

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EF-2015-0202, Union Electric Company, d/b/a Ameren Missouri

FROM: David Murray, Financial Analysis

/s/ David Murray 03/12/2015
Project Coordinator / Date

/s/ Steven Dottheim 03/12/2015
Staff Counsel's Office / Date

SUBJECT: Staff Recommendation concerning the Application of Union Electric Company, d/b/a Ameren Missouri ("Ameren Missouri," "Company," or "Applicant"), for Authority to issue and sell up to \$250,000,000 aggregate principal amount of additional long-term indebtedness.

DATE: March 12, 2015

1. (a) **Type of Issue:** Secured indebtedness issued under indentures previously filed with the Missouri Public Service Commission ("Commission"). See Paragraph 6, c. and d. in the Application.

(b) **Amount:** Up to \$250,000,000.

(c) **Rate:** Fixed or variable rate not to exceed the greater of (i) 5.00%, or (ii) a rate that is consistent with similar securities of comparable credit quality and maturities issued by other issuers considering prevailing financial market conditions at the time.

(d) **Other Provisions:** The price to be paid to Applicant for the various series of the New Indebtedness (as defined in the Application) will not be less than 98% or more than 100% of the aggregate principal amount thereof; the terms of maturity for the various series of the secured indebtedness will not exceed 40 years.
2. **Proposed Date of Transaction:** Anytime during the one-year period after the effective date of the order or orders resulting from the Company's Application.
3. (a) **Statement of Purpose of the Issue:** The Application states: "Applicant proposes to use the proceeds from the issuance and sale of the New Indebtedness, after deduction of commissions or discounts paid to underwriters in connection with the New Indebtedness: (1) to pay at maturity \$114,000,000 principal amount of the Applicant's 4.75% Senior Secured Notes due April 1, 2015, and (2) to refinance short-term debt consisting of commercial paper borrowings issued to investors through a dealer from the Applicant's commercial paper program and/or borrowings under a credit agreement with various financial institutions under which Applicant is a borrower."

(b) **From a financial perspective, does Staff deem this Statement of Purpose of the Issue reasonable?:**

Yes, with conditions imposed.

4. **Copies of executed instruments defining terms of the proposed securities:**

Such instruments have not been executed, but a statement of the general terms and conditions were included in the Application.

5. **Certified copy of resolution of the directors of applicant, or other legal documents authorizing the issuance of the securities reviewed:**

Yes

6. **Pro-forma Balance Sheet and Income Statement reviewed:**

Yes

7. **Capital expenditure schedule reviewed:**

Yes

8. **Journal entries required to be filed by Ameren Missouri to allow for the Fee Schedule to be applied:**

No

9. **Recommendation of the Staff:**

Conditional Approval granted pending receipt of definite terms of issuance (see Comments and Recommended Conditions)

COMMENTS:

Ameren Missouri is a public utility engaged in providing electric and gas utility services in portions of Missouri under the jurisdiction of this Commission.

On February 13, 2015, Ameren Missouri filed an Application with the Missouri Public Service Commission ("Commission") requesting approval for authority to issue and sell up to \$250,000,000 aggregate principal amount of secured indebtedness under indentures previously filed with the Commission (see Paragraph 6 c. and d.). Ameren Missouri states in its Application:

The series of the New Indebtedness will be offered to the public or privately placed (or a combination of both) through commercial or investment banking firms or groups of firms selected through negotiation and/or competitive bidding. Sales of the series of the New Indebtedness could be through underwriters or dealers, directly to a limited number of purchasers or to a single purchaser, or through agents designated by Applicant. Compensation to be paid for underwriting or privately placing the New Indebtedness will be determined based on prevailing financial market conditions.

The Applicant further states that it:

...proposes to issue the New Indebtedness under its existing authority from the Securities and Exchange Commission ("SEC"), for such securities issued in public transactions or pursuant to private placement with or without registration rights.

In reviewing requests for long-term financing authority, Staff analyzes the requested amount as it relates to the stated uses to ensure that the amount requested is reasonable and generally supports long-term capital investment. Staff also analyzes the pro forma impact the requested financing may have on the company's credit metrics, which may include the estimated impact on the parent company's credit metrics if the subject company's rating is influenced by the parent company's financial risk.

Ameren Missouri states in its Application that \$114 million of the financing authority will be used to refinance long-term debt that matures on April 1, 2015. The remaining \$136 million will be used to reduce the amount of commercial paper (short-term debt) outstanding. Ameren Missouri's balance sheet as of January 31, 2015 shows a short-term debt balance in excess of the amount requested to be refinanced by Ameren Missouri. On its face, this would seem to support Ameren Missouri's requested amount of long-term debt financing. However, it is important to ensure that the amount of short-term debt outstanding generally supports long-term investments rather than short-term operational needs. In fact, Staff attempted to have Ameren Missouri address this issue upfront by negotiating a condition with Ameren Missouri in its last finance case, File No. EF-2014-0227. Specifically Condition 5 stated as follows:

That Ameren Missouri be required to file in future finance cases, a schedule that reconciles short-term debt incurred for purposes of long-term capital projects specifically and individually disclosed in quarterly and annual filings with the Securities and Exchange Commission. For those capital expenditures not categorized in Securities and Exchange Commission filings, Ameren Missouri shall provide an aggregate sum of the miscellaneous expenditures.

Although Ameren Missouri did not provide this information upfront in this Application, it did provide information through the discovery process and email correspondence. Reviewing the information provided by Ameren Missouri and also disclosed in Ameren's 2014 SEC Form 10-K filing, the major projects in which Ameren Missouri invested significant capital were the Labadie electrostatic precipitator upgrades (\$63 million for the second half of 2014), nuclear reactor vessel head replacement at the Callaway energy center (\$61 million for the second half of 2014), and the O'Fallon solar energy center (\$12 million). Although the amount expended on these projects sums to \$136 million, this is just a coincidence. Ameren Missouri expended another \$236 million on other capital expenditures in the second half of 2014 for other miscellaneous ongoing projects, which when added to the \$136 million, results in total capital expenditures of \$372 million during the second half of 2014. Of course, this is a gross figure that is not offset by cash flows received through depreciation. Ameren Missouri's increase in net property, plant and equipment was \$268 million for the same time period. Consequently, based on the Ameren Missouri's financial statements and information provided in discovery, the request for an additional \$136 million of long-term debt is supported by net additional investment in Ameren Missouri's long-term assets.

The specific impact of Ameren Missouri's proposed debt financing on Ameren Missouri's and Ameren's balance sheet is as follows:

[illegible]

As can be seen from the above capital structure ratios, because Ameren Missouri and Ameren plan to use the proceeds from the long-term debt to refinance short-term debt, these are the only ratios that have any notable change.

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Staff also analyzed three key credit metrics to assess the relative impact the proposed financing may have on both Ameren Missouri's and Ameren's credit quality. Because the proposed financing in the Application is to simply refinance current short-term debt and maturing long-term debt, the impact on the credit metrics is minimal. Consequently, the proposed financing should not have a negative impact on Ameren or Ameren Missouri's credit rating, and therefore, its ability to attract capital. The specifics can be found in its entirety on the Highly Confidential - Schedule 1 attached to this recommendation.

RECOMMENDED CONDITIONS:

Staff recommends that the Commission approve the Application submitted by Ameren Missouri in this case subject to the following conditions:

1. That nothing in the Commission's order shall be considered a finding by the Commission of the value of this transaction for rate making purposes, and that the Commission reserve the right to consider the rate making treatment to be afforded the financing transaction and its impact on cost of capital, in any later proceeding;
2. That the Company shall file with the Commission within 10 days of issuance of any financing authorized pursuant to a Commission order in this proceeding, a report including the amount of secured indebtedness issued, date of issuance, interest rate (initial rate if variable), maturity date, redemption schedules or special terms, if any, use of proceeds, estimated expenses, and loan or indenture agreement concerning each issuance;
3. That the Company shall file with the Commission any information concerning communication with credit rating agencies concerning any such issuance;
4. That Ameren Missouri be required to file a five-year capitalization expenditure schedule in future finance cases;
5. That Ameren Missouri be required to file in future finance cases whereby the use of proceeds includes the repayment of short-term debt which cannot be linked to the repayment of long-term debt, a schedule that reconciles short-term debt incurred for purposes of long-term capital projects specifically and individually disclosed in quarterly and annual filings with the Securities and Exchange Commission. For those capital expenditures not categorized in Securities and Exchange Commission filings, Ameren Missouri shall provide an aggregate sum of the miscellaneous expenditures;
6. That the Commission's grant of authority shall expire one year from the effective date of the order in this proceeding.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

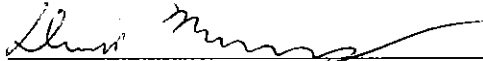
In the Matter of the Application of Union)
Electric Company d/b/a Ameren Missouri)
For an Order Authorizing the Issue and Sale)
of Up to \$250,000,000 Aggregate Principal)
Amount of Additional Long-term)
Indebtedness.)

Case No. EF-2015-0202

AFFIDAVIT OF DAVID MURRAY

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

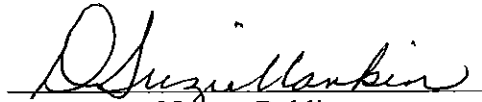
David Murray, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.



David Murray

Subscribed and sworn to before me this 12th day of March, 2015

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| D. SUZIE MANKIN Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: December 12, 2016 Commission Number: 12412070 |
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Notary Public

SCHEDULE 1

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY