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MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. GR-2021-0241

REBUTTAL TESTIMONY

OF

DARRYL SAGEL

ON

BEHALF OF

UNION ELECTRIC COMPANY

D/B/A AMEREN MISSOURI

St. Louis, Missouri
October, 2021

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REBUTTAL TESTIMONY

OF

DARRYL SAGEL

FILE NO. GR-2021-0241

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Darryl Sagel. My business address is One Ameren Plaza, 1901 Chouteau Ave., St. Louis, Missouri.

Q. Are you the same Darryl Sagel that submitted direct testimony in this case?

A. Yes, I am.

II. PURPOSE OF TESTIMONY

Q. To what testimony or issues are you responding?

A. I am responding to the direct testimony of David Murray on behalf of the Office of Public Counsel ("OPC") submitted in this proceeding as it relates to OPC's recommended capital structure for Ameren Missouri (the "Company").

Q. Are you sponsoring any schedules in connection with your testimony?

A. Yes, I am sponsoring, and have attached to my rebuttal testimony, the following schedules, which have been prepared under my direction:

- Schedule DTS-R1 – Ameren Corporation Stock Price Performance Versus Gas Utility Peers (May 31, 2018 – September 30, 2021)
- Schedule DTS-R2 – Ameren Corporation NTM P/E Multiples Versus Gas Utility Peers (May 31, 2018 – September 30, 2021)

- Schedule DTS-R3 – Authorized Common Equity Ratio – Gas Proxy Group Utility Operating Companies

III. SUMMARY RESPONSE TO OPC WITNESS DAVID MURRAY'S TESTIMONY RECOMMENDATION

Q. Mr. Murray states that "the most objective and practical measure of the capital structure that captures the debt capacity of Ameren Corp's regulated utility assets, is that of Ameren Corp. on a consolidated basis."[1] Do you agree with his position?

A. I strongly disagree with Mr. Murray's position. Ameren Missouri's actual capital structure is appropriate, objective and reasonable for purposes of setting rates in this proceeding for the following reasons, each of which I will specifically address later in my rebuttal testimony:

- Ameren Missouri's financial profile, including its capital structure, is independently evaluated, developed and managed over time in a manner that appropriately considers its stand-alone financial health and risk profile, while ensuring timely access to both equity and debt capital at reasonable costs.
- Ameren Missouri's capital structure specifically and exclusively finances Ameren Missouri's rate base, with parent company common equity infusions sourced from actual third-party common equity raised by Ameren Corporation, and long-term debt issued by Ameren Missouri and secured by Ameren Missouri assets.

[1] File NO. GR-2021-0241, Direct Testimony of David Murray, page 43, ll. 4-6.

- Despite Ameren Corporation having employed more leverage in its capital structure over the past several years, its capital allocation strategy and its funding approach across each of its regulated utility businesses have assisted in maintaining Ameren Corporation's consolidated credit profile and, perhaps more pertinent to this proceeding, have not resulted in any negative impact on Ameren Missouri's stand-alone credit profile.
- Recent improvements in Missouri's regulatory framework, specifically the election of partial plant-in-service accounting (PISA) in 2018, have had no demonstrable positive impact on the Company's credit metrics, its credit profile or its access to, and cost of, debt and equity capital.
- Ameren Missouri's common equity ratio for ratemaking purposes of **_____**%[2] projected as of September 30, 2021, is consistent with common equity ratios maintained by its gas utility peers and consistent with the Company's actual common equity ratios over the past several years.
- Ameren Missouri's capital structure supports strong and stable investment grade credit ratings, allowing the Company to access debt capital at a competitive cost through various market cycles, to the benefit of Ameren Missouri customers. The arbitrary use of Ameren Corporation's capital structure would weaken the Company's credit profile, including cash flows and key credit metrics, thereby increasing the likelihood of Ameren Missouri suffering a ratings downgrade and experiencing the impact of

[2] Ameren Missouri updated the projected common equity ratio based on actual results through August 2021 and forecasted net income for September 2021 and expects the actual common equity ratio, to be updated in the true-up, to be approximately **_____**%.

stock price pressure on Ameren Corporation's shares, both of which would increase the Company's cost of capital and potentially result in higher customer rates.

Q. What rationale does Mr. Murray provide for disregarding Ameren Missouri's actual capital structure?

A. Mr. Murray justifies his proposed capital structure that consists of approximately 45% common equity as the capital structure that "best represents the amount of debt capacity Ameren Corp. considers reasonable and appropriate for its regulated utility assets, including Ameren Missouri."[3] To the contrary, neither Ameren Corporation nor Ameren Missouri believe that Ameren Corporation's consolidated capital structure, net of short-term debt, is reasonable or appropriate for the regulated utilities owned by Ameren Corporation, including Ameren Missouri. Each of the capital structures of Ameren Corporation and its regulated subsidiaries, including the Company, are managed independently in a manner that supports an appropriate balance between financial stability and customer affordability and considers discrete business, operational, regulatory and financial issues specific to the legal entity. My direct testimony in this proceeding, as well as the rebuttal testimony herein, explicitly support the use of Ameren Missouri's actual capital structure for the purpose of establishing rates in this proceeding.

In addition, Mr. Murray seems to conveniently ignore the risk that utilizing Ameren Corporation's capital structure which contains lower equity content than Ameren Missouri's actual capital structure, could result in an increase to the Company's cost of capital and by consequence, its customer rates. I discuss this concept later in my testimony.

[3] File NO. GR-2021-0240, Direct Testimony of David Murray, page 32, ll. 19-21.

IV. AMEREN MISSOURI'S CAPITAL STRUCTURE IS INDEPENDENTLY MANAGED AND EXCLUSIVELY FINANCES AMEREN MISSOURI RATE BASE

Q. Mr. Murray suggests that Ameren Corporation is "… managing its regulated utility subsidiary capital structures primarily for purposes of ratemaking."[4] How do you respond?

A. I struggle to understand what Mr. Murray means is trying to insinuate by suggesting that Ameren Corporation manages the capital structure of Ameren Missouri "for the purposes of ratemaking." Perhaps he is implying that the Company's capital structure is controlled exclusively for the benefit of Ameren Corporation shareholders, which could not be further from the truth. To respond to this assertion, however, I will reiterate that Ameren Missouri's capital structure is independently evaluated, developed and managed over time in a manner that appropriately considers its stand-alone financial health and risk profile, while ensuring timely access to both equity and debt capital at reasonable costs. This independent management supports the continued use of Ameren Missouri's actual capital structure for the purpose of setting rates in this proceeding. Contrary to Mr. Murray's assertion, Ameren Corporation's and Ameren Missouri's financing decisions and objectives do not "… primarily concentrate on the amount of leverage Ameren Corp. can carry on a consolidated basis."[5] Because Ameren Corporation does not expressly dictate Ameren Missouri's capital structure, but rather works mutually with Ameren Missouri to identify objective considerations for establishing a prudent capital structure (as discussed below), there is no conflict of interest between Ameren Corporation and Ameren Missouri, as Mr. Murray insinuates.

[4] File NO. GR-2021-0241, Direct Testimony of David Murray, pages 32-33.
[5] File NO. GR-2021-0241, Direct Testimony of David Murray, page 45, ll. 4-5.

Mr. Murray points to the fact that Ameren Missouri's capital structure having remained in close proximity to its authorized ratemaking capital structures over time (e.g., Ameren Missouri's common equity ratios for rate cases since 2010 have been in the range of 51.26% to 52.30% …)[6] as evidence that Ameren Corporation is managing the Company's capital structure for the benefit of Ameren Corporation shareholders. I characterize such historical balance sheet performance as prudent capital management, taking into consideration appropriate financial, operational and regulatory factors.

