. Mr. Hevert's modification to the cash flow of the model simply distorts reality and inflates the DCF return.

By accelerating the timing of cash flow as Mr. Hevert does in his multi-stage growth DCF model, he increases the DCF return estimate because he falsely assumes that investors will receive cash flows significantly sooner than they actually receive the cash after buying a stock. This does not accurately reflect the dividend timing, and biases his multi-stage growth DCF estimate.

Q PLEASE RESPOND TO MR. HEVERT'S CONCERN OF YOUR GDP GROWTH OUTLOOK USING YOUR MULTI-STAGE GROWTH DCF MODEL.

A I have already responded to the inappropriateness of Mr. Hevert's GDP growth forecast in my rebuttal testimony at 6-8. There, I describe how he relies on historical real GDP growth, with a projection of future inflation to arrive at his nominal GDP growth estimate. A significant flaw in Mr. Hevert's GDP growth forecast is that he is not reflecting consensus market participants' outlook for future real GDP growth. Historical real GDP growth is much higher than GDP growth is expected to be going forward. There can be many factors that describe this slowdown in real U.S. GDP growth, likely attributable to globalization of the world economy, and increasing the competition the U.S. economy has for selling goods and services. Whatever the exact reason, independent consensus economists that provide relevant information to investors to make real world investment decisions, are projecting real GDP growth significantly lower than Mr. Hevert is projecting in his rate of return testimony in this proceeding. Hence, his outlook for real GDP growth is not reflective of consensus market participants and therefore overstates a reasonable estimate of what investors assume in making investment decisions. For these reasons, his GDP growth outlook should be rejected because it has not been shown to be reflective of rational investment outlooks.

Q DID MR. HEVERT COMMENT ON YOUR CAPITAL ASSET PRICING MODEL ("CAPM")?

A Yes. Mr. Hevert took issue with my development of the market risk premium component of my CAPM. He states that the market risk premium estimate was too low based on several measures including frequency distributions of market returns, and earnings retention ratios.

Q ARE MR. HEVERT'S COMMENTS CONCERNING AN APPROPRIATE MARKET RISK PREMIUM WITHIN A CAPM REASONABLE?

A No. All of Mr. Hevert's arguments on measuring an appropriate market risk premium are based on the premise that the market going forward will only have above average returns, while the normal historical realized returns on the market include below average and above average returns.

His Chart 10 shows a frequency distribution of observed market returns from 1926 to 2013. There, he states that a 13% return and higher actually occur quite often in the marketplace. Based on this, he believes his estimated market returns of 12.75% and 13.49% represent approximately the 50th percentile of actual historical returns.

What Mr. Hevert's return outlooks do not include is the expectation that the market will continue to experience above average returns (above the upper 50th percentile) and below average returns (below the 50th percentile). Mr. Hevert's market return is inflated and not based on a rational outlook for further returns.

Mr. Hevert's second argument deals with whether earnings growth will increase in the Standard & Poor's ("S&P") 500 because the earnings paid out as dividends will change relative to historical periods. Mr. Hevert's Chart 11 shows that the earnings retention ratio (or 1 minus the payout ratio) has increased from 1926 to 2006. He states that this earnings retention ratio will fuel more earnings growth, and allow for greater earnings growth going forward than which has been achieved in the past.

What Mr. Hevert's analysis simply does not show is how stocks will fuel earnings growth, if the growth rate of the earnings exceeds the growth rate of the markets in which they sell their goods and services. It is simply again not rational for Mr. Hevert to believe that earnings can grow measurably higher than the growth rate of the market in which they sell their services and goods.

Further, earnings retention ratios as he shows on his Chart 11 have been quite volatile in reality over time, and largely can be impacted by taxes on dividends, and capital gains. All of this can change over time, and the relationship of earnings retention ratios and dividend payout ratios will be impacted by many factors over time and may not necessarily continue on the trend that Mr. Hevert has shown.

Further, Mr. Hevert's Chart 12 and Chart 13 attempt to give a false implication concerning the probability of future market risk premiums. His frequency distribution of risk premiums is used to produce an expected risk premium going forward. Indeed, all observations whether positive or negative are equally likely to reoccur in the future. Hence, giving equal weight to all historical annual market risk premiums and market returns is the most balanced and unbiased method of estimating future expected market returns and market risk premiums.

Q DID MR. HEVERT COMMENT ON YOUR RISK PREMIUM STUDY?

A Yes. He makes three comments:

1. He states that my method of excluding the fourth highest and fourth lowest risk premiums is arbitrary and establishes a return on equity range that is not predicated on economic and financial conditions.

2. He says that the methodology ignores an inverse relationship between equity risk premiums and interest rates.

3. He states that the low end of my estimated range is far lower than the return on equity authorized since at least 1986 and as such has no relevance in estimating the Company's cost of equity.

Q PLEASE RESPOND TO MR. HEVERT'S COMMENTS CONCERNING YOUR RISK PREMIUM STUDY.

A Mr. Hevert's criticisms are without merit for the following reasons:

1. His first comment that the exclusion of the four highest and four lowest risk premiums is arbitrary is simply without merit. By excluding the highest and lowest, I am narrowing the range of historical observed returns, and giving equal consideration to all the returns examined over this time period. Further, my rebuttal testimony offered a similar analysis but used five-year and 10-year rolling averages of equity risk premiums to develop a range. That analysis produced a similar result to the risk premium study included in my direct testimony. His claim

of arbitrary exclusion of numbers was not relevant in that risk premium study offered in rebuttal.

2. Mr. Hevert's belief that there is an inverse relationship between interest rates and equity risk premiums is simplistic and without merit. While interest rates and equity risk premiums are interrelated, changes in interest rates are not the sole factor which explains changes in equity risk premiums. Rather, academic literature states that equity risk premiums change based on perceived changes in investment risk between equity investments and debt investments. It is simply not accurate nor consistent with academic literature to assume an inverse relationship between equity risk premiums and interest rates over all market periods. Academic literature is clear. This relationship changes over time, and is largely driven by changes in relative investment risk between equity and debt securities.

3. Mr. Hevert's observation concerning my lowest derived risk premium is again based on his arbitrary adjustment to market models to produce an imbalanced estimate of the current market cost of equity. Mr. Hevert's practice is to exclude numbers which he does not like in an effort to try to increase the authorized return on equity finding of the specific model. Instead, the model should be performed in an unbiased manner in order to produce a valid and reliable estimate from the market-based model, in this case the risk premium model. If there are reasons to dismiss or give minimal weight, or give significant weight to the model result, then such considerations should be taken into account when interpreting the results of the models. Mr. Hevert's practice is to bias the results of the model, which diminishes the validity and value of the returns produced from the model and limits the amount of useful information to make an informed decision of the current market cost of equity.

Q DID MR. HEVERT OFFER CERTAIN COMMENTS CONCERNING YOUR PROXY GROUP'S COMPARISON TO AMEREN MISSOURI'S INVESTMENT RISK?

A Yes. He suggests that the business risk profile of Ameren Missouri of "Excellent" is not a distinguishing factor for electric utility companies. He finds that the credit rating may not be a good indicator of investment risk, because he believes that equity and debt investors face different risks, require different returns and invest in different securities.

Q DO YOU BELIEVE THAT MR. HEVERT'S CONCLUSIONS SUGGEST THAT THE PROXY GROUP YOU USED TO ESTIMATE AMEREN MISSOURI IS NOT A REASONABLE RISK PROXY FOR AMEREN MISSOURI?

A No. Mr. Hevert's comments do not seem to focus on investment risk. The proxy group I used is largely the same as the proxy group he used. To the extent he believes the proxy group is not risk comparable to Ameren Missouri then my results are not less reliable than his. Contrary to Mr. Hevert's assertions, a bond rating is useful in measuring equity investment risk. A utility company relies on internal cash flows to meet its debt service obligations, and to also satisfy the expected return of equity investors. Hence, while debt and equity security investors assume different risk and invest in different securities, the utility's ability to produce adequate and predictable cash flows allows the utility to meet its debt security obligations, and to meet the return expected by equity investors.

Equity investors have greater risk than bondholders, because they are paid after debt holders, but nevertheless they are paid out of the same utility operating cash flow generation. As such, there is a strong correlation between investment risk for an equity investor and bond investor.

Indeed, bond rating measures as a form of estimating a comparable risk proxy group is in my experience a widely recognized and highly utilized method of selecting proxy risk companies. For example, before the Federal Energy Regulatory Commission ("FERC"), the bond rating is a primary benchmark used to select comparable risk companies.[4]

I would note, that Mr. Hevert's suggestion that my proxy group is not risk comparable to Ameren Missouri is simply not based on credible evidence, and again,

[4] 147 FERC ¶ 61,234, Opinion 531, Order on Initial Decision at paragraphs 106-108.

largely refutes the reliability of his own proxy group and capital market analyses. His arguments are simply without merit.

Q DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A Yes, it does.

9913/273066

Ameren Missouri

2014 Electric Utility Rate Case Authorized Return on Equity

2014 Authorized Return on Equity[1]

State (1)	Company (2)	Case Type (3)	Decision Type (4)	Return on Equity (%) (5)	Date (6)	S&P Credit Rating (7)
New York	Consolidated Edison Co. of NY	Distribution	Settled	9.20	2/20/2014	A-
North Dakota	Northern States Power Co. - MN	Vertically Integrated	Settled	9.75	2/26/2014	A-
New Hampshire	Liberty Utilities Granite St	Distribution	Settled	9.55	3/17/2014	BBB
District of Columbia	Potomac Electric Power Co.	Distribution	Fully Litigated	9.40	3/26/2014	BBB+
New Mexico	Southwestern Public Service Co	Vertically Integrated	Fully Litigated	9.96	3/26/2014	A-
Delaware	Delmarva Power & Light Co.	Distribution	Fully Litigated	9.70	4/2/2014	BBB+
Texas	Entergy Texas Inc.	Vertically Integrated	Settled	9.80	5/16/2014	BBB
Massachusetts	Fitchburg Gas & Electric Light	Distribution	Fully Litigated	9.70	5/30/2014	BBB+
Wisconsin	Wisconsin Power and Light Co	Vertically Integrated	Fully Litigated	10.40	6/6/2014	A
Maine	Emera Maine	Distribution	Settled	9.55	6/30/2014	BBB+
Maryland	Potomac Electric Power Co.	Distribution	Fully Litigated	9.62	7/2/2014	BBB+
Louisiana	Entergy Louisiana LLC	Vertically Integrated	Settled	9.95	7/10/2014	BBB
New Jersey	Rockland Electric Company	Distribution	Settled	9.75	7/23/2014	A-
Maine	Central Maine Power Co.	Distribution	Settled	9.45	7/29/2014	BBB+
Wyoming	Cheyenne Light Fuel Power Co.	Vertically Integrated	Settled	9.90	7/31/2014	BBB
New Jersey	Atlantic City Electric Co.	Distribution	Settled	9.75	8/20/2014	BBB+
Vermont	Green Mountain Power Corp	Vertically Integrated	Settled	9.60	8/25/2014	BBB+
Utah	PacifiCorp	Vertically Integrated	Settled	9.80	8/29/2014	A-
Florida	Florida Public Utilities Co.	Vertically Integrated	Settled	10.25	9/15/2014	N/A
Montana	NorthWestern Corp.	Limited-Issue Rider	Fully Litigated	9.80	9/25/2014	BBB
Nevada	Nevada Power Co.	Vertically Integrated	Settled	9.80	10/9/2014	BBB+
Illinois	MidAmerican Energy Co.	Vertically Integrated	Fully Litigated	9.56	11/6/2014	A-
Wisconsin	Wisconsin Public Service Corp.	Vertically Integrated	Fully Litigated	10.20	11/6/2014	A-
Wisconsin	Wisconsin Electric Power Co.	Vertically Integrated	Fully Litigated	10.20	11/14/2014	A-
Virginia	Appalachian Power Co.	Vertically Integrated	Fully Litigated	9.70	11/26/2014	BBB
Wisconsin	Madison Gas and Electric Co.	Vertically Integrated	Fully Litigated	10.20	11/26/2014	AA-
Oregon	Portland General Electric Co.	Vertically Integrated	Settled	9.68	12/4/2014	BBB
Illinois	Ameren Illinois	Distribution	Fully Litigated	9.25	12/10/2014	BBB+
Illinois	Commonwealth Edison Co.	Distribution	Fully Litigated	9.25	12/10/2014	BBB
Mississippi	Entergy Mississippi Inc.	Vertically Integrated	Settled	10.07	12/11/2014	BBB
Wisconsin	Northern States Power Co - WI	Vertically Integrated	Fully Litigated	10.20	12/12/2014	A-
Connecticut	Connecticut Light & Power Co.	Distribution	Fully Litigated	9.17	12/17/2014	A-
Colorado	Black Hills Colorado Electric	Vertically Integrated	Fully Litigated	9.83	12/18/2014	BBB
			Average:	**9.76**		**BBB+**
			Median:	**9.75**		**BBB+**
			Minimum:	**9.17**		**BBB**
			Maximum:	**10.40**		**AA-**

Fully Litigated Rate Cases [2]

State (8)	Company (9)	Case Type (10)	Decision Type (11)	Return on Equity (%) (12)	Date (13)	S&P Credit Rating (14)
District of Columbia	Potomac Electric Power Co.	Distribution	Fully Litigated	9.40	3/26/2014	BBB+
New Mexico	Southwestern Public Service Co	Vertically Integrated	Fully Litigated	9.96	3/26/2014	A-
Delaware	Delmarva Power & Light Co.	Distribution	Fully Litigated	9.70	4/2/2014	BBB+
Massachusetts	Fitchburg Gas & Electric Light	Distribution	Fully Litigated	9.70	5/30/2014	BBB+
Maryland	Potomac Electric Power Co.	Distribution	Fully Litigated	9.62	7/2/2014	BBB+
Montana	NorthWestern Corp.	Limited-Issue Rider	Fully Litigated	9.80	9/25/2014	BBB
Illinois	MidAmerican Energy Co.	Vertically Integrated	Fully Litigated	9.56	11/6/2014	A-
Wisconsin	Wisconsin Public Service Corp.	Vertically Integrated	Fully Litigated	10.20	11/6/2014	A-
Virginia	Appalachian Power Co.	Vertically Integrated	Fully Litigated	9.70	11/26/2014	BBB
Illinois	Ameren Illinois	Distribution	Fully Litigated	9.25	12/10/2014	BBB+
Illinois	Commonwealth Edison Co.	Distribution	Fully Litigated	9.25	12/10/2014	BBB
Connecticut	Connecticut Light & Power Co.	Distribution	Fully Litigated	9.17	12/17/2014	A-
Colorado	Black Hills Colorado Electric	Vertically Integrated	Fully Litigated	9.83	12/18/2014	BBB
			Average:	**9.63**		**BBB+**
			Median:	**9.70**		**BBB+**
			Minimum:	**9.17**		**BBB**
			Maximum:	**10.20**		**A-**

1) Rate Cases with out ROE authorization and Virginia limited issue cases for Riders are excluded.
2) Rate Cases decided by settlement have been eliminated, along with the following Wisconsin cases.
Wisconsin Power and Light Co., docket D-6680-UR-119 (Elec)
No rate change requested, parties filed comments in support, no hearing, ROE from prior case.
Wisconsin Electric Power Co., docket D-05-UR-107 (WEP-Elec)
Madison Gas and Electric Co., docket D-3270-UR-120 (Elec)
Northern States Power Co - WI, docket D-4220-UR-120 (Elec)
ROE was not contested and agreed to in settlement by the parties.

Source: SNL Financial

Ameren Missouri

2014 Vertically Integrated Electric Utility Rate Case Authorized Return on Equity

2014 Authorized Return on Equity[1]

State (1)	Company (2)	Case Type (3)	Decision Type (4)	Return on Equity (%) (5)	Date (6)	S&P Credit Rating (7)
North Dakota	Northern States Power Co. - MN	Vertically Integrated	Settled	9.75	2/26/2014	A-
New Mexico	Southwestern Public Service Co	Vertically Integrated	Fully Litigated	9.96	3/26/2014	A-
Texas	Entergy Texas Inc.	Vertically Integrated	Settled	9.80	5/16/2014	BBB
Wisconsin	Wisconsin Power and Light Co	Vertically Integrated	Fully Litigated	10.40	6/6/2014	A
Louisiana	Entergy Louisiana LLC	Vertically Integrated	Settled	9.95	7/10/2014	BBB
Wyoming	Cheyenne Light Fuel Power Co.	Vertically Integrated	Settled	9.90	7/31/2014	BBB
Vermont	Green Mountain Power Corp	Vertically Integrated	Settled	9.60	8/25/2014	BBB+
Utah	PacifiCorp	Vertically Integrated	Settled	9.80	8/29/2014	A-
Florida	Florida Public Utilities Co.	Vertically Integrated	Settled	10.25	9/15/2014	N/A
Nevada	Nevada Power Co.	Vertically Integrated	Settled	9.80	10/9/2014	BBB+
Illinois	MidAmerican Energy Co.	Vertically Integrated	Fully Litigated	9.56	11/6/2014	A-
Wisconsin	Wisconsin Public Service Corp.	Vertically Integrated	Fully Litigated	10.20	11/6/2014	A-
Wisconsin	Wisconsin Electric Power Co.	Vertically Integrated	Fully Litigated	10.20	11/14/2014	A-
Virginia	Appalachian Power Co.	Vertically Integrated	Fully Litigated	9.70	11/26/2014	BBB
Wisconsin	Madison Gas and Electric Co.	Vertically Integrated	Fully Litigated	10.20	11/26/2014	AA-
Oregon	Portland General Electric Co.	Vertically Integrated	Settled	9.68	12/4/2014	BBB
Mississippi	Entergy Mississippi Inc.	Vertically Integrated	Settled	10.07	12/11/2014	BBB
Wisconsin	Northern States Power Co - WI	Vertically Integrated	Fully Litigated	10.20	12/12/2014	A-
Colorado	Black Hills Colorado Electric	Vertically Integrated	Fully Litigated	9.83	12/18/2014	BBB
			Average:	**9.94**		**BBB+**
			Median:	**9.90**		**A-**
			Minimum:	**9.56**		**BBB**
			Maximum:	**10.40**		**AA-**

Fully Litigated Rate Cases[2]

State (8)	Company (9)	Case Type (10)	Decision Type (11)	Return on Equity (%) (12)	Date (13)	S&P Credit Rating (14)
New Mexico	Southwestern Public Service Co	Vertically Integrated	Fully Litigated	9.96	3/26/2014	A-
Illinois	MidAmerican Energy Co.	Vertically Integrated	Fully Litigated	9.56	11/6/2014	A-
Wisconsin	Wisconsin Public Service Corp.	Vertically Integrated	Fully Litigated	10.20	11/6/2014	A-
Virginia	Appalachian Power Co.	Vertically Integrated	Fully Litigated	9.70	11/26/2014	BBB
Colorado	Black Hills Colorado Electric	Vertically Integrated	Fully Litigated	9.83	12/18/2014	BBB
			Average:	**9.85**		**BBB+**
			Median:	**9.83**		**A-**
			Minimum:	**9.56**		**BBB**
			Maximum:	**10.20**		**A-**

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Northern States Power Co - WI, docket D-4220-UR-120 (Elec)
ROE was not contested and agreed to in settlement by the parties.

Source: SNL Financial

Ameren Missouri

Utility Bond Yields

Line	Date	"A" Rated Utility Bond Yields	"Baa" Rated Utility Bond Yields
1	1/23/2015	3.51%	4.33%
2	1/16/2015	3.55%	4.38%
3	1/9/2015	3.68%	4.49%
4	1/2/2015	3.82%	4.60%
5	12/26/2014	3.94%	4.72%
6	12/19/2014	3.90%	4.71%
7	12/12/2014	3.87%	4.63%
8	12/5/2014	4.06%	4.73%
9	11/28/2014	3.99%	4.66%
10	11/21/2014	4.08%	4.77%
11	11/14/2014	4.09%	4.76%
12	11/7/2014	4.08%	4.71%
13	10/31/2014	4.10%	4.71%
14	Average	3.90%	4.63%

Source:
http://credittrends.moodys.com