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MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. GR-2019-0077

DIRECT TESTIMONY

OF

BRENDA I. WEBER

ON

BEHALF OF

**UNION ELECTRIC COMPANY
d/b/a AMEREN MISSOURI**

**St. Louis, Missouri
December 2018**

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DIRECT TESTIMONY

OF

BRENDA I. WEBER

FILE NO. GR-2019-0077

I. INTRODUCTION

1

Q. Please state your name and business address.

2

3 A. My name is Brenda I. Weber. My business address is One Ameren Plaza,
4 1901 Chouteau Avenue, St. Louis, MO 63103.

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4

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

5

6 A. I am employed by Ameren Services Company, a wholly-owned subsidiary of
7 Ameren Corporation (“Ameren”), as Assistant Treasurer and Director Corporate Finance.
8 Ameren Services Company provides various corporate support services to Ameren and its
9 subsidiaries, including Union Electric Company d/b/a Ameren Missouri (“Ameren
10 Missouri” or “Company”), such as accounting, legal, financial, and treasury services.

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Q. What are your current job duties and responsibilities?

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12 A. As Assistant Treasurer and Director Corporate Finance, I am responsible for
13 managing Ameren’s and its subsidiaries' short-term and long-term financing activities,
14 including those of Ameren Missouri. These activities include debt and equity issuance, credit
15 facility arrangement, monitoring the companies' liquidity positions and key credit metrics,
16 monitoring compliance with debt agreements, managing relationships with credit rating
17 agencies and banks, and monitoring capital markets for key developments, emerging risks, and
18 opportunities, among other corporate finance-related activities.

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1 **Q. Are you sponsoring any schedules in connection with your direct**
2 **testimony?**

3 A. Yes, I am sponsoring and have attached to my testimony the following
4 schedules, which have been prepared as of or for the twelve months ending May 31, 2019,
5 as appropriate:

- 6 • Schedule BIW-D2 – Capital Structure/Weighted Average Cost of Capital
- 7 • Schedule BIW-D3 – Embedded Cost of Long-Term Debt
- 8 • Schedule BIW-D4 – Cost of Short-Term Debt
- 9 • Schedule BIW-D5 – Embedded Cost of Preferred Stock
- 10 • Schedule BIW-D6 – Cash Working Capital Summary

11 **III. RATE OF RETURN AND COST OF CAPITAL CONSIDERATIONS**

12 **Q. What is the relationship between allowed rate of return and cost of**
13 **capital in the context of utility ratemaking?**

14 A. Under a traditional regulatory model, the interests of customers and a
15 utility’s shareholders may be considered “balanced” when the Commission authorizes a
16 rate of return on rate base equal to the utility’s cost of capital. If the authorized rate of
17 return is less than the utility’s overall cost of capital, the financial strength and stability of
18 the utility could degrade, making it difficult for the utility to raise necessary capital on a
19 timely basis, at a reasonable cost, and under reasonable terms. Ultimately, the utility’s
20 inability to raise sufficient capital would impair service quality, or the increased cost of
21 capital incurred by a financially-weakened utility would result in increased rates. Customer

1 interests are best served when the Commission-authorized rate of return is set equal to the
2 utility's overall cost of capital.

3 **Q. Please define weighted average cost of capital.**

4 A. Weighted average cost of capital equals the sum of the costs of the
5 components of an entity's capital structure weighted by the relative contribution of each
6 capital source to the entity's total capitalization.

7 **Q. How did you calculate the weighted average cost of capital for Ameren**
8 **Missouri?**

9 A. As reflected in Schedule BIW-D2, I calculated Ameren Missouri's
10 weighted average cost of capital by: (1) multiplying the relative weighting or proportion of
11 each component of Ameren Missouri's capital structure by the cost of that component; and
12 then, (2) summing the weighted cost of each capital component.

13 **Q. What is the primary standard for determining a fair rate of return?**

14 A. According to the landmark *Bluefield* and *Hope* U.S. Supreme Court
15 decisions,¹ a utility's rates must be set at a level that allows the utility to generate revenues
16 sufficient to: (1) maintain the financial integrity of its existing invested capital,
17 (2) maintain its creditworthiness, and (3) attract sufficient capital on competitive terms to
18 continue to provide a source of funds for continued investment and enable the company to
19 meet the needs of its customers. When a utility is allowed to earn its cost of capital, it is
20 generally afforded a reasonable opportunity to accomplish these objectives.

¹ *Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923) and *Federal Power Commission v. Hope Natural Gas Company*, 320 U.S. 391 (1944).

1 **Q. From a finance perspective, why is it important that the Commission**
2 **allow Ameren Missouri the opportunity to earn its cost of capital?**

3 A. By earning its cost of capital, Ameren Missouri will generate strong cash
4 flows and maintain the financial strength and stability necessary to, among other things,
5 attract investment to finance the business and provide reliable, high quality service to its
6 customers at a reasonable cost. Strong cash flows and overall financial health allow the
7 Company to offer an attractive and competitive, risk-adjusted return to equity investors and
8 also maintain strong credit metrics and investment grade credit ratings that, as discussed
9 further below, afford the Company ongoing access to debt capital at a reasonable cost and
10 under reasonable terms and conditions.

11 **IV. CAPITAL STRUCTURE AND CREDIT RATINGS, GENERALLY**

12 **Q. What is a utility capital structure?**

13 A. Capital structure refers to the mix of debt and equity capital that a utility,
14 such as Ameren Missouri, uses to finance its assets. Because they must support long-lived
15 assets, utility capital structures tend to include long-term securities, generally a
16 combination of common equity and long-term debt. However, there are other forms of
17 capital, such as preferred equity (which has both equity-like and debt-like elements), that
18 also may be a component of a utility's capital structure.

19 **Q. How do you believe the reasonableness of a public utility's capital**
20 **structure should be evaluated?**

21 A. In evaluating the reasonableness of a public utility's capital structure, one
22 should determine whether the capital structure is consistent with the financial strength

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1 necessary for the utility to access the capital markets under reasonable terms under most
2 economic conditions, and, if so, whether the cost of capital resulting from such a structure
3 is reasonable. While debt, relative to equity, is generally a less expensive form of capital
4 due in part to the tax deductibility of interest expense, incremental debt can increase a
5 firm's probability of default and the related costs of financial distress. Beyond a certain
6 point, dependence on debt as a source of capital increases the risk associated with a utility's
7 cash flow, which correspondingly increases a utility's overall cost of capital.