Q. How does Ameren Missouri independently manage its capital structure?

A. The Company's capital structure is independently managed through an approach that supports maintaining the Company's financial strength and integrity at a reasonable cost to its customers. Ameren Missouri finances itself through its own public issuances, maintains its own credit ratings and produces separate filings for the Securities and Exchange Commission ("SEC"). Evaluation and management of a suitable Ameren Missouri capital structure over time involves sensible consideration of Ameren Missouri-specific business and financial risk, including key rating agency-defined credit metrics required to support its strong and stable investment grade credit ratings. Despite Ameren Corporation's owning and financing other regulated businesses not directly related to Ameren Missouri, Ameren Missouri's capital structure is specifically managed over time to ensure continued financial strength, as well as to maintain a credit profile that provides the Company timely access to required capital to fund Ameren Missouri operations and to support its obligation to provide safe and adequate service to all customers in its service territory, at a competitive cost for the benefit of Ameren Missouri customers.

[6] File NO. GR-2021-0241, Direct Testimony of David Murray, page 39, ll. 17-18.

From a governance standpoint, Ameren Missouri has in place a separate Board of Directors currently comprised of five individuals, three of whom are officers of Ameren Missouri and two of whom are officers of Ameren Corporation. The Board of Directors of Ameren Missouri meets at least quarterly and exerts oversight of key regulatory, legal, managerial and financial matters. As part of its responsibilities for financial oversight and fiscal discipline, the Board of Directors of Ameren Missouri approves the Company's capital budget and financings, as well as all cash distributions (i.e., dividends) from Ameren Missouri to Ameren Corporation. Through the exercise of the subsidiary Board's fiduciary duties, the Company exerts significant independent control of its capital structure.

Q. Why is the actual capital financing of Ameren Missouri's rate base relevant?

A. Ameren Missouri's actual capital structure is relevant and appropriate for ratemaking purposes because it is the only capital that is financing Ameren Missouri's jurisdictional rate base to which the overall rate of return set in this proceeding will be applied. In contrast, the hypothetical capital structure proposed by Mr. Murray contains capital that does not finance Ameren Missouri's jurisdictional rate base and is not available for investment in Ameren Missouri by Ameren Corporation. Thus, Ameren Missouri should be evaluated as a stand-alone entity, including with regard to its capital structure. To do otherwise violates the basic financial principle that the use of funds invested gives rise to the risk of the investment. It is fundamental that individual investors expect a return commensurate with the risk associated with where their capital is invested. In this proceeding, that capital is both provided by and invested in Ameren Missouri. Therefore, Ameren Missouri must be viewed on its own merits, including the actual capital structure financing its rate base.

Q. Can you specifically identify the sources of Ameren Missouri's independently-managed capital?

A. Ameren Missouri's capital structure represents the actual dollars that are financing the jurisdictional rate base to which the rate of return authorized in this proceeding will be applied. In contrast, the hypothetical capital structure proposed by Mr. Murray contains capital that does not finance Ameren Missouri's jurisdictional rate base. Ameren Missouri's entire long-term debt balance consists of long-term debt marketed and issued by Ameren Missouri to third-party investors. Ameren Missouri's long-term debt is secured exclusively by its own assets and not the assets of Ameren Corporation or the other Ameren Corporation utility subsidiaries, Ameren Illinois and Ameren Transmission Company of Illinois ("ATXI"). In addition, Ameren Missouri's assets do not guarantee Ameren Corporation's, Ameren Illinois', or ATXI's long-term debt. Moreover, when Ameren Missouri seeks to raise long-term external capital, it must navigate a defined process to achieve financing authority from the Commission, whereby the Company must demonstrate that such financing is being utilized to fund long-term assets and the regulated operations of the business.

Similarly, Ameren Missouri's entire preferred stock balance consists of preferred stock marketed and issued by Ameren Missouri to third-party investors. Ameren Missouri's common equity balance consists of common equity contributions from Ameren Corporation and retained Ameren Missouri earnings. The common equity invested over time by Ameren Corporation in Ameren Missouri has been specifically financed with common equity raised by Ameren Corporation from third-party investors. For example, in August 2019, Ameren Corporation issued 7.5 million common shares under a forward sale agreement. Upon settlement of the shares sold forward, which occurred at two distinct times in December 2020 and February 2021, Ameren Corporation received net proceeds of $538 million. That amount was entirely and immediately contributed to Ameren Missouri, and Ameren Missouri, in turn, used it to finance a portion of the Company's 700 mega-watt ("MW") wind generation investment.

Furthermore, all of Ameren Missouri's capital supports Ameren Missouri's rate base, and no portion of the Company's rate base is supported by capital outside of Ameren Missouri. Mr. Murray suggests that "there is no way to trace the capital once Ameren Corp. receives it and redeploys it as it deems consistent with its organizational objectives."[7] That statement is false because the capital that Ameren Missouri receives from Ameren Corporation is quite easily traceable as it is sourced exclusively from common equity raised by Ameren Corporation from third-party investors.

Q. Are any of Ameren Missouri's assets pledged to support obligations of Ameren Corporation or any of Ameren Corporation's subsidiaries, or does Ameren Missouri rely on Ameren Corporation to support any Ameren Missouri long-term debt obligations?

A. As discussed above, Ameren Missouri's assets are not used in any way to provide support for, or guarantee obligations of, Ameren Corporation, Ameren Illinois or ATXI. Ameren Missouri does not rely upon any balance sheet support of Ameren Corporation to satisfy its debt obligations.

[7] File NO. GR-2021-0241, Direct Testimony of David Murray, pages 37-38.

Q. Mr. Murray calls into question Ameren Missouri's capital structure having remained relatively constant in recent years. Does the fact that Ameren Missouri has maintained a capital structure with approximately 52% common equity over the last several years and in this proceeding has filed to preserve this common equity ratio provide evidence that Ameren Corporation is managing Ameren Missouri capital structure for the benefit of Ameren Corporation's shareholders?

A. No. It only evidences the fact that Ameren Missouri believes that the approximately 52% common equity ratio has been, and continues to be, the appropriate amount of equity content to preserve its healthy financial profile while ensuring timely access to both equity and debt capital at reasonable costs.

Q. Mr. Murray suggests that Ameren Missouri's lack of a dividend policy, similar to Ameren Corporation's targeted dividend payout ratio, supports the fact that Ameren Missouri's capital structure is not managed independently. How do you respond?

A. I actually believe that Ameren Missouri's failure to individually adhere to Ameren Corporation's published dividend policy over time further evidences Ameren Missouri's independent financial management. As previously indicated, Ameren Missouri's Board of Directors exercises discretion over the amount of dividends paid to Ameren Corporation over time, considering, among other factors, its own capital reinvestment needs and maintaining a prudent capital structure. It is true that Ameren Missouri has distributed more cash to Ameren Corporation on both an absolute and relative basis in recent years versus the other regulated subsidiaries (Ameren Illinois and ATXI). Some of that cash has been used to support payment of Ameren Corporation's common dividend, though the level of dividend payments by Ameren Missouri to Ameren Corporation has declined since 2017, as the Company has increased the scale of its investment program in the state. Stated differently, Ameren Missouri's dividend payout ratio has been higher than both Ameren Illinois and ATXI in recent years, and has fluctuated significantly on a year-over-year basis. Had Ameren Missouri established an independent dividend policy that fixed its targeted payout ratio more in line with the other regulated subsidiaries or with Ameren Corporation, as Mr. Murray offers it should have as an independently-managed business, it would have paid out less dividends over time. The consequence of paying out less dividends would have been an Ameren Missouri common equity ratio that is <u>higher</u> today than the equity content in the Company's actual capital structure which we believe should be used in this proceeding. This runs counter to Mr. Murray's fundamental contention that Ameren Missouri is underleveraged. Rather, Ameren Missouri's independent financial oversight has allowed the Company to manage its capital structure in a responsible and prudent manner.

V. AMEREN CORPORATION'S CAPITAL STRUCTURE IS INDEPENDENTLY MANAGED AND HAS NOT NEGATIVELY IMPACTED AMEREN MISSOURI'S FINANCIAL AND CREDIT POSITION

Q. Why does Ameren Missouri's capital structure contain a higher equity ratio than Ameren Corporation's capital structure?

A. As noted previously in my testimony, Ameren Missouri's capital structure is independently managed, based on consideration of Ameren Missouri-specific business and financial risks, with the objective to maintain Company financial health and integrity at a reasonable cost of capital. In addition to Ameren Missouri, Ameren Corporation also owns and operates other regulated businesses, principally Ameren Illinois and ATXI. Therefore Ameren

Corporation's consolidated capital structure is meaningfully influenced by the respective capital structures of each of Ameren Corporation's regulated subsidiaries and their respective funding approaches. Like Ameren Missouri's capital structure, the capital structure of Ameren Corporation is managed independently based on the relevant business and financial risks applicable to the consolidated enterprise, while also supporting the earnings per share ("EPS") growth and total return objectives of Ameren Corporation's common shareholders. In the case of Ameren Corporation's capital structure, specific consideration is given to common shareholder dividend requirements, anticipated cash distributions from operating subsidiaries, holding company debt obligations, and financial support of Ameren Illinois' and ATXI's capital investment programs, while maintaining targeted credit ratings and strong stock price performance that supports access to debt and equity capital on attractive terms.

Q. Mr. Murray also suggests that the capital structures of Ameren's other subsidiaries, Ameren Illinois and ATXI, are managed for ratemaking purposes. How do you respond?

A. Though the capital structures of ATXI and Ameren Illinois are not subject to this Commission's jurisdiction, nor are ATXI's and Ameren Illinois' management of their respective capital structures a matter for this Commission's scrutiny, I feel compelled to correct Mr. Murray's erroneous assertions. Similar to Ameren Missouri and Ameren Corporation, both ATXI's and Ameren Illinois' capital structures are managed independently based on consideration of their respective business and financial risks and objectives, while considering distinct regulatory motivations (e.g., the Federal Energy Regulatory Commission ("FERC") has historically attempted to incent new transmission investment, supporting renewable energy development and regional electricity grid reliability, through authorization of returns and equity ratios that are relatively higher than state-regulated utility assets). Importantly, in managing their capital structures, both ATXI and Ameren Illinois support an appropriate balance between financial stability and customer affordability while considering discrete business, operational, regulatory and financial issues specific to the legal entity.

Mr. Murray references some of the history in Illinois regarding the regulation of capital structure in recent electric and gas rate proceedings, and in certain respects, his description does not exactly align with reality. But, more importantly, Mr. Murray ignores a couple of key considerations.

<u>First</u>, Mr. Murray does not account for some of the salient differences in business activities and business risks between Ameren Missouri and Ameren Illinois. Namely that Ameren Missouri operates a fully integrated electric utility business, including ownership of coal-fired and nuclear generation, while Ameren Illinois is principally involved in energy delivery activities. Energy delivery activities are viewed by the broad financial community (rating agencies and investors), as well as by Ameren management, as being less risky in nature than generation activities (particularly coal and nuclear), which, all else being equal, supports a higher level of financial leverage. For instance, in Moody's Investors Service ("Moody's") October 12, 2021 credit opinion of Ameren Corporation, the rating agency states:

> ** [redacted] .**

<u>Second</u>, while the passage of the Future Energy Jobs Act ("FEJA") in 2016 codified a prior agreement with the Illinois Commerce Commission ("ICC") Staff and the Illinois Industrial Energy Consumers stipulating that an equity ratio up to and including 50% is deemed

reasonable for ratemaking purