

**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)	<u>File No. EF-2017-0265</u>
\$425,000,000 Aggregate Principal Amount)	
of Additional Long-term Indebtedness)	

**STAFF RECOMMENDATION OF COMMISSION AUTHORIZATION
OF FINANCING APPLICATION SUBJECT TO CONDITIONS**

COMES NOW the Staff of the Missouri Public Service Commission, through Staff Counsel's Office, in response to the Commission's May 5, 2017, Order Setting Date For Filing respecting the April 7, 2017, filing of a financing Application by Union Electric Company d/b/a Ameren Missouri ("Ameren Missouri") for authority to issue and sell up to \$425,000,000 aggregate principal amount of additional long-term indebtedness. In its April 10, 2017, Order Directing Filing, the Commission directed the Staff to file no later than May 8, 2017, a recommendation, or a statement of when it can reasonably file a recommendation on the Application. In response thereto, the Staff submitted on May 5, 2017, a Staff Status Report To Commission Order Directing Filing stating that it could reasonably file its recommendation with the Commission by no later than May 12, 2017. Attachment 1 is the Staff's Memorandum Recommendation of the Financial Analysis Unit of the Staff, recommending Commission authorization of Ameren Missouri's financing Application subject to certain conditions. In support of the Staff's filing, Staff Counsel's Office states as follows:

1. Ameren Missouri states in its Application that it proposes to issue and sell from time to time, \$425,000,000 aggregate principal amount of additional long-term indebtedness in one or a combination of the following forms, with such terms and

provisions as are described in its Application: first mortgage bonds or other forms of secured indebtedness (including senior secured debt securities secured by a corresponding series of first mortgage bonds).

2. Ameren Missouri proposes to use the proceeds from the issuance and sale of the additional long-term indebtedness, after deduction of commissions or discounts paid to the underwriters in connection with the additional long-term indebtedness: (1) to pay at maturity, \$425,000,000 principal amount of the Ameren Missouri's 6.40% Senior Secured Notes due June 15, 2017, or (2) to pay shortly after maturity, short-term debt incurred as a result of paying at maturity, Ameren Missouri's 6.40% Senior Secured Notes due June 15, 2017.

3. Ameren Missouri contends in its Application that, due to timing constraints, it may not be able to immediately utilize the proceeds of an issuance and sale of the additional long-term indebtedness for the purpose of paying at maturity its \$425,000,000, 6.40% Senior Secured Notes due June 15, 2017, or to pay shortly after maturity, short-term debt incurred as a result of paying at maturity, Ameren Missouri's 6.40% Senior Secured Notes due June 15, 2017, as described in paragraph 2 above. Ameren Missouri states in its Application that if such event occurs, the proceeds from the issuance and sale of the series of additional long-term indebtedness will be kept separate from Ameren Missouri's general funds and temporarily invested in highly liquid and highly secure short-term investments until such proceeds can be utilized as described in the Application. Ameren Missouri relates in its Application that, alternatively, it may incur additional short-term debt for a short time to fund the maturity

of the 6.40% Senior Secured Notes prior to the receipt of proceeds from the issuance and sale of the series of additional long-term indebtedness.

4. The Staff recommends that the authority requested by Ameren Missouri be authorized by the Commission subject to the conditions set out in the Staff's Memorandum Recommendation. Said Recommended Conditions are repeated below:

- a. 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;
- b. 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. In addition, the Company 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;
- c. That the Company shall file with the Commission any information concerning communication with credit rating agencies concerning any such issuance;
- d. That the Company 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;
- e. That Ameren Missouri be required to file a five-year capitalization expenditure schedule in future finance cases;
- f. 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

- g. That the Commission's grant of authority shall expire one year from the effective date of the order in this proceeding.

5. Ameren Missouri has requested an order authorizing the actions proposed in its Application with an effective date no later than Monday, June 5, 2017, so that it may secure financing on a timely basis.

WHEREFORE, the Staff states that it recommends to the Commission that it authorize Ameren Missouri's proposed financing transactions addressed in its April 7, 2017, financing Application filed with the Commission, subject to the conditions set out in the Staff's Memorandum Recommendation and above.

Respectfully submitted,

/s/ Steven Dottheim

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served via e-mail on counsel for the parties of record to this case, on this 12th day of May, 2017.

/s/ Steven Dottheim

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EF-2017-0265, Union Electric Company, d/b/a Ameren Missouri

FROM: Robert Bickel, Financial Analysis

/s/ David Murray 05/12/2017
Financial Analysis Dept. / Date

/s/ Steven Dottheim 05/12/2017
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 \$425,000,000 aggregate principal amount of additional long-term indebtedness.

DATE: May 12, 2017

1. (a) **Type of Issue:** Senior 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 \$425,000,000.

(c) **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% of the aggregate principal amount thereof; the terms of maturity for the various series of the secured indebtedness will not exceed 40 years. Applicant may issue first mortgage bonds with a "fall-away" provision, which allows at some future date for the bonds to no longer be secured by the Mortgage and become unsecured obligations.
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: "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: (1) to pay at maturity, \$425,000,000 principal amount of the Applicant's 6.40% Senior Secured Notes due June 15, 2017, or (2) to pay shortly after maturity, short-term debt incurred as a result of paying at maturity, Applicant's 6.40% Senior Secured Notes due June 15, 2017."

(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:

The instruments have not been executed at this time, but the general terms and conditions of the indebtedness were detailed in the Application.

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

At this time, no such documents have been received. Applicant stated in the Application, that it will be provided no later than May 05, 2017.

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).

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. Ameren Missouri is a subsidiary of Ameren Corporation.

On April 07, 2017, Ameren Missouri filed an Application with the Missouri Public Service Commission ("Commission") requesting approval for authority to issue and sell up to \$425,000,000 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.

In reviewing requests for long-term financing authority, Staff analyzes the amount requested as it relates to the uses stated in the Application to ensure that the amount requested is reasonable and generally supports long-term capital investment. Staff also reviews the pro-forma impact the request may have on the company's credit metrics, which possibly could 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's Application indicates that it only plans to issue secured debt. All of Ameren Missouri's debt outstanding is currently secured. Because Missouri's utility companies have differing strategies as it relates to issuing secured versus unsecured debt, Staff believes it is prudent to compare and contrast these strategies over time. Consequently, Staff issued a few data requests to ask what information Ameren Missouri analyzes before deciding the appropriate terms to accept when issuing new debt. Based on Ameren Missouri's responses to these data requests, the investment banks used by Ameren Missouri provide indicative pricing information for the various terms they are considering. This information could prove to be useful for purposes of evaluating the reasonableness of certain terms accepted in the debt offering. Consequently, Staff recommends the Commission condition its approval of Ameren Missouri's proposed financing on it filing such information when it files the final terms after the execution of the debt offering(s).

Ameren Missouri states in its Application that the entire amount of proceeds from the long-term debt issuance will be used to directly refinance a long-term debt instrument due June 15, 2017, and to possibly refinance short-term debt incurred as a result of paying the maturity due June 15, 2017.

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

Ameren Missouri:

	<u>As of December 31, 2016</u>	<u>Pro Forma</u>
Common Equity	51.40%	51.47%
Preferred Stock	1.03%	1.02%
Long-Term Debt	47.58%	47.50%
Short-Term Debt	0.00%	0.00%

Ameren:

	<u>As of December 31, 2016</u>	<u>Pro Forma</u>
Common Equity	48.00%	48.04%
Preferred Stock	0.96%	0.96%
Long-Term Debt	47.27%	47.23%
Short-Term Debt	3.77%	3.77%

The above capital structures show that there is minimal change due to the new indebtedness only being issued to refinance the current \$425,000,000 maturity due June 15, 2017.

Staff also used three key credit metrics to examine the impact the proposed financing may have on Ameren and Ameren Missouri's credit quality. Since the Application states the new indebtedness is to refinance long-term debt, Ameren Missouri's financing should not have a negative impact on Ameren and Ameren Missouri's respective credit ratings; retaining their ability to attract capital. Schedule 1 that is attached to this recommendation provides the specifics.

Although this transaction in and of itself does not cause Staff concern about Ameren Missouri or Ameren's credit ratings, Staff believes it is important to stay informed about any reports/actions the rating agencies publish about Ameren Missouri and Ameren. Therefore, consistent with requiring Laclede Gas Company and Kansas City Power & Light Company to provide this information, Staff proposes the Commission order Ameren Missouri to submit Ameren and Ameren Missouri rating agency reports in the Commission's Electronic Filing and Information System ("EFIS"), as specified in the condition below.

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. In addition, the Company 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 the Company shall file with the Commission any information concerning communication with credit rating agencies concerning any such issuance;
4. That the Company 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.

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For an Order Authorizing the Issue and Sale of) **Case No. EF-2017-0265**
Up to \$425,000,000 Aggregate Principal Amount)
Of Additional Long-term Indebtedness)

AFFIDAVIT OF ROBERT BICKEL

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

COMES NOW Robert Bickel 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.

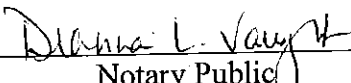
Further the Affiant sayeth not.



Robert Bickel

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 12th day of May, 2017.



Notary Public