8 **Q. Does Ameren Missouri seek to maintain a certain capital structure?**

9 A. Yes. Ameren Missouri's capital structure is composed of debt, preferred
10 stock, and common equity. Ameren Missouri specifically and continuously maintains the
11 balance of debt and equity in its capital structure to minimize its overall cost of capital and,
12 at the same time, maintain financial strength and stability. Maintaining financial strength
13 and stability includes maintaining strong credit metrics and secure investment grade credit
14 ratings that will allow the Company to attract new capital at a reasonable cost and on
15 reasonable terms, and ensure that Ameren Missouri has access to the capital markets under
16 varying economic conditions.

17 **Q. Why is it necessary for Ameren Missouri to attract new capital?**

18 A. As a public utility, Ameren Missouri is required to continuously provide
19 safe, adequate, and reliable service to its customers. Ameren Missouri needs substantial
20 capital to do this. It is essential that Ameren Missouri be able to attract the capital necessary
21 to meet these significant service and investment commitments.

1 **Q. Why is it necessary that Ameren Missouri be able to access the capital**
2 **markets during all economic conditions?**

3 A. Ameren Missouri's service commitments to its customers do not cease in
4 an economic downturn. Ameren Missouri must be able to attract the capital necessary to
5 meet those commitments under varying economic conditions, including periods of market
6 distress, when access to the capital markets may be severely limited for weaker-rated
7 issuers.

8 **Q. How does a balanced capital structure help ensure Ameren Missouri**
9 **access to the capital it needs at a reasonable cost and during market fluctuations?**

10 A. Capital structure is one metric that credit rating agencies evaluate when
11 assessing an issuer's credit profile and assigning a credit rating. A balanced capital
12 structure signals a certain degree of financial health and mitigates the risk of financial
13 distress. Capital structure also influences other credit metrics on which credit ratings are
14 based. Credit ratings, in turn, are used by investors to evaluate the creditworthiness of an
15 issuer and make investment decisions.

16 **Q. What is a credit rating?**

17 A. A credit rating is an evaluation by a credit rating agency of a company's
18 ability to meet its financial obligations in a timely manner. It reflects the opinion of the
19 rating agency of the overall creditworthiness of the company based on the company's
20 relevant business and financial risks. A credit rating can be specific to a particular security
21 or to a particular securities issuer.

1 **Q. Why do credit ratings matter?**

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

8 **Q. How are credit ratings determined?**

9 A. The two primary credit rating agencies are Standard and Poor's Ratings
10 Services ("S&P") and Moody's Investor Services ("Moody's"). In assessing a company's
11 ability to meet its financial obligations, S&P and Moody's generally - but each to varying
12 degrees - consider both qualitative factors affecting the company's business risk and
13 quantitative factors affecting its financial risk.

14 **Q. How do a company's credit metrics affect its credit ratings?**

15 A. Credit metrics factor significantly into the credit rating agencies'
16 evaluations of a company's credit profile and the rating agencies' assignment of credit
17 ratings. The credit rating agencies generally deem strong credit metrics necessary to
18 maintain investment grade credit ratings.

19 **Q. What is an "investment grade" credit rating?**

20 A. An investment grade credit rating is a rating of BBB- or stronger from S&P
21 or a rating of Baa3 or stronger from Moody's. An investment grade credit rating implies a
22 certain degree of financial strength and stability and reasonable assurance of an issuer's

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1 ability to satisfy its debt obligations. Investment grade credit ratings, therefore, tend to
2 attract capital to a company. For Ameren Missouri, investment grade credit ratings provide
3 reasonable assurance that it will be able to access the capital markets on a timely basis, at
4 a reasonable cost, and under reasonable terms and conditions. Again, for Ameren Missouri,
5 ongoing access to the debt capital markets benefits its customers by supporting reliable
6 service, and lower debt costs achievable with investment grade credit ratings contribute to
7 lower utility rates.

8 **Q. Does Ameren Missouri target investment grade issuer credit ratings**
9 **when it maintains its capital structure?**

10 A. Yes. As explained, access to sufficient capital is critical to Ameren
11 Missouri's financial health and stability and, in turn, to the service that its customers
12 receive and the rates customers pay for that service. Therefore, in my opinion, Ameren
13 Missouri's issuer credit ratings should be securely investment grade (at least two notches
14 stronger than S&P's and Moody's weakest investment grade issuer credit rating) to
15 continue to support the financial integrity of the utility and ensure its access to necessary
16 capital at a reasonable cost and on reasonable terms in both strong and weak markets.

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

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

1 **Q. Do you consider Ameren Missouri’s current issuer credit ratings to be**
2 **securely investment grade?**

3 A. Yes.

4 **V. AMEREN MISSOURI’S ACTUAL AND**
5 **FORECASTED CAPITAL STRUCTURE**

6 **Q. What was Ameren Missouri’s capital structure as of June 30, 2018, the**
7 **end of the proposed test year in this case?**

8 A. The table below shows Ameren Missouri’s actual capital structure as of
9 June 30, 2018:

Table 1

	As of June 30, 2018	
	Balance	%
Long-term debt	\$ 3,866,644,691	47.71%
Short-term debt	\$ -	0.00%
Preferred stock	\$ 81,827,509	1.01%
Common equity	\$ 4,156,678,871	51.28%
Total	\$ 8,105,151,071	100.00%

10 **Q. What capital structure are you recommending in this case?**

11 A. I recommend that Ameren Missouri’s actual capital structure as of the
12 recommended true-up date of May 31, 2019, be used in this case.

