Exhibit No.: ______________
Issue(s): Rate of Return (ROR)/Return on Equity/ Capital Structure
Witness/Type of Exhibit: Murray/Surrebuttal
Sponsoring Party: Public Counsel
Case No.: GR-2021-0241

SURREBUTTAL TESTIMONY

OF

DAVID MURRAY

Submitted on Behalf of the Office of the Public Counsel

UNION ELECTRIC COMPANY
D/B/A AMEREN MISSOURI

FILE NO. GR-2021-0241

** **

Denotes Confidential Information
that has been Redacted

November 5, 2021

PUBLIC

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Union Electric Company d/b/a Ameren Missouri's Tariffs to Increase its Revenues for Gas Service	)))))	Case No. GR-2021-0241

AFFIDAVIT OF DAVID MURRAY

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

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

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

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

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

David Murray
Utility Regulatory Manager

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

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

Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2023.

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SURREBUTTAL TESTIMONY

OF

DAVID MURRAY

UNION ELECTRIC COMPANY d/b/a AMEREN MISSOURI

FILE NO. GR-2021-0241

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

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

4 **Q. Are you the same David Murray who previously filed Direct and Rebuttal Testimony**
5 **in this case?**

6 A. Yes.

7 **Q. What it the purpose of your testimony?**

8 A. To respond to Company witnesses' Darryl T. Sagel's and Ann E. Bulkley's rebuttal
9 testimonies as it relates to rate of return ("ROR") and capital structure. I will also address
10 the rebuttal testimony of Staff witness Seoung Joun Won, PhD.

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

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

18 I will then address Ms. Bulkley's response to my recommended allowed ROE of 9.25% for
19 Ameren Missouri's local natural gas distribution system ("gas utility").

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

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

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

1 **DARRYL T. SAGEL'S REBUTTAL TESTIMONY**

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

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

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

12 A. Not that I am aware.

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

15 A. No.

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

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

[1] Although there are subtle differences between Moody's CFO Pre-WC/Debt ratio and an FFO/debt ratio, I will generally refer to Moody's CFO Pre-WC/Debt ratio as "FFO/debt," which is similar to Mr. Sagel's reference to such in his rebuttal testimony.
[2] Sagel Rebuttal, p. 21, lns. 2-4.

1 **Q. Mr. Sagel indicates that Moody's rejected Ameren Corp's management's argument**
2 **to ** ____**
3 **____**
4 ****[3] Is Mr. Sagel's recollection of these events accurate?**

5 A. No. ** ____
6 ____
7 ____
8 ____
9 ____
10 ____
11 ____
12 ____
13 ____
14 ____
15 **

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

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

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

23 A. No.

[3] *Id.,* p. 21, lns. 4-8.

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

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

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

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

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

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

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

14 A. No. Evergy Metro currently has a "stable outlook" despite its FFO/debt ratio being below
15 19% for the last three years. Moody's indicates that it expects Evergy Metro's FFO/debt
16 ratios to be in the "high teens" for the next 12-18 months. Moody's indicates it may
17 consider a downgrade if Evergy Metro's FFO/debt falls below 18% on a sustained basis.

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

20 A. No.

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

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

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

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

8 A. No.

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

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

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

17 A. Yes. Ameren Corp used the same strategy. In testimonies filed in Ameren Illinois rate
18 cases, Ameren Illinois witnesses recommended and vigorously defended the use of Ameren
19 Illinois' actual capital structure, which contained a common equity ratio as high as
20 54.279% in Docket No. 12-0001.[6] The arguments in the Ameren Illinois rate cases were
21 quite similar to those in this case. Ameren Illinois' witnesses indicated Ameren Illinois
22 had to maintain a higher common equity ratio in order to offset higher business risks
23 associated with the Illinois regulatory environment.[7]

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[5] Sagel Rebuttal, p. 23, ll. 1-14.
[6] Illinois Docket No. 12-0001, Schedule D-1 Sponsored by Ryan J. Martin
[7] Illinois Docket No. 12-001, Ryan J. Martin Rebuttal Testimony, p. 5, l. 97 through p. 6, l. 116.

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

3 A. 51.49%.

4 **Q. What did the ICC authorize?**

5 A. 51.49%

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

7 A. 54.62%.

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

9 A. 51%.

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

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

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

13 A. 51%.

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

15 A. 51%.

16 **Q. What about the ICC Staff?**

17 A. 51%.

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

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

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

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

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

6 A. No.

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

9 A. No.

10 **Q. Why?**

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

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

14 A. He is the Vice President and Treasurer.

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

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

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

20 A. Yes. The fact that Mr. Sagel seems to simply accept that Ameren Missouri has not received
21 any credit for its reduced business risk profile is disturbing. It certainly illustrates to the
22 extent Ameren Missouri does have its own board of directors ("BOD") and officers, they
23 clearly are not looking out for Ameren Missouri's financial interest and the interest of its

1 customers. If Ameren Missouri's interest, and that of its ratepayers, were being protected,
2 then Ameren Missouri's officers would have bargained for Ameren Missouri's rightful
3 debt capacity. As I will demonstrate later, this is even more concerning considering the
4 fact that Ameren Missouri's cash flows have supported Ameren Corp's ability to finance
5 its investments in its other subsidiaries as well as paying dividends to Ameren Corp's
6 shareholders over the last several years.

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

9 A. Ameren Corp's December 17, 2018 presentation to Moody's (Schedule DM-S-1) clearly
10 shows that ** ____
11 ____
12 ____
13 ____
14 ___________________________________ **

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

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

20 ** ____
21 ____
22 ____
23 __________ **[8]

24 Ameren also indicated the following during it Financing Committee Meeting on May 2,
25 2019:

26 ** ____
27 ____

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

1 ____
2 ____
3 ____________________________ **[9]

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

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

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

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

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

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

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

20 A. Yes.

21 **Q. Are these individuals employed by Ameren Corp?**

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

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

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

3 A. No.

4 **Q. What do you conclude based on this information?**

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

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

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

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

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

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

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

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

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

11 A. Yes. During the period in which Ameren was supporting investment in ATXI and AIC,
12 Ameren Missouri's FFO/debt ratios were around 24% or higher, which was significantly
13 above the 19% FFO/debt threshold required to maintain a 'Baa1' credit rating. Ameren
14 Missouri could have issued more debt during this period and still had a comfortable
15 FFO/debt margin above 19%. However, if Ameren Missouri had done so, it would have
16 caused Ameren Corp's consolidated FFO/debt ratio to be lower. Maintaining a higher
17 FFO/debt ratio at Ameren Corp over this period was important for Ameren Corp because
18 it was regularly accessing the capital markets, such as to issue commercial paper, in order
19 to fund investment in ATXI, which required significant amounts of capital. After
20 accumulating a significant amount of short-term debt at Ameren Corp due to its investment
21 in ATXI and its refinancing of a $425 million long-term bond, Ameren Corp issued $700
22 million of bonds in 2015, which was a year in which Ameren Missouri had a FFO/debt
23 ratio of 26.7%[11]. This compared to Ameren's consolidated FFO/debt ratio of 24.4% during
24 the same year.[12]

[11] Moody's Credit Opinion, Union Electric Company, March 29, 2019, Exhibit 2, p. 2.
[12] Moody's Credit Opinion, Ameren Corporation, March 29, 2019, Exhibit 2, p. 2.

1 **Q. Staff witness Dr. Won claims that if Ameren Missouri's capital structure was**
2 **managed to a 45% common equity ratio, it would likely cause a downgrade to Ameren**
3 **Missouri's credit rating? [13] Does Dr. Won provide support for his view?**

4 A. Not really. Dr. Won indicates that if Ameren Missouri's capital structure were managed
5 to a 45% common equity ratio "its credit rating would likely be lower than the current
6 BBB+ because of a higher debt ratio."[14]

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

9 A. 'Significant.'[15]

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

12 A. 15% to 17%.[16]

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

15 A. 18% to 22%.[17]

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

19 A. Yes. However, it is fully within Ameren Corp's control to reduce the amount and
20 percentage of holding company debt to fairly share the debt capacity supported by Ameren
21 Missouri's ratepayers through more favorable ratemaking mechanisms, which provide
22 more certain recovery and reduced regulatory lag. If Ameren Corp reduces the holding

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[13] Won Rebuttal, p. 29, ll. 1-2.
[14] *Id.*
[15] S&P Global – RatingsDirect, Ameren Corp, April 27, 2021, p. 14.
[16] *Id.*, p. 6.
[17] S&P Global – RatingsDirect, Union Electric d/b/a Ameren Missouri, April 27, 2021, p. 5.

1 company debt by the same amount of the increase in Ameren Missouri's' debt, Ameren
2 Corp's consolidated capital structure would not change.

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

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

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

11 A. No. Assuming the same ROE (9.5%) is applied to Mr. Sagel's recommended capital
12 structure compared to my recommended capital structure, this causes a $49.3 million
13 difference in revenue requirement for both Ameren Missouri's gas and electric rate cases.
14 Assuming Ameren Missouri then issues an additional $768.2 million in long-term debt to
15 target a 45% common equity ratio, then this would create additional after-tax interest
16 expense of approximately $21.2 million if this debt has the same embedded cost as Ameren
17 Missouri's current debt outstanding (3.85%). However, as I explained in my direct
18 testimony,[19] the likely cost of new debt for Ameren Missouri would closer to 2.88%. But
19 this lower interest expense would only cause Mr. Sagel's FFO/debt ratio to increase by
20 $1/10^{th}$ of a percent (15.3% vs. 15.2%).

21 **Q. What was Ameren Missouri's FFO/debt ratio or the last twelve months through June**
22 **30, 2021?**

23 A. 14.8%.[20]

[18] Sagel Rebuttal, p. 36, l. 12 – p. 37, l. 19.
[19] Murray Direct, p. 41, ll. 1-9.
[20] Moody's Credit Opinion, September 13, 2021, p. 6.

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

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

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

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

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

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

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

18 A. Yes. There is no doubt that Ameren Corp's financing and business risks have impacted
19 Ameren Missouri's financing flexibility in the past. Ameren Missouri's was foreclosed
20 access to commercial paper markets in August 2008 due to its Moody's short-term credit
21 rating being downgraded to P-3. Ameren Missouri's short-term rating was downgraded
22 due to Moody's downgrading Ameren Corp' long-term rating to 'Baa3'. This downgrade
23 was primarily caused by financial difficulties at Ameren Missouri's affiliates. Because
24 S&P already rated Ameren Corp at a 'BBB-', which meant Ameren Missouri was also
25 rated 'BBB-', Ameren Missouri had an A-3 short-term rating. These Tier-3 short-term

[21] *Id.*

1 ratings foreclosed Ameren Missouri's access to short-term credit markets, which proved to
2 be quite costly to Ameren Missouri ratepayers because of liquidity concerns. Ameren
3 Missouri ratepayers were charged for carrying costs due to the delay in construction at
4 Ameren Missouri's Sioux Scrubber plants.

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

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

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

10 A. No. I am simply providing this testimony to illustrate the hypocrisy of Mr. Sagel's
11 expressed concerns about Ameren Missouri's ratepayers paying a higher ROR to provide
12 financial stability for a parent company that hasn't always reciprocated. If Ameren Corp
13 wants Ameren Missouri's equity ratio to be set around 52%, then Ameren Corp should
14 issue more equity and less debt in order achieve an equity ratio more consistent with the
15 52% it apparently considers important to maintain financial flexibility.

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

19 A. No. My argument is that Ameren Missouri's regulated utility assets can support a greater
20 portion of debt in its capital structure than it has in the past. Ameren Missouri's lower
21 business risk creates additional debt capacity while still being able to maintain the same
22 credit rating. I argue that the reduced business risk ultimately supported by ratepayers
23 allows for a lower cost of capital due to higher debt capacity. This benefit should be shared
24 with ratepayers in the form of a more leveraged ratemaking capital structure. Being that
25 debt has a much lower cost than equity, this would result in a lower cost of capital charged
26 to Ameren Missouri ratepayers. It is not fair to keep Ameren Missouri's equity ratio

[22] Sagel Rebuttal, p. 23, l. 15 – p. 24, l. 7.

1 constant over time when there have been fundamental changes to Ameren Missouri's
2 ability to recover investments through the PISA tracker and RESRAM rider. This
3 unfairness is magnified due to the fact that Ameren Corp is using this reduced business risk
4 to support the issuance of more holding company debt to leverage shareholder returns.

5 **Q. Mr. Sagel discusses Moody's concerns about the strain the Tax Cut and Jobs Act**
6 **("TCJA") could have on the utility industry's credit metrics such as the FFO/debt**
7 **ratio. He indicates that the Commission can help support Ameren Missouri's ability**
8 **to retain its current credit ratings by authorizing its requested higher equity ratio of**
9 **51.93%.[23] How do you respond to Mr. Sagel's plea?**

10 A. It is offensive. First, it is noteworthy that it has been 3-4 years since the TCJA was passed
11 and dealt with in regulatory proceedings with the Commission. Second, it is hypocritical
12 to request Ameren Missouri's ratepayers to pay a higher amount of net income on a more
13 conservative 52% common equity ratio, while at the same time Ameren Corp's more
14 aggressive use of holding company debt has lowered its common equity ratio to 45% from
15 approximately 50% in prior years. Mr. Sagel indicates that on November 9, 2019, Moody's
16 changed its outlook for the utility industry to "stable" from "negative" as a result of the
17 "implementation of more proactive regulatory and **financial** actions to address sector cash
18 flows following the passage of the TCJA, with regulatory actions including increased
19 authorized equity layers" (emphasis added). While the Commission may certainly be
20 supportive by authorizing a reasonable common equity ratio for ratemaking, it should
21 require Ameren Corp to demonstrate more conservative financial policies before it does
22 so. Instead of being more conservative to promote financial stability since the passage of
23 the TCJA, Ameren Corp has been more aggressive with its use of holding company debt
24 to leverage shareholder returns.

[23] Id., p. 24, l. 8 – p. 25, l. 11.

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

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

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

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

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

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

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

21 A. Yes. A condition of the KCC's approval of the merger was to institute an Earnings Review
22 and Sharing Plan ("ERSP"). The KCC understood that the newly formed entity, Evergy,
23 could attempt to keep more earnings by using more leverage at the holding company level
24 as compared to its subsidiaries. Consequently, to the extent Evergy's consolidated
25 common equity ratio was lower than its subsidiaries' common equity ratios by 2.5% to
26 3.5%, the percentage of equity allowed to be counted for the ERSP would be reduced by a
27 proportionate amount.

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

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

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

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

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

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

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

11 A. Around 42% to 43%.

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

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

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

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

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

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

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

23 A. Being that Ameren Missouri only grew its rate base by 2.2% to 3% over the last ten years,
24 it would only need to retain 68% to 77% of its EPS to have sufficient internal equity capital
25 to fund its investment and maintain a balanced capital structure. Because Ameren Missouri
26 had only been minimally reinvesting in its system, it would have made no sense to retain a

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[24] Sagel Rebuttal, p. 9, lns. 12-14.
[25] Sagel Rebuttal, p. 10, l. 13 – p. 12, l. 2

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1 higher amount of capital. Therefore, if Ameren Missouri were managed as a stand-alone
2 entity, it would not accumulate excessive amounts of equity as Mr. Sagel suggests because
3 the Company simply wouldn't have the need for retaining this equity. The most
4 appropriate dividend policy for Ameren Missouri over this period would be to target a
5 dividend payout ratio of around 75%.

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

9 A. Yes. My point was not that Ameren Missouri should retain capital if it is not reinvesting.
10 I was simply indicating that if Ameren Missouri was managed as stand-alone company
11 responsible to outside investors, these investors would demand a consistent dividend
12 payment with the possibility for a little growth. If this were the case, Ameren Missouri
13 could not pay Ameren Corp $430 million in dividends in 2019 and then reduce the dividend
14 payment to $66 million the very next year (2020). Instead, Ameren Missouri would not
15 only have been required to provide its shareholders a consistent dividend that represented
16 around 75% of its earnings over annual periods, but it would also have been compelled to
17 pay a quarterly dividend consistent with its DPS commitment, which may have required
18 Ameren Missouri to issue short-term debt to fund such dividends during quarters in which
19 there was lower cash available from operations.

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

24 A. No. While even as a consumer advocate witness, I do consider the potential impact on a
25 company's investors in my recommendations, a negative stock price reaction is not proof
26 of a bad Commission decision. Investors' expectations are impacted by many different
27 factors, with anticipated Commission decisions being one of the primary factors. As I

[26] Sagel Rebuttal, p. 39, l. 17 through p. 40, l. 12.

1 explained in my Direct Testimony, investors price in the probability that utility companies
2 may have their authorized ROEs reduced due to persistently low long-term interest rates.
3 However, the company guidance greatly influences investors' expectations. For example,
4 many companies, including Ameren Corp, provide investors earnings guidance. Ameren
5 Corp has consistently communicated to investors that it expects a long-term CAGR in EPS
6 of approximately 6-8% based on a 2018 normalized EPS. However, this earnings guidance
7 has many assumptions underlying it. The key factors typically influencing the earnings
8 guidance of a pure-play regulated utility such as Ameren are anticipated rate base growth,
9 the probability of recovery of this increased investment, and the parameters applied to the
10 rate base for purposes of allowed returns (which include an assumed capital structure and
11 potential allowed ROEs). ** ____
12 ____
13 ____
14 ____________________ _ ** Consequently, to the extent Ameren Corp's earnings guidance
15 assumes shareholder friendly regulatory outcomes, it should not be surprising when stock
16 prices react negatively to an outcome that considers ratepayers' interests.

17 **ANN E. BULKLEY'S REBUTTAL TESTIMONY**

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

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

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

1 **Q. Ms. Bulkley claims that you abandoned/discarded your COE estimates for purposes**
2 **of your recommended allowed ROE range of 8.5% to 9.5%, point recommendation**
3 **of 9.25%.[28] Is this an accurate representation of your testimony?**

4 A. No. My recommended authorized ROE of 9.25% takes into consideration many different
5 factors. A fundamental principle of shareholder value creation is for a company to invest
6 in projects that allow the company to at least earn its cost of capital. An allowed ROE of
7 9.25% allows for a margin of approximately 250 basis points over my estimate of Ameren
8 Missouri's COE in the range of 6.5% to 7.0%. I am aware investors have become
9 accustomed to regulators allowing utility companies returns that are higher than their cost
10 of capital. In fact, some investors, such as Evercore ISI, use investment models that assume
11 that regulators currently allow an ROE to COE spread of approximately 440 basis points
12 (9.75% ROE – 5.35% COE), but will eventually reduce the spread to a range of 225 to 285
13 basis points as either the COE increases, the allowed ROEs decrease or a combination of
14 both.[29]

15 The fact that the COE for utilities is this low establishes the reasonableness of my
16 recommended authorized ROE, which actually allows Ameren Missouri to increase
17 shareholder value above the classic economically efficient amount, which is at least
18 theoretically supposed to be no greater than the value created from earning a return
19 consistent with the cost of capital. Regardless, my determination that the COE is much
20 lower than Ameren Missouri's last electric authorized ROE of 9.53% provides support for
21 reducing Ameren Missouri's authorized ROE for its natural gas distribution operations, but
22 not as low as I recommend for Ameren Missouri's electric utility operations because of
23 current valuation differences between these subsectors. However, I also understand from
24 past Commission decisions that the Commission has set a zone of reasonableness ("ZOR")
25 that has generally been 100 basis points (1%) above and below recent average authorized
26 ROEs. Recent average authorized ROEs have been around 9.5% or a bit lower. Therefore,

[28] Bulkley Rebuttal, p. 3, lns. 1-5, p. 14, lns. 6-23 and p. 58, lns. 4-6.
[29] Durgesh Chopra and Michael Lonegan, "On the Heels of Deals, A Look at Utilities M&A" Evercore ISI, October 31, 2021, p. 5.

1 this established the low end of my recommended authorized ROE range because the
2 Commission has indicated it won't consider anything below this level.

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

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

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

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

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

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

[30] Bulkley Rebuttal, p. 14, ll. 12-15.

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

3 A. No. In response to OPC Data Request No. 3016 in Case No. ER-2021-0240, Ms. Bulkley
4 indicated her testimony is based on her observations related to the typical correlation of
5 utility stock valuations as it relates to changes in interest rates. Of course, her position
6 assumes that projected increases in long-term interest rates aren't already factored into the
7 price investors are willing to pay for utility stocks. The key determining factor of whether
8 utility stock valuation levels will increase or decrease from current levels is not whether
9 interest rates will increase, but whether they will be different from investors' expectations.

10 **Q. What do you mean?**

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

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

23 A. Yes. Mr. Sagel claimed I do not have foreknowledge of interest rate changes and corporate
24 debt markets over the next 10 to 30 years, a claim I do not dispute.[32] Consequently, I asked
25 him if he was aware of anyone that he trusts to have this foreknowledge. He indicated he

[31] Jeremy Tonet, CFA, et. al., "North American Utilities – Thoughts Into 3Q Earnings: Summer Breeze Makes 3Q Feel Fine," October 21, 2021, p. 6.
[32] Sagel Rebuttal, p. 28, lns. 3-6.

1 is "not aware of any individual with such foreknowledge." Mr. Sagel's statement is
2 consistent with the efficient market hypothesis which dictates that current security prices,
3 including UST bonds, reflect all potential changes in economic, monetary and fiscal policy
4 changes in the future.

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

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

11 **Q. **** ______________________________
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4 **Q. What steady-state ROEs and payout ratios do investors assume for the utility**
5 **industry?**

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

7 **Q. Ms. Bulkley criticizes your recommended ROE of 9.25% because she notes that the**
8 **COE has increased since the Commission determined an authorized ROE of 9.25%**
9 **was reasonable for Empire.[34] How do you respond?**

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

17 **<u>SEOUNG JOUN WON'S REBUTTAL</u>**

18 **Q. What is Dr. Won's primary disagreement with your position in this case?**

19 A. Capital structure.

20 **Q. Why does Dr. Won believe Ameren Missouri's capital structure ratios are**
21 **appropriate for setting Ameren Missouri's ROR?**

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[33] Durgesh Chopra and Michael Lonegan, "On the Heels of Deals, A Look at Utilities M&A" Evercore ISI, October 31, 2021, p. 5 and Neil Kalton, et. al., "DDM Analysis Supports Sector Valuation & Quality/Growth Trade," August 19, 2019, Wells Fargo.
[34] Bulkley Rebuttal, p. 61, ll. 4-18.

1 A. Dr. Won believes the four factors cited in the curriculum used for the Certified Rate of
2 Return Analyst ("CRRA") designation supports his view that Ameren Missouri's capital
3 structure, without adjustments, is appropriate for ratemaking. He cites the following four
4 factors:

5 1. Whether the subsidiary utility obtains all of its capital from its parent,
6 or issues its own debt and preferred stock;
7 2. Whether the parent guarantees any of the securities issued by the
8 subsidiary;
9 3. Whether the subsidiary's capital structure is independent of its parent
10 (i.e. existence of double leverage, absence of proper relationship
11 between risk and leverage of utility and non-utility subsidiaries);
12 4. Whether the parent (or consolidated enterprise) is diversified into non-
13 utility operations.[35]

14 Dr. Won indicates that there is **nothing** in these guidelines that supports the use of Ameren
15 Corp's capital structure to set Ameren Missouri's ROR.[36] If only this issue were as black
16 and white as Dr. Won suggests, setting a fair and reasonable ROR would be a much simpler
17 task. I already discussed these factors in my rebuttal testimony and based on my analysis
18 I concluded that these factors are much more nuanced than Dr. Won suggests.[37] Because
19 I already largely discussed these factors in my rebuttal testimony, I will only briefly address
20 some of further points prompted by Dr. Won's further discussion of these four factors.

21 First, I agree with Dr. Won that it is a fact that Ameren Corp does not provide long-term
22 affiliate loans to Ameren Missouri. Ameren Missouri does issue its own long-term debt
23 directly to third-party debt investors. Second, I agree that it is a fact that Ameren Corp
24 does not guarantee the long-term debt issued by Ameren Missouri. However, this fact
25 deserves further thought, because Ameren Corp relies on the low business risk of its
26 regulated utilities, including Ameren Missouri, for its ability to issue holding company
27 debt. This should cause one to question whether Ameren Corp is doing so at the expense
28 of Ameren Missouri's credit quality and ratepayers. This is where Dr. Won and I disagree
29 about the interpretation of these facts. In my opinion, this is why I consider the final two

[35] David Parcell, "The Cost of Capital – A Practitioner's Guide," 2010 Edition, p. 46.
[36] Won Rebuttal, p. 26, lns. 16-17.
[37] Murray Rebuttal, p. 8, l. 1 – p. 17, l. 2.

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factors as determinative of the need to adjust Ameren Missouri's constant equity ratio of 52% to be more similar to Ameren Corp's equity ratio. As it relates to the third and fourth factors, I will address these together because they are the most interrelated and Dr. Won emphasizes the fact that each of these guidelines mentions "non-utility" subsidiaries/operations. Figure 3 in Dr. Won's rebuttal testimony shows Ameren Corp's increasing debt ratio (declining equity ratio) and Ameren Missouri's constant equity ratio (debt ratio). Based on this graph, it appears Dr. Won now acknowledges that Ameren Corp is incurring more financial risk, i.e. debt, than Ameren Missouri, despite his direct testimony that concluded that Ameren Corp's and Ameren Missouri's similar business risk should allow each to incur similar financial risk.[38] Double-leverage occurs when the parent/holding company issues debt in addition to the subsidiary issuing debt. The fact that double leverage exists and Ameren Corp is currently a pure-play regulated utility is further support for using Ameren Corp's consolidated capital structure because the additional debt capacity is afforded by Ameren Corp's low-risk regulated utilities. If Ameren Corp had non-regulated operations, similar to the current situation involving The Empire District Electric Company's ultimate parent company, Algonquin Power & Utilities Company ("APUC"), the proper relationship between business risk and leverage would result in a less leveraged capital structure at the parent company, which is currently the case for APUC. Therefore, the fact that Ameren Corp is more leveraged than its regulated utility subsidiaries (and as shown in Dr. Won's Figure 3 the gap is widening) shows Ameren Corp recognizes its higher debt capacity by issuing holding company debt rather than sharing the cost of capital savings from its lower business risk with ratepayers through a more leveraged capital structure.

Q. What is your response to both Ms. Bulkley's and Dr. Won's view that Ameren Missouri's equity ratios are similar to average authorized equity ratios?

A. I provided information about authorized equity ratios for other companies in Missouri, which in Evergy Metro's case was consistent with that which the company recommended, and also in Kansas and Illinois. Although a 52% equity ratio may be within average

[38] Won Direct, p. 27, ll. 14-19.

1 authorized equity ratios, the primary evidence that should be considered is the
2 interrelationship and comparison of Ameren Missouri's capital structure to that of its parent
3 company. Based on this evidence, Ameren Missouri's requested equity ratios of ~52% is
4 unreasonable.

5 **SUMMARY AND CONCLUSIONS**

6 **Q. Can you summarize your surrebuttal testimony?**

7 A. Yes. This is not the first time Ameren Corp has tried to preserve a higher equity ratio at
8 its regulated subsidiary after significant legislative strategies allowed for more favorable
9 ratemaking. It is also not unique to compare the parent company's financing structure to
10 that of its subsidiaries when evaluating a fair and reasonable ratemaking capital structure.
11 The Commission need look no further than its two neighboring states, Illinois and Kansas,
12 for some guidance on this issue. Illinois went as far as codifying a 50% ratemaking equity
13 ratio into law, but not until after the ICC Staff stood its ground in arguing for a more
14 reasonable common equity ratio than that shown in Ameren Illinois' "independently"
15 managed capital structure. Kansas required a cap on equity ratios for purposes of
16 approving the merger of equals transaction between Great Plains Energy and Westar
17 Energy, with the cap being adjusted downward if the new holding company used too much
18 leverage. As it relates to Missouri's ability to limit excessive common equity ratios, it is
19 up to this Commission to do so in context of this rate case. Doing so will not cause a
20 decline in Ameren Missouri's credit quality unless Ameren Corp refuses to offset this
21 financial risk by reducing the amount of holding company debt in its capital structure.

22 **Q. Does this conclude your testimony?**

23 A. Yes.