

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EF-2012-0463, Union Electric Company, d/b/a Ameren Missouri

FROM: Zephania Marevangeo, Utility Services - Financial Analysis

/s/ Zephania Marevangeo 07/20/12
Utility Services - Financial Analysis

/s/ Tanya Alm 07/20/12
Staff Counsel's Office

SUBJECT: Staff's Recommendation is to conditionally approve the *Application* of Union Electric Company, d/b/a Ameren Missouri (Ameren Missouri) for an order authorizing the issuance of up to \$550,000,000 in aggregate principal amount of additional long-term indebtedness within one year of the order, but Staff also recommends the Commission to deny Ameren Missouri the authority to use long-term debt proceeds to refinance short-term debt.

DATE: July 20, 2012

Union Electric Company d/b/a Ameren Missouri

1. (a) **Type of Issue:** Secured Long-Term Debt.
(b) **Amount:** Up to \$550,000,000.
(c) **Issuance date(s):** Within one year of the effective date of Commission's order granting authorization to refinance long-term debt with additional New Indebtedness.
(d) **Rate:** The interest rate on the secured long-term debt shall not exceed 6.5% or a rate consistent with similar securities of comparable credit quality and maturities issued by other issuers.
2. **Proposed Date of Transaction:** As soon as August 1, 2012.
3. (a) **Statement of purpose of the Transaction:** Ameren Missouri proposes to use proceeds from the secured long-term indebtedness to pay at, or subsequent to, maturity \$173,000,000 of the Company's Senior Secured Notes that are due on September 1, 2012, and to refund principal amounts, and repurchase premiums for up to \$377,000,000 of other outstanding long-term indebtedness. If not used for the aforesaid specific purposes, then Ameren Missouri is requesting approval to use the proceeds to refinance short-term debt that may be outstanding during the period of the requested Financing Authority.

- (b) **From a financial perspective, is this purpose reasonable?** Yes, with respect to long-term debts; but, it is not reasonable for the purposes of refinancing short-term debt.
4. **Type of Transaction:** Ameren Missouri proposes to receive secured debt proceeds from the issuance of first mortgage bonds and other forms of secured indebtedness.
5. **Copies of executed instruments defining the terms of the proposed transaction:**
- ☒ (a) If such instruments have been previously filed with the Commission, a reference to the Case Number in which the instruments were furnished.
- ☐ (b) If such instruments have not been executed at the time of filing a commitment to provide the terms and conditions of the instruments when they are available has been made.
- ☐ (c) If no such instruments are either executed or to be executed, a statement of how the securities are to be sold.
6. **Certified copy of resolution of the directors of applicant, or other legal documents authorizing the proposed transaction reviewed:**
Yes ☒ No
7. **Capitalization expenditure schedule reviewed:**
Yes No ☒
8. **Recommendation of the Staff:**
- ☐ Grant by session order (see Comments)
- ☒ Conditional Approval granted pending receipt of definite terms of transaction (see Comments)
- ☐ Require additional and/or revised data before approval can be granted (see Comments)
- ☐ Formal hearing required (see Comments)
- ☐ Recommend dismissal (see Comments)

COMMENTS:

Ameren Missouri is a corporation in good standing, duly organized and existing under and by virtue of the laws of the State of Missouri, with its executive office at One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

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

Ameren Missouri has filed an *Application* requesting that the Commission authorize the Company to issue up to \$550,000,000 in aggregate principal amount of secured long-term indebtedness in one or a combination of the following forms: (1) first mortgage bonds; and/or (2) other forms of secured indebtedness (including debt securities secured by a corresponding series of first mortgage bonds).

Ameren Missouri requests that first mortgage bonds issued as collateral for other debt shall not count towards the authorized amount requested in this proceeding.

Effect on Credit Quality:

Based on Ameren Missouri's selected pro forma financial ratios, the proposed debt issuances will result in Funds From Operations (FFO) to Interest coverage, FFO to Total Debt and Total Debt to Capital ratios of ** _____ **, ** _____ ** and ** _____ ** percent respectively¹. Ameren Missouri's projected ratios are consistent with Ameren Missouri and Ameren Corporation's (Ameren Missouri, Ameren Illinois and AmerenEnergy Generating Company's (GenCo) parent company) current consolidated "significant" financial risk profile.

Standard & Poor's (S&P) highlighted that Ameren Corporation's credit facility agreement includes a financial covenant requiring a consolidated ratio of total debt to capital of no more than 65%. As of December 31, 2011 the debt to capital ratio was 47%, demonstrating sufficient cushion with respect to the facility's financial covenant².

Because the primary scope of the *Application* and the scope Staff is recommending the Commission approve in its Order is limited to refinancing existing long-term debt, the pro forma impact of the refinancing should only show an improvement in FFO to Interest coverage ratios due to expected lower interest rates. The FFO to Total Debt ratio should essentially be the same since no new debt would be issued assuming Ameren Missouri's Financing Authority is limited to refinancing of long-term debt.

*Other Credit Quality Analysis*³:

Ameren Missouri and Ameren Illinois (Ameren Corporation's regulated subsidiaries) currently have an "excellent" business risk profile and "significant" financial risk profile. GenCo (Ameren Corporation's unregulated subsidiary) has a "fair" business risk profile and a "highly leveraged" financial risk profile.

¹ Ameren Missouri's *Application*, Sch. 4, p. 7 – HC.

² S&P Capital IQ, April 03, 2012.

³ *Id.*

Ameren Corporation has a “strong” business risk profile and a “significant” financial risk profile. The “strong” business risk profile reflects the impact of GenCo’s “fair” business risk profile on Ameren Corporation’s consolidated business risk profile.

Ameren Corporation and its regulated subsidiaries have a “BBB-” credit rating, while GenCo has a “BB-” credit rating. It is S&P’s view that GenCo’s standalone credit rating would be in the “B” credit rating category absent its affiliation with Ameren Corporation. Thus, GenCo’s “BB-” rating reflects Ameren Corporation’s limited liquidity support to GenCo. Consequently, S&P represented that it could raise Ameren Corporation’s ratings if Ameren Corporation decides to stop supporting GenCo while maintaining, at the very least, an FFO to debt ratio of 17%.

Staff’s Concern:

In the event Ameren Missouri does not use the requested proceeds to refinance outstanding long-term debt, Ameren Missouri proposes to expand the use of proceeds to allow for refinancing of any short-term debt that may be outstanding during the period of the requested Financing Authority.

Ameren Missouri’s *Application* is deficient. It does not furnish all the filing requirements for electric utility applications for authority to issue other evidences of indebtedness as required by commission rules. 4 CSR 240-3.120 requires and states the following:

(1)(G) A five (5)-year capitalization expenditure schedule as required by section 393.200, RSMo.

(2) If any of the items required under this rule are unavailable at the time the application is filed, they shall be furnished prior to granting of the authority.

In Paragraph 12 of Ameren Missouri’s *Application*, Ameren Missouri indicated it did not file a five (5)-year capitalization expenditure schedule because the proceeds of the New Indebtedness will be used to discharge, refund or retire **outstanding indebtedness** (emphasis added).

Staff interprets “**outstanding indebtedness**” to include both short-term and long-term debt. Since this infers that Ameren Missouri is contemplating refinancing short-term debt using proceeds from long-term debt, Ameren Missouri should provide at least the five (5)-year capitalization expenditure schedule required by 4CSR 240-3.120 (1)(G).

Although Ameren Missouri had disputed whether it was required to provide such information when filing financing applications, Staff has communicated to Ameren Missouri in past finance cases that this information assists Staff with verifying the expenditures that justify the amount of short-term debt accumulated. In fact, in order to ensure Ameren Missouri would provide this information in future cases in which it requested to refinance short-term debt, Staff recommended and the Commission ordered a condition that would require Ameren Missouri to

provide such information at the time it filed its application (see Paragraph 3.G. in the Commission's *Order Granting Financing Application*, in File No. EF-2009-0266. Consequently, Ameren Missouri's *Application* does not comply with the Commission's previous Order.

Additionally, Staff issued several data requests to attempt to evaluate cash flows that have occurred at Ameren and Ameren Missouri for the period ending June 30, 2012, which would capture the period (last 3 months) in which Ameren Missouri has accumulated short-term debt. In response to Staff's Data Request No. 0003, Ameren Missouri represented that the most recent financial statements, requested by Staff, that support the outstanding short-term debt are not available and will be provided when completed. Ameren Missouri did not provide a date in which Ameren Missouri plans to provide this information.

Considering Ameren Corporation's conflict of interest in managing Ameren Missouri and GenCo, Staff does not believe it is prudent to provide Ameren Missouri authority to refinance short-term debt without first verifying that Ameren Missouri did not provide direct or indirect financial support to Ameren Corporation for purposes of subsidizing GenCo.

Ameren Corporation is simply a utility holding company, which does not own operating assets but has controlling interests in all of its subsidiaries. Consequently, its financial well-being is supported by its subsidiaries, which include Ameren Missouri and Ameren Illinois (regulated subsidiaries). S&P does not rate Ameren Corporation's regulated subsidiaries as standalone entities, but rather rates them based upon Ameren Corporation's consolidated credit rating. For that reason, Ameren Missouri's S&P credit rating is negatively impacted by GenCo's financial difficulties.

Because it can be difficult to trace the exact purpose for which even current outstanding short-term debt was used, Staff recommends the Commission exclude from its Financing Authority the use of funds to repay or refinance short-term debt that has not been incurred and/ or short-term debt for which Staff does not have supporting evidence that it neither directly nor indirectly was used to support GenCo's credit quality.

RECOMMENDATION:

Staff recommends that the Commission approve Ameren Missouri's request for authority to use secured long-term debt proceeds to refinance the outstanding long-term debt identified in the *Application*. Staff further recommends that the Commission deny approval for authority to use secured long-term debt proceeds to refinance short-term debt.

Should Ameren Missouri subsequently request approval for authority to use secured long-term debt proceeds to refinance short-term debt, Ameren Missouri should comply with 4 CSR 240-3.120 by providing a five (5)-year capitalization expenditure schedule. Ameren Missouri should also provide documentation that confirms that Ameren Missouri is not supporting GenCo financially, directly or indirectly.

RECOMMENDED CONDITIONS:

Staff recommends that this *Application* be approved with respect to New Indebtedness being used to refinance outstanding long-term debt with 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, which includes, but is not limited to the capital structure, and that the Commission reserves the right to consider the rate making treatment to be afforded these financing transactions and their effect on cost of capital, in any later proceeding;
2. That Ameren Missouri shall be required to file a five (5)-year capitalization expenditure schedule as required by section 393.200, RSMo.;
3. That Ameren Missouri 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;
4. In the event Ameren Missouri desires to use the proceeds for purposes of refinancing short-term debt, Ameren Missouri must file evidence, which will be subject to prior Commission approval, showing that Ameren Missouri has not provided cash to directly or indirectly support GenCo's credit quality;
5. That Ameren Missouri files with the Commission, upon refinancing of any outstanding debt, the net present value calculations indicating the amount of interest cost savings;
6. That Ameren Missouri files with the Commission any information concerning communication with credit rating agencies concerning the proposed financing; and,
7. That Ameren Missouri shall file with the Commission as a non-case related submission any credit rating agency reports published on Ameren Missouri's, Ameren's or GenCo's corporate credit quality or the credit quality of its securities.

Note: Conditions in this case slightly differ from conditions in case EF-2009-0266 in order to enforce 4 CSR 240-3.120, which stipulates the filing requirements for electric utility applications for authority to issue evidences of indebtedness; and, to address Staff's concerns addressed in the testimony.

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 Issuance of up to)
\$550,000,000 Aggregate Principal Amount)
of Additional Long-Term Indebtedness.)

Case No. EF-2012-0463

AFFIDAVIT OF ZEPHANIA MAREVANGEPO

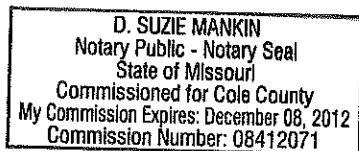
STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

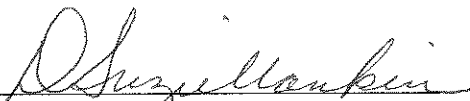
Zephania Marevangepo, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters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



Zephania Marevangepo

Subscribed and sworn to before me this 20th day of July, 2012.





Notary Public