

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EF-2019-0239, Union Electric Company, d/b/a Ameren Missouri

FROM: Peter Chari, Financial Analysis

/s/ Peter Chari, 08/8/2019
Financial Analysis / Date

/s/ Karen Bretz 08/8/2019
Staff Counsel's Office / Date

SUBJECT: Staff Recommendation Concerning the Application of Union Electric Company, d/b/a Ameren Missouri ("Ameren Missouri") for Authority to Issue and Sell Up to \$400,000,000 Aggregate Principal Amount of Additional Long-Term Indebtedness ("New Indebtedness").

DATE: August 8, 2019

1. (a) **Type of Issue:** First Mortgage Bonds or other forms of Secured Indebtedness (including Senior Secured Debt Securities Secured by First Mortgage Bonds). They will be issued under indentures previously filed with the Missouri Public Service Commission ("Commission"). See pages 6 and 7, paragraph 11, items (c) and (d) of the Application.

(b) **Amount:** Up to \$350,000,000.¹

(c) **Rate:** Fixed or variable rate not to exceed the greater of (i) 6.00%, 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 Ameren Missouri for the various series of the New Indebtedness (as defined in the Application) will not be less than 92% 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 Ameren Missouri's Application.
3. (a) **Statement of Purpose of the Issue:** Ameren Missouri proposes to use the proceeds from the issuance and sale of the New Indebtedness, after deduction of commissions or

¹ In its 60-day *Notice*, dated February 13, 2019, Ameren Missouri stated that it intended to file an application for permission to issue up to \$400 million in additional long-term indebtedness. Ameren Missouri, *Notice*, EF-2019-0239 (Feb. 13, 2019). Ameren Missouri explained in its Motion and Application that at the time of the *Notice* it did not yet know the final amount of the proposed issuance, and its actual request is for authority to issue \$350 million in bonding. Ameren Missouri, *Motion for Expedited Treatment and Application for Financing Authority*, EF-2019-0239 1 n.1 (July 5, 2019).

discounts paid to the underwriters in connection with the New Indebtedness: (1) to pay [prior to,] or shortly after maturity, \$244,310,000 principal amount of Ameren Missouri's 5.10% Senior Secured Notes due October 1, 2019, or short-term debt incurred as a result of repaying at maturity such debt at maturity, and (2) to refinance other short-term debt consisting of commercial paper borrowings and, potentially, money pool borrowings. The amount of Ameren Missouri's short-term debt as of May 31, 2019 was ** _____ **, consisting entirely of commercial paper borrowings.

(b) **From a financial perspective, does Staff deem this Statement of Purpose of the Issue reasonable?** Yes, with conditions imposed by the Commission as indicated below at page 6.

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:** No. Pursuant to Section 2 of 4 CSR 240-10.125, as stated in Paragraph 13 of the Application, this is to be provided as soon as possible after it is obtained.
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. Ameren Missouri states at Paragraph 15 of the Application that no fee is required pursuant to Section 386.300 RSMo because the proposed issuances of New Indebtedness will be used to discharge, refund or retire outstanding indebtedness.
9. **Recommendation of the Staff:** Conditional Approval granted pending receipt of a certified copy of the resolutions of Ameren Missouri's Board of Directors and definite terms of issuance. See Comments and Recommended Conditions below.

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 July 5, 2019 Ameren Missouri filed an Application with the Commission requesting approval for authority to issue and sell up to \$350,000,000 aggregate principal amount of secured indebtedness under indentures previously filed with the Commission (see pages 6 and 7,

Paragraph 11, items c. and d. of the Application). Ameren Missouri states in its Application at pages 5 and 6, Paragraph 11, item b.:

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.

Ameren Missouri further states in its Application at page 7, Paragraph 11, item e. 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.

Staff applies the "not detrimental to the public interest" standard to financing applications. 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 at page 4, Paragraph 10 that the proceeds will be used to:

(1) to pay shortly after maturity, short-term debt incurred as a result of paying at maturity, \$244,310,000 principal amount of Applicant's 5.10% Senior Secured Notes due October 1, 2019, or short-term debt incurred as a result of repaying at maturity such debt at maturity, and (2) to refinance other short-term debt consisting of commercial paper borrowings and, potentially, money pool borrowings.

Staff verified that Ameren Missouri's past and future capital expenditure plans support the need to refinance short-term debt with long-term debt.

Since March 31, 2018, Ameren Missouri has increased its net property, plant and equipment by less than \$400 million (about 3.3%). Ameren Missouri's low investment growth has allowed it to fund a significant portion of dividends provided to Ameren's shareholders. Because Ameren Missouri has not been investing significant capital into its system, Ameren Missouri's cash flow has supported approximately 75% of the dividends paid to Ameren shareholders since December

31, 2016, even though it contributes 60% of net income to Ameren's net income. As Staff discussed in Ameren Missouri's most recent rate case, File No. ER-2016-0179, Ameren Missouri's assets produce significant amounts of cash flow, specifically funds from operations (FFO) as defined by Standard & Poor's, as compared to the amount of debt it has outstanding (FFO/debt). This supports Ameren Missouri using more leverage than it currently utilizes. Therefore, Staff is not concerned about Ameren Missouri's Application to issue \$350 million of long-term debt, of which \$244,310,000 will be used to refinance existing long-term debt. As previously indicated, the remainder of the funds will be used to refinance short-term debt.

The pro forma impact of Ameren Missouri's proposed debt financing on Ameren Missouri's and Ameren's balance sheets as of December 31, 2018 are as follows:

Ameren Missouri

	<u>As of May 31, 2019</u>		<u>Pro Forma</u>	
Common Equity	**	**	**	**
Preferred Stock	**	**	**	**
Long-Term Debt	**	**	**	**
Short-Term Debt	**	**	**	**

Ameren

	<u>As of May 31, 2019</u>		<u>Pro Forma</u>	
Common Equity	**	**	**	**
Preferred Stock	**	**	**	**
Long-Term Debt	**	**	**	**
Short-Term Debt	**	**	**	**

The above capital structure ratios imply an increase in long-term debt and a decrease in short-term debt. The impact of the issuance of the long-term debt on Ameren Missouri's balance sheet should be limited to a shift from short-term debt to long-term debt. Consequently, the impact of the proposed long-term financing on the Ameren Missouri's financial risk is insignificant, which is illustrated in the Confidential Schedule 1 attached to this recommendation.

RECOMMENDED CONDITIONS:

Staff recommends that the Commission approve Ameren Missouri's Application, because the proposed purchase is not detrimental to the public interest, as Ameren Missouri states in its Application at page 9, Paragraph 20, first sentence. Staff recommends approval 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 rate proceeding;

2. 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. In addition, Ameren Missouri shall also provide the analysis, to include but not be limited to indicative pricing information provided by investment banks, it performed to determine that the terms for the debt it decided to issue were the most reasonable at the time;
3. That Ameren Missouri shall file with the Commission any information concerning communication with credit rating agencies concerning any such issuance;
4. That Ameren Missouri shall file with the Commission as a non-case related submission in EFIS under “Resources” - “Non-Case Related Query” - “Ordered Submission” any credit rating agency reports published on Ameren Missouri’s or Ameren’s corporate credit quality or the credit quality of its securities;
5. That Ameren Missouri be required to file a five-year capitalization expenditure schedule in future finance cases;
6. 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; and
7. That the Commission’s grant of authority shall expire one year from the effective date of the order in this proceeding.

Attached:
Confidential Schedule 1 - Selected Pro Forma Financial Ratios

**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 \$400,000,000)
Aggregate Principal Amount of Additional Long-Term)
Indebtedness)

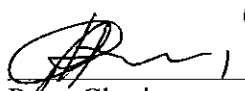
File No. EF-2019-0239

AFFIDAVIT OF PETER CHARI

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

COMES NOW Peter Chari and on his oath states that he is of sound mind and lawful age; that he contributed to the foregoing Staff Recommendation in Memorandum form; and that the same is true and correct according to his best knowledge and belief.

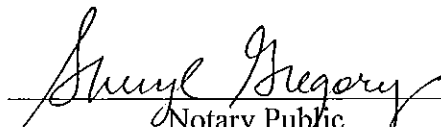
Further the Affiant sayeth not.



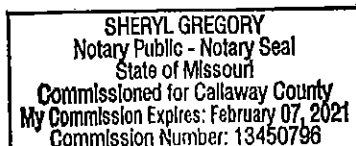
Peter Chari

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 8th day of August, 2019.



Notary Public



SCHEDULE 1

HAS BEEN DEEMED

CONFIDENTIAL

IN ITS ENTIRETY