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 $150,000,000 Aggregate Principal Amount of Additional Long-Term Indebtedness	)))))	**File No. EF-2016-0300**

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission ("Staff"), by and through counsel, and for its *Staff Recommendation* states as follows:

1. On April 29, 2016, Ameren Missouri filed an Application for permission and authority under Sections 393.180 and 393.200 RSMo, 4 CSR 240-3.120, 4 CSR 240-3.220 and 4 CSR 240-2.060 to issue and sell up to $150,000,000 aggregate principal amount of additional long-term indebtedness.

2. Ameren Missouri proposes to use the proceeds from the issuance and sale of the New Indebtedness, after deduction of commissions or discounts paid to the underwriters in connection with the New Indebtedness, to refinance short-term debt consisting of commercial paper borrowings and, potentially, money pool borrowings.

3. On May 2, 2016, the Missouri Public Service Commission ("Commission") issued an *Order Directing Staff To File A Pleading Stating When It Will File A Recommendation In This Case* ("Order"). Staff responded to the Commission's Order on May 11, 2016 and stated that Staff anticipated filing its recommendation within one week of completing its discovery.

4. After completing discovery, Staff recommends that the Commission approve the Application submitted by Ameren Missouri in the 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.

WHEREFORE, Staff recommends that the Commission approve the Application submitted by Ameren Missouri on April 29, 2016 in this case subject to the conditions set out above.

Respectfully submitted,

/s/ Jamie S. Myers
Jamie S. Myers
Legal Counsel
Missouri Bar No. 68291
Attorney for the Staff of the
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102
(573) 526-6036
jamie.myers@psc.mo.gov

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing were served electronically to all counsel of record this 26th day of May, 2016.

/s/ Jamie S. Myers

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EF-2016-0300, Union Electric Company, d/b/a Ameren Missouri

FROM: David Murray, Financial Analysis

/s/ David Murray 05/26/2016	/s/ Nathan Williams 05/26/2016
Project Coordinator / Date	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 $150,000,000 aggregate principal amount of additional long-term indebtedness.

DATE: May 26, 2016

1. (a) **Type of Issue:** Reopening of existing 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 $150,000,000.

   (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 92% 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 to refinance short-term debt consisting of commercial paper borrowings and, potentially, money pool borrowings."

   (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:**

   Supposed to be filed by May 13, 2016, but hasn't been filed

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 a certified copy of the resolutions of Applicant's Board of Directors and definite terms of issuance (see Comments and Recommended Conditions)

<u>COMMENTS</u>:

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 April 29, 2016, Ameren Missouri filed an Application with the Missouri Public Service Commission ("Commission") requesting approval for authority to issue and sell up to $150,000,000 aggregate principal amount of secured indebtedness under indentures previously filed with the Commission (see Paragraph 5 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.

Although not explicitly identified in the Application, a unique characteristic of the requested debt authorization in this case is the fact that Ameren Missouri does not plan on issuing debt under a new debt series, but rather a reopening of the $250 million, 3.65%, 30-year debt series the Commission authorized Ameren Missouri to issue last year. Consequently, this debt series would now be in the amount of $400 million. The language in the prospectus associated with the prospectus of this debt series states as follows:

> We may from time to time, without consent of the existing holders of the senior secured notes, "reopen" this series of senior secured notes which means we can create and issue further senior secured notes having the same terms and conditions (including the same CUSIP number) as the senior secured notes offered by this prospectus in all respects, except for the date of original issuance, the offering price and, if applicable, the initial interest accrual date and the initial payment date. Additional senior secured notes issued in this manner will be consolidated with, and form a single series with, the previously outstanding senior secured notes.

Ameren Missouri indicated that reopening the existing debt as opposed to issuing debt under a new series was more economical due to the smaller debt issue size of $150 million. Ameren Missouri indicated that its bankers estimated that pursuing issuing the debt through the reopening could save it as much as 15 to 20 basis points compared to a new series. Staff reviewed the communications Ameren Missouri had with its banking partners and has no information to dispute Ameren Missouri's assertion.

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 the entire amount of proceeds from the long-term debt issuance will be used to refinance short-term debt consisting of commercial paper and potentially money pool borrowings. Ameren Missouri's short-term debt balance as of April 29, 2016 exceeds the amount of long-term debt authority requested in this Application. It appears that the major cause for Ameren Missouri's higher short-term debt balance was the retirement of $260 million of long-term debt on February 1, 2016. This amount alone justifies the request of up to $150 million of additional long-term debt. However, Staff still reviewed Ameren Missouri's recent large capital expenditures which Ameren Missouri was required to provide pursuant to Condition 5 in the last finance case, File No. EF-2015-0202. 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. Reviewing the information provided by Ameren Missouri in response to Staff Data Request No. 1 and also information disclosed in Ameren's 2016 First Quarter SEC Form 10-Q filing for the 3 months ending March 31, 2016, the Ameren Missouri has invested additional capital in its system, causing its net property, plant and equipment balance to increase. Additionally, Ameren Missouri pays significant dividends to Ameren, which reduces the amount of capital available for reinvestment. This requires varying levels of capital contributions if Ameren Missouri is going to continue to balance its capital structure.

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

<u>Ameren Missouri:</u>

	As of March 31, 2016	Pro Forma
Common Equity	50.44%	50.42%
Preferred Stock	1.04%	1.04%
Long-Term Debt	46.37%	48.30%
Short-Term Debt	2.15%	0.23%

Ameren:

	As of March 31, 2016	Pro Forma
Common Equity	47.97%	47.96%
Preferred Stock	0.99%	0.99%
Long-Term Debt	46.98%	48.02%
Short-Term Debt	4.06%	3.03%

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.

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.