13 **Q. How do you expect Ameren Missouri’s capital structure to change**
14 **when the balances are trued-up through May 31, 2019?**

15 A. Based on current projections, I expect Ameren Missouri’s capital structure
16 as of the May 31, 2019, true-up date to be as follows in Table 2:

Table 2

	As of June 30, 2018		Projected as of May 31, 2019	
	Balance	%	Balance	%
Long-term debt	\$ 3,866,644,691	47.71%	\$ 3,789,953,689	47.14%
Short-term debt	\$ -	0.00%	\$ -	0.00%
Preferred stock	\$ 81,827,509	1.01%	\$ 81,827,509	1.02%
Common equity	\$ 4,156,678,871	51.28%	\$ 4,167,770,616	51.84%
Total	\$ 8,105,151,071	100.00%	\$ 8,039,551,814	100.00%

1 Note that the equity percentage as of May 31, 2019, is expected to be 51.84%, compared
2 to the equity percentage at June 30, 2018, of 51.28%.

3 **Q. How does the recommended capital structure compare to recent years?**

4 A. Ameren Missouri's proposed capital structure is consistent with recent years
5 as its common equity ratio for ratemaking purposes of 51.84% is within the 51.81% -
6 51.91% range of such ratios at year-end 2016 and year-end 2017.

7 **Q. What constitutes a healthy capital structure for a regulated utility?**

8 A. Again, a healthy capital structure for a regulated utility is one that results in
9 a reasonable balance between the overall cost of capital and the expected costs of financial
10 distress.

11 **Q. Why do you believe that the capital structure recommended in your
12 testimony is appropriate?**

13 A. The capital structure recommended in my testimony reflects a reasonable
14 balance between cost of capital and financial strength and stability. It allows Ameren
15 Missouri to take advantage of the lower costs of debt financing without elevating the risk

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1 of default and the related costs of financial distress to an unreasonable level that would
2 impair the creditworthiness and financial integrity of the Company.

3 **VI. BALANCE AND EMBEDDED COST OF LONG-TERM DEBT**

4 **Q. How was the balance of long-term debt determined?**

5 A. The long-term debt balance of \$3,789,953,689 reflected in the proposed
6 Ameren Missouri capital structure represents the projected total carrying value of the
7 Company's long-term debt as of May 31, 2019. As detailed in Schedule BIW-D3, the
8 carrying value of long-term debt was computed using the net proceeds method, which
9 adjusts the face amount of long-term debt to properly account for unamortized discounts
10 and premiums, long-term debt issuance expenses, and any gains or losses incurred in
11 connection with long-term debt redemptions.

12 **Q. Did you make any adjustments to Ameren Missouri's actual long-term**
13 **debt balance in determining the long-term debt balance proposed in this proceeding?**

14 A. I did not include in the proposed long-term debt balance the Company's
15 obligations under capital leases related to the Chapter 100 financing of its Peno Creek (City
16 of Bowling Green) and Audrain County gas-fired generating facilities. These transactions
17 and related capital leases did not generate any proceeds, nor were they a source of new
18 capital for the Company. This treatment is consistent with that reflected in the Company's
19 previous rate case orders.

1 **Q. How was the embedded cost of long-term debt determined?**

2 A. As reflected in Schedule BIW-D3, the embedded cost of long-term debt of
3 4.662% was computed by dividing forecasted annualized interest expense as of May 31,
4 2019, by the forecasted long-term debt carrying value as of such date.

5 Included in Ameren Missouri's forecasted long-term debt balance as of May 31,
6 2019, are two series of variable rate environmental improvement bonds with a forecasted
7 total outstanding principal balance as of such date of \$207.5 million. The interest rates of
8 the issues are reset by a Dutch auction process every 35 days. The effective interest cost
9 assumed for this indebtedness for purposes of this proceeding is consistent with actual rates
10 for these securities as of June 30, 2018, including related auction broker/dealer fees. These
11 interest rates, as well as all other elements of the embedded cost of long-term debt, will be
12 updated as part of the true-up.

13 **VII. BALANCE OF SHORT-TERM DEBT**

14 **Q. How was the balance of short-term debt determined?**

15 A. The balance of short-term debt of \$0 reflected in the proposed Ameren
16 Missouri capital structure represents the forecasted average short-term debt balance for the
17 twelve months ending May 31, 2019, net of cash and construction work in progress
18 balances. As reflected in Schedule BIW-D4, the Company expects to have no net short-
19 term borrowings during the period.

1 **VIII. BALANCE AND EMBEDDED COST OF PREFERRED STOCK**

2 **Q. How was the balance of preferred stock determined?**

3 A. The preferred stock balance of \$81,827,509 reflected in Ameren Missouri's
4 proposed capital structure reflects the expected carrying value of, and the net proceeds
5 received for, Ameren Missouri's projected preferred stock outstanding as of May 31, 2019.
6 The calculation of the preferred stock balance is shown in Schedule BIW-D5.

7 **Q. How was the embedded cost of Ameren Missouri's preferred stock**
8 **determined?**

9 A. As reflected in Schedule BIW-D5, the embedded cost of preferred stock of
10 4.180% was computed by dividing forecasted annualized dividends by the net proceeds
11 received for forecasted preferred stock outstanding as of May 31, 2019.

12 **Q. Did you consider expenses incurred in connection with Ameren**
13 **Missouri's issuance of preferred stock in calculating the embedded cost of this**
14 **component of the Company's capital structure?**

15 A. Yes. As reflected in Schedule BIW-D5, considered in the embedded cost of
16 preferred stock is not only the cost of dividends but also the cost of preferred stock
17 issuance, including discounts, premiums, expenses, and any losses incurred in connection
18 with redeeming prior preferred stock series. Unlike similar costs incurred in connection
19 with the issuance and redemption of long-term debt, these expenses are not amortized over
20 the life of the security due to the perpetual nature of preferred stock. Nonetheless, it is
21 important and appropriate to consider these costs in order to accurately quantify the true

1 economic cost of Ameren Missouri's preferred stock and establish a fair overall rate of
2 return for the Company.

3 **IX. BALANCE AND COST OF COMMON EQUITY**

4 **Q. How was the balance of Ameren Missouri's common equity**
5 **determined?**

6 A. The common equity balance of \$4,167,770,616 reflected in Ameren
7 Missouri's proposed capital structure reflects Ameren Missouri's forecasted book value of
8 common equity as of May 31, 2019. Common equity is generally reflected net of
9 accumulated other comprehensive income ("AOCI"), but AOCI is projected to be zero as
10 of May 31, 2019.

11 **Q. How was the cost of common equity determined?**

12 A. In his testimony in this case, Mr. Hevert states that the cost of common
13 equity capital for Ameren Missouri's integrated gas operations is currently within the range
14 of 10% to 10.6% and recommends that the Commission allow Ameren Missouri the
15 opportunity to earn a return on common equity of 10.3%. As a consequence, in forecasting
16 Ameren Missouri's overall weighted average cost of capital for its gas business, I have
17 assumed a cost of common equity of 10.3%, and Ameren Missouri requests that the
18 Commission approve a return on common equity of 10.3% in this case.

1

X. FAIR RATE OF RETURN

2

Q. What do you propose is a fair overall rate of return for Ameren

3

Missouri in this case?

4

A. I believe a return of 7.581%, which is equivalent to Ameren Missouri's

5

forecasted weighted average cost of capital as of May 31, 2019, is fair and reasonable. The

6

calculation of the Company forecasted weighted average cost of capital, considering the

7

debt, preferred stock, and common equity balances and costs set forth above, is reflected

8

in Schedule BIW-D2.

9

XI. SUMMARY OF THE COMPANY'S CASH WORKING CAPITAL

10

ANALYSIS

11

Q. For what period was the lead-lag study performed?

12

A. The lead-lag study analyzed the Company's cash transactions and invoices

13

for the twelve months ended June 30, 2018.

14

Q. Please define what you mean by the phrase "cash working capital."

15

A. Cash working capital ("CWC") is the amount of funds required to finance the

16

day-to-day operations of the Company.

17

Q. What is a lead-lag study?

18

A. A lead-lag study is an analysis of revenue lags and expense leads. CWC

19

requirements are generally determined by lead-lag studies that are used to analyze the lag

20

time between the date customers receive service and the date that customers' payments are

21

available to the Company (i.e., the revenue lag). This lag is offset by a lead time during

22

which the Company receives goods and services, but pays for them at a later date

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1 (i.e., the expense lead). The "lead" and "lag" are both measured in days. The dollar-
2 weighted lead and lag days are then divided by 365 to determine a daily CWC factor. This
3 CWC factor is then multiplied by the annual test year cash expenses to determine the
4 amount of cash working capital required for operations. The resulting amount of cash
5 working capital is then included in the Company's rate base.

6 **Q. Please explain the revenue lag in more detail.**

7 A. As noted, the revenue lag refers to the elapsed time between the delivery of the
8 Company's product (i.e., gas) and its ability to use the funds received as payment for the
9 delivery of the product. The revenue lag actually consists of three components, as follows: the
10 service lag, which is the number of days from the mid-point of the service period to the meter
11 reading date; the billing lag, which is the time between when the meter is read and the bill is
12 sent; and the collections lag, which is the time between when the bill is sent to the customer
13 and when the customer's payment is received by the Company.

14 **Q. Please explain the expense lead in more detail.**

15 A. An expense lead refers to the elapsed time from when a good or service is
16 provided to the Company to the point in time when the Company pays for the good or service
17 and the funds are no longer available to the Company. There are a number of different
18 expense leads, since the Company acquires goods and services from a number of different
19 sources.

1 Considered together, these three components of the base revenue lag totaled 38.65 lag days.

2 An explanation of each component of the base revenue lag follows.

3 **Q. What is meant by service lag?**

4 A. The service lag refers to the number of days from the mid-point of the
5 service period to the meter reading date for that service period. Using the mid-point
6 methodology, the average lag associated with the provisioning of service was 15.21 days
7 (365 days in the year divided by 12 months divided by 2).

8 **Q. What is meant by billing lag?**

9 A. Billing lag refers to the average number of days from the date on which the
10 meter was read until the customer was billed. The billing lag was determined by analyzing
11 the Company's monthly billing schedules and meter reading records. The average billing
12 lag was determined to be 0.92 days.

13 **Q. What is meant by collections lag?**

14 A. The collections lag refers to the average amount of time from the date when
15 the bill is sent to the customer to the date that the Company received payment from its
16 customers. Based on weighted average data from the Company's Customer Service System,
17 the average collection lag was determined to be 22.52 days.

18 **Q. What data was used to calculate the collections lag?**

19 A. The Company used data from the bill payment report which was created to
20 support the calculation of the collections lag.

1 **Q. Please describe the bill payment report used in the collections lag**
2 **calculation.**

3 A. The Company developed a bill payment report to aggregate actual customer
4 payments. This allows us to better understand customer payment behavior. The bill
5 payment report compares the date a customer is billed to the date the bill was paid to arrive
6 at the lag days. The bill payment report summarizes the dollar amounts collected per lag
7 day. Each line item is then weighted to calculate the weighted lag days. The bill payment
8 report line items is conservatively capped at 150 days. The bill payment report was run
9 monthly for the bill period July 2017 to June 2018.

10 **Q. Has the Company used the bill payment report in past lead-lag studies?**

11 A. Yes. Along with the Accounts Receivable Breakdown Report (Company
12 report number CURCT617), the Company introduced the bill payment report in its last
13 electric rate case (File No. ER-2016-0179) to determine the impact of the actual customer
14 payment behavior due to the bill due date changing from 14 days to 21 days.

15 **Q. Is the Company using the Accounts Receivable Breakdown Report in**
16 **the collections study for this filing?**

17 A. No, the Company is using the bill payment report because it reflects the
18 actual customer payment behavior. The Accounts Receivable Breakdown report uses
19 accounts receivables balances from the Company's general ledger and does not reflect
20 actual customer payment behavior.

1 **Q. How were uncollectible revenues treated in your analysis?**

2 A. The bill payment report aggregates actual customer payments. Therefore,
3 an adjustment for uncollectible revenues is not needed in the analysis.

4 **Q. Please summarize the calculation of base revenue lag days.**

5 A. The calculation of the overall base revenue lag, by lag component is
6 summarized in the following table.

Table 3

Base Revenue Lag Component	Lag Days
Service	15.21
Billing	0.92
Collections	22.52
Total Revenue Lag	38.65

7 **2. Pass-Through Taxes Revenue Lag**

8 **Q. How does the revenue lag applied to pass-through taxes differ from the**
9 **base revenue lag?**

10 A. The only difference between the base revenue lag and the revenue lag which
11 is applied to the pass-through taxes is that the revenue lag applied to pass-through taxes
12 excludes the service lag. Therefore, the revenue lag applied to pass-through taxes is 23.44
13 days.

1 **Q. Why should a different revenue lag be applied to the pass-through tax**
2 **revenues?**

3 A. In prior cases,² the Commission Staff has argued that pass-through taxes are
4 not generated as a result of the provisioning of a service by the utility. Therefore, in these
5 proceedings a revenue lag which excludes a lag associated with the provisioning of utility
6 service has been applied to the pass-through tax revenues.

7 **Q. Are the revenues attributable to pass-through taxes collected in the**
8 **same manner and at the same time as all other revenues?**

9 A. Yes. The Company's customers pay one bill. That bill (and thus the
10 payment) includes both operating revenues associated with the provisioning of gas service
11 as well as revenues associated with pass-through taxes.

12 **Q. What impact does the exclusion of the service lag have on the CWC**
13 **calculation?**

14 A. The service lag represents the period of time during which the Company has
15 provided a service for which it has not yet been compensated. Since the Company serves
16 primarily as a collect and remit agent for the various taxing bodies, by excluding the service
17 lag from the revenue lag applied to the pass-through taxes, the Company is reflecting that
18 it has no out-of-pocket expense for which it is awaiting payment.

² Such proceedings include Case Nos. ER-2010-0036 (AmerenUE), ER-2008-0318 (AmerenUE), ER-2007-0291 (Kansas City Power & Light Company), ER-2008-0093 (The Empire District Electric Company), GR-2007-0208 (Laclede Gas Company), GR-2006-0422 (Missouri Gas Energy).

1

XIII. EXPENSE LEADS

2

Q. What expense-related leads were considered in the lead-lag analysis?

3

A. Lead times associated with the following expense categories were considered in the lead-lag study: (a) employee pensions and benefits; (b) base payroll; (c) payroll taxes (i.e. FICA social security) and other withholdings; (d) cost of gas; (e) other operations and maintenance expenses; (f) general taxes other than income taxes excluding pass-through taxes; (g) pass-through taxes; (h) federal income taxes; (i) state income taxes; (j) interest on long-term debt; and (k) incentive compensation.

4

5

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Q. What types of leads associated with the Company's Employee Benefit programs were considered in the analysis?

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A. The estimated lead times associated with the following major categories of the Company's employee benefit programs were considered: (a) group life insurance; (b) group health insurance including claims processing, claims payment, and administration costs; (c) contributions to the Company's pension fund; (d) Other Post-Employment Benefits ("OPEB") costs; and (e) the Company's 401-K plan. Taken together, these programs had a dollar-weighted lead time of 16.89 days.

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Q. What were the expense leads associated with the Company's group life insurance program?

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A. The analysis of invoices paid to the Company's providers of group life insurance indicated a weighted average lead time of 25.95 days.

20

1 **Q. What were the expense leads associated with the Company's group**
2 **health insurance programs?**

3 A. The Company's group health insurance program had three major categories
4 of activities: (a) claims processing, i.e., from the time a claim was filed to the time it was
5 processed; (b) claims payment, i.e., from the time the provider provided the claim to the
6 Company for reimbursement and the time the reimbursement occurred; and (c)
7 administration-related expenses. Based on annual summaries of performance provided to
8 the Company by its group health plan administrators, the claims processing period was
9 determined to be 5.18 days. Additionally, based on actual service requests and electronic
10 payment instructions from the Company's Human Resources Department, the claims
11 reimbursement time was determined to be 12.30 days. Finally, based on an examination of
12 invoices and payment instructions from within the Company's accounts payable system, a
13 lead time of 12.77 days was derived for group health administration expenses.

14 **Q. What was the expense lead time associated with the Company's**
15 **contribution to its pension plan?**

16 A. The Company made two quarterly and one semi-annual contribution to its
17 pension plan during the twelve months ended June 30, 2018. Taking this information into
18 account and using the actual date and dollar contributions made by the Company, a pension
19 expense lead time of 8.53 days was determined.

1 **Q. What was the expense lead associated with the funding of the**
2 **Company's OPEB fund?**

3 A. The Company made no contributions to the OPEB fund during the twelve
4 months ended June 30, 2018. Since there were no contributions in the proposed test year,
5 OPEBs were excluded from the expense lead calculation for employee benefits.

6 **Q. What was the expense lead associated with the Company's match**
7 **associated with the 401-K plan?**

8 A. The expense lead time associated with the Company's 401-K plan
9 contributions was 13.94 days.

10 **Q. Provide an explanation of the leads associated with the Company's**
11 **payroll expenses.**

12 A. Payroll lead days were determined by calculating the nominal and weighted
13 lead time by pay period and weighting the resulting lead days by the amounts paid out by
14 the Company to cover their payroll obligations. The resulting total on a dollar-weighted
15 basis was 10.29 days.

16 **Q. Were any adjustments made to the Company's payroll lead days?**

17 A. Yes. Beginning in November 2018, the Company changed the payroll date
18 for management co-workers. The pay periods are not changing, only the pay dates.
19 Management pay dates shifted from the 15th and last day of each month to the 13th and
20 28th of each month. The change in the payroll date for management co-workers impacted
21 all of the payroll expense line items.

1 **Q. What was the impact of this change to the Company's payroll lead**
2 **days?**

3 A. The Company's dollar weighted payroll lead days prior to the change was
4 11.14 days. The Company's daily weighted payroll lead days after the change which is
5 included in the study being presented is 10.29 for a reduction of 0.85 days.

6 **Q. Please explain the lead effects associated with payroll taxes.**

7 A. The Company has outsourced its payroll tax processing to a third-party
8 provider, Ceridian. The payroll taxes outsourced to Ceridian include, (a) federal and state
9 withholding taxes; b) federal and state unemployment taxes; c) FICA (Social Security)
10 taxes and Medicare taxes for both employee and employer; and d) City of St. Louis
11 employee withholding tax and City of St. Louis employer expense. Ceridian pulls all
12 payroll taxes out of the Company's bank account on the same date as when employees are
13 paid. Therefore, the payroll taxes lead time is equal to the base payroll lead time of 9.50
14 days.

15 **Q. How was the vacation accrual handled in the lead-lag study?**

16 A. For the gas business, the accrual variation from the twelve months ended
17 June 30, 2017, to the twelve months ended June 30, 2018, produced a negative result;
18 therefore, instead of reducing the lead-lag days, the vacation accrual was excluded from
19 the analysis.

1 **Q. What are other operations and maintenance expenses and what lead**
2 **times were associated with such expenses?**

3 A. The Company engages in transactions with other vendors (not associated
4 with pensions, benefits, payroll, fuel, or taxes) for a variety of purposes including facility
5 maintenance, system maintenance, and customer service. Invoices from providers of such
6 services were analyzed in order to estimate a lead time associated with payment for services
7 related to other operations and maintenance activities. The analysis indicates that on
8 average, invoices were paid by the Company 37.84 days after receipt.

9 **Q. What is the expense lead time associated with the Company's purchases**
10 **of natural gas?**

11 A. Based on an examination of invoices of the commodity and pipeline suppliers
12 to the Company, a weighted expense lead time of 35.77 days was determined. This lead time
13 includes a half month of service lead time.

14 **Q. What are the various general taxes considered in the analysis?**

15 A. The following general taxes were considered in the study: (a) real estate and
16 property taxes; (b) Missouri sales tax; (c) St. Louis corporate earnings taxes; and (d) gross
17 receipts taxes. When taxes were required to be paid to a single taxing authority pursuant to a
18 set schedule, the statutory payment dates were considered in the analysis.

19 **Q. Explain the lead effects associated with each type of non-pass through**
20 **general taxes considered in the analysis.**

21 A. The treatment of each category of general taxes in the study is described
22 below:

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1 a) Real Estate and Property Taxes: All current-year property taxes in
2 Missouri are due on December 31st of the current year. Taking this schedule into
3 consideration, a dollar-weighted expense lead of 182.50 days was calculated.

4 b) Missouri Sales Tax: Missouri sales tax is payable to the Missouri
5 Department of Revenue and is calculated as a percent of billings less a 2 percent
6 timely payment allowance. Estimated payments are made weekly with the tax return
7 and remaining balance due by the 20th of the month following except for the last
8 month at the end of the quarter for which the tax return and payment are due on the
9 last day of the month following. Taking this information into account, and including
10 a half month of service lead time, a weighted expense lead time of 10.10 days was
11 determined.

12 c) St. Louis Corporate Earnings Tax: The Company pays corporate
13 earnings taxes to the City of St. Louis. This tax is paid by check to the City of St.
14 Louis annually on April 1st for the previous year. Taking this information into
15 account, the expense lead time associated with corporate earnings taxes was
16 determined to be 273.50.

17 **Q. What pass-through taxes are included in the CWC analysis?**

18 A. The only pass-through tax considered in the CWC analysis was gross
19 receipts taxes.

20 **Q. Please describe the timing of the payment of the Gross Receipt Taxes.**

21 A. Gross receipts taxes are payable to municipalities and are paid as a
22 percent of billings to customers within the municipality. These taxes are paid on the

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Brenda I. Weber

1 last day of the month following the end of a month, with the exception of Cape
2 Girardeau, Dexter, Jefferson City, Moberly, and Wentzville municipalities which
3 are paid on the 20th day of the month. Based on the specific tax periods of the
4 various municipalities, a dollar-weighted gross receipts tax expense lead time of
5 25.85 days was calculated.

6 **Q. Does the lead time for gross receipts taxes include a service lead?**

7 A. No. Since no service lag was included in the revenue lag assigned to
8 pass-through taxes, there has been no service lead attributed to the gross receipts
9 taxes.

10 **Q. Please explain.**

11 A. Both the service lag and the service lead are associated with the timing
12 of the provisioning of service. If there is no service lag on the revenue side there
13 can be no service lead on the expense side. Therefore, for consistency purposes, I
14 have excluded both the service lag and service lead from the analysis of the pass-
15 through taxes.

16 **Q. How did your study address federal income taxes?**

17 A. The lead time associated with federal income tax payments was based
18 on the provisions of the Internal Revenue Code that require estimated tax payments
19 of 25 percent of total income taxes due on April 15, June 15, September 15, and
20 December 15 of the current year. Taking this schedule into consideration, a lead
21 time of 37.88 days for federal income tax payments made by the Company was
22 determined.

1 **Q. How did the study address state income taxes?**

2 A. State income taxes follow a pattern similar to federal taxes. Thus,
3 assuming quarterly payments due on April 15, June 15, September 15, and
4 December 15 of the current year, an expense lead time of 37.88 days was
5 determined.

6 **Q. Provide a description of how lead times associated with the Company's**
7 **interest expenses were addressed by the study.**

8 A. The Company's interest payments on its long-term bonds were made
9 from current revenues. Thus, there was a lead (or lag) between the date the interest
10 payments were collected from customers and the date when such amounts were paid
11 to financial institutions. The Company generally made interest payments on its fixed
12 rate long-term debt twice a year at varying times. On the auction rate bonds, the
13 Company made interest payments every 35 days. Using actual due dates on interest
14 payments, a dollar-weighted lead of 89.31 days for interest payments were
15 determined.

16 **Q. How did the study address contributions to the incentive compensation**
17 **plans?**

18 A. The Company made an annual contribution to incentive compensation
19 programs for both the executive incentive plan and the management/bargaining unit plans
20 during the proposed test year. The executive incentive plan contribution is made the last
21 date in February while the management/bargaining unit contributions are made during the

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1 first pay period in March. Based on an examination of the contributions to the incentive
2 compensation plans, a weighted average lead time of 252.23 days was determined.

3 **Q. Please describe Schedule BIW-D6.**

4 A. Schedule BIW-D6 summarizes the leads and lags discussed within my direct
5 testimony. These leads and lags are used by Company witness Laura Moore to calculate the
6 Company's cash working capital requirements.

7 **Q. Does this conclude your direct testimony?**

8 A. Yes, it does.

STATEMENT OF QUALIFICATIONS
BRENDA I. WEBER

I received my Bachelor of Science degree in Accounting from Bradley University in 1986. I earned my CPA certificate from the state of Illinois in 1989. I received my Master of Business Administration degree, with a concentration in finance, in 1991 from Bradley University.

I have more than twenty-seven years of utility experience in various accounting, financial reporting, tax, forecasting, and finance roles. I joined Central Illinois Light Company ("CILCO") in 1991 as an Accounting Analyst, focusing primarily on United States Securities and Exchange Commission reporting. In 1993, I transferred into the tax department as a tax accountant and was promoted to Senior Tax Accountant in 1995. While in the tax group, I performed a wide range of tax accounting, tax compliance, and tax research duties. In 1997, I moved into the Treasury Department and was promoted to Senior Financial Analyst. I had responsibility for short-term debt projections, short-term and long-term financing, cash management, evaluation of strategic opportunities, communication with rating agencies, and management of non-regulated leveraged lease investments. In early 2003, Ameren completed its acquisition of CILCO. I joined Ameren Services in 2003 as a Finance Professional, focusing on disposition of non-utility leveraged lease investments. In 2004, I transferred to Financial Forecasting and was subsequently promoted to Supervisor of Corporate Model and later Manager of Corporate Model. While in the Financial Forecasting Department, I was responsible for developing financial models and earnings forecasts for Ameren and its subsidiaries. In August of 2014, I transitioned to into the Treasury Department of Ameren Services as the Manager Corporate Finance. In

July of 2018, I was promoted to my current position in the Treasury Department of Ameren Services as Assistant Treasurer and Director Corporate Finance.

**Union Electric Company d/b/a Ameren Missouri
Capital Structure/ Weighted Average Cost of Capital**

at 5/31/2019:

CAPITAL COMPONENT	AMOUNT	PERCENT OF TOTAL	COST	WEIGHTED COST
Long-Term Debt	\$3,789,953,689	47.141%	4.662%	2.198%
Short-Term Debt	\$0	0.000%	0.000%	0.000%
Preferred Stock	\$81,827,509	1.018%	4.180%	0.043%
Common Equity	\$4,167,770,616	51.841%	10.300%	5.340%
TOTAL	\$8,039,551,814	100.000%		7.581%

**Union Electric Company d/b/a Ameren Missouri
Embedded Cost of Long-Term Debt**

at May 31, 2019

SERIES C1	COUPON (a) C2	ISSUED C3	MATURITY C4	PRINCIPAL C5	FACE AMOUNT OUTSTANDING C6	UNAMORTIZED BALANCES			CARRYING VALUE C10	ANNUALIZED COUPON INT.(b) C11	ANNUALIZED AMORTIZATION			ANNUALIZED EXPENSE C15	EMBEDDED COST C16
						DISC/(PREM) C7	ISSUE EXP. C8	LOSS C9			DISC/(PREM) C12	ISSUE EXP C13	LOSS C14		
Senior Secured Notes	5.100%	23-Sep-04	01-Oct-19	\$300,000,000	\$244,311,000	\$2,332	\$44,176			\$12,459,861	\$6,996	\$132,528			
Senior Secured Notes	5.000%	27-Jan-05	01-Feb-20	\$85,000,000	\$85,000,000	\$29,920	\$31,768			\$4,250,000	\$44,880	\$47,652			
Senior Secured Notes	3.500%	04-Apr-14	15-Apr-24	\$350,000,000	\$350,000,000	\$30,450	\$1,405,224			\$12,250,000	\$6,300	\$290,736			
Senior Secured Notes	2.950%	15-Jun-17	15-Jun-27	\$400,000,000	\$400,000,000	\$1,049,637	\$2,716,000			\$11,800,000	\$129,852	\$336,000			
First Mortgage Bonds	5.450%	15-Oct-93	01-Oct-28	\$44,000,000	\$5,000	\$10	\$19			\$273	\$1	\$2			
First Mortgage Bonds	3.925%	01-Mar-19	01-Mar-29	\$450,000,000	\$450,000,000	\$0	\$3,564,583			\$17,662,500	\$0	\$362,500			
Senior Secured Notes	5.500%	10-Mar-03	15-Mar-34	\$184,000,000	\$184,000,000	\$980,780	\$860,808			\$10,120,000	\$66,120	\$58,032			
Senior Secured Notes	5.300%	21-Jul-05	01-Aug-37	\$300,000,000	\$300,000,000	\$577,264	\$1,692,770			\$15,900,000	\$31,776	\$93,180			
Senior Secured Notes	8.450%	20-Mar-09	15-Mar-39	\$350,000,000	\$350,000,000	\$770,406	\$2,298,366			\$29,575,000	\$38,844	\$115,884			
Senior Secured Notes	3.900%	11-Sep-12	15-Sep-42	\$485,000,000	\$485,000,000	\$1,984,080	\$3,758,440			\$18,915,000	\$85,032	\$161,076			
Senior Secured Notes	3.650%	06-Apr-15	15-Apr-45	\$250,000,000	\$250,000,000	\$508,090	\$2,407,460			\$9,125,000	\$19,668	\$93,192			
Senior Secured Notes	3.650%	23-Jun-16	15-Apr-45	\$150,000,000	\$150,000,000	\$672,390	\$1,579,140			\$5,475,000	\$26,028	\$61,128			
First Mortgage Bonds	4.000%	06-Apr-18	01-Apr-48	\$425,000,000	\$425,000,000	\$1,768,406	\$4,357,524			\$17,000,000	\$61,332	\$151,128			
Environmental Improvement, Series 1992	2.608%	01-Dec-92	01-Dec-22	\$47,500,000	\$47,500,000		\$76,314			\$1,314,800		\$21,804			
Environmental Improvement, Series 1998 ABC	3.202%	04-Sep-98	01-Sep-33	\$160,000,000	\$160,000,000		\$790,191			\$5,459,000		\$55,452			
TOTAL LONG-TERM DEBT				\$3,980,500,000	\$3,880,816,000	\$8,373,765	\$25,582,784	\$56,905,762	\$3,789,953,689	\$171,306,434	\$516,829	\$1,980,294	\$2,877,804	\$176,681,361	4.662%

Carrying Value = Face Amount Outstanding less Unamortized Discount, Issuance Expenses, and Loss on Reacquired Debt

C10 = C6 - C7 - C8 - C9

Annualized Expense = Annual Coupon Interest plus Annual Amortization of Discount, Issuance Expenses, and Loss on Reacquired Debt

C15 = C11 + C12 + C13 + C14

Embedded Cost = Annualized Expense divided by Carrying Value

C16 = C15 / C10

(a) Coupon rate for variable rate auction securities reflects prevailing rates as of 10/09/18 and includes ongoing broker dealer fees.

(b) Annualized coupon interest (C11) includes annual bond insurance premiums, where applicable.

Note: Highlighted series reflects current estimates.

**Union Electric Company d/b/a Ameren Missouri
Cost of Short-Term Debt**

MONTH C1	BALANCE OF SHORT-TERM DEBT (a) C2	BALANCE OF TOTAL CWIP C3	BALANCE OF CWIP ACCRUING AFUDC (b) C4	NET AMOUNT OUTSTANDING C5	INTEREST RATE C6
June 2018	\$0	\$653,267,271	\$674,984,829	\$0	--
July	\$0	\$677,194,152	\$679,322,895	\$0	--
August	\$0	\$626,012,831	\$711,404,947	\$0	--
September	\$0	\$675,925,281	\$656,102,125	\$0	--
October	\$0	\$737,977,650	\$745,357,427	\$0	--
November	\$0	\$763,140,926	\$770,772,335	\$0	--
December	\$23,731,501	\$518,882,452	\$524,071,277	\$0	--
January 2019	\$230,567,287	\$599,630,866	\$605,627,175	\$0	--
February	\$607,152,381	\$655,417,059	\$661,971,230	\$0	--
March	\$285,587,545	\$713,269,524	\$720,402,219	\$0	--
April	\$329,733,379	\$774,190,531	\$781,932,436	\$0	--
May	\$375,191,041	\$636,607,386	\$642,973,460	\$0	--
AVERAGE	\$154,330,261	\$669,292,994	\$681,243,529	\$0	

C5 Net Amount Outstanding = Balance of Short-Term Debt less Balance of CWIP Accruing AFUDC

C5 = C2 - C4

(a) Short-term debt amounts are net of cash and short-term investments. Negative amounts are excluded.

(b) CWIP accruing AFUDC is estimated to be 101% of CWIP for the months October 2018 through May 2019.

**Union Electric Company d/b/a Ameren Missouri
Embedded Cost of Preferred Stock**

at May 31, 2019

SERIES, TYPE, PAR C1	DIVIDEND C2	ISSUED C3	MATURITY C4	SHARES OUTSTANDING C5	PAR ISSUED/ OUTSTANDING C6	PREMIUM C7	ISSUANCE EXPENSE/DISCOUNT C8	NET PROCEEDS C9	ANNUAL DIVIDEND C10	EMBEDDED COST C11
\$3.50 Series, Perpetual, \$100 par	\$3.500	01-May-46	-	130,000	\$13,000,000	(\$910,000)	\$252,772	\$13,657,228	\$455,000	
\$3.70 Series, Perpetual, \$100 par	\$3.700	01-Oct-45	-	40,000	\$4,000,000	(\$70,000)	\$69,396	\$4,000,604	\$148,000	
\$4.00 Series, Perpetual, \$100 par	\$4.000	01-Nov-49	-	150,000	\$15,000,000	(\$384,000)	\$326,896	\$15,057,104	\$600,000	
\$4.30 Series, Perpetual, \$100 par	\$4.300	01-Jul-46	-	40,000	\$4,000,000			\$4,000,000	\$172,000	
\$4.50 Series, Perpetual, \$100 par	\$4.500	01-May-41	-	213,595	\$21,359,500	(\$825,000)	\$440,294	\$21,744,206	\$961,178	
\$4.56 Series, Perpetual, \$100 par	\$4.560	01-Nov-63	-	200,000	\$20,000,000	(\$266,000)	\$297,633	\$19,968,367	\$912,000	
\$4.75 Series, Perpetual, \$100 par	\$4.750	01-Oct-49	-	20,000	\$2,000,000			\$2,000,000	\$95,000	
\$5.50 Series, Perpetual, \$100 par	\$5.500	01-Oct-41	-	14,000	\$1,400,000			\$1,400,000	\$77,000	
TOTAL PREFERRED STOCK					\$80,759,500	(\$2,455,000)	\$1,386,991	\$81,827,509	\$3,420,178	4.180%

issuance expenses, discount/premium, and any loss incurred in acquiring/redeeming prior series are not amortized due to the perpetual nature of the company's preferred stock

Net Proceeds = Par Value Outstanding plus Premium less Issuance Expense and Discount

$$C9 = C6 + C7 - C8$$

Embedded Cost = Annual Dividend divided by Net Proceeds

$$C11 = C10 / C9$$

Ameren Missouri
Cash Working Capital Requirement
For the Twelve Months Ended June 30, 2018

Line No.	Description (A)	Revenue Lag (B)	Expense Lead (C)	Net Lag (D)	CWC Factor (E)
1	Pensions & Benefits	38.65	(16.89)	21.76	0.0596
2	Payroll and Withholdings	38.65	(10.29)	28.36	0.0777
3	Payroll Taxes	38.65	(9.50)	29.14	0.0798
4	Other Operations and Maintenance Expenses	38.65	(37.84)	0.81	0.0022
5	Property/Real Estate Taxes	38.65	(182.50)	(143.85)	(0.3941)
6	Sales Tax	38.65	(10.10)	28.54	0.0782
7	Gross Receipts Taxes	23.44	(25.85)	(2.41)	(0.0066)
8	Federal Income Tax	38.65	(37.88)	0.77	0.0021
9	State Income Tax	38.65	(37.88)	0.77	0.0021
10	St Louis Corporate Earnings Tax	38.65	(273.50)	(234.85)	(0.6434)
11	PGA Expense	38.65	(35.77)	2.87	0.0079
12	Interest Expense	38.65	(89.31)	(50.67)	(0.1388)
13	Incentive Compensation	38.65	(252.23)	(213.58)	(0.5852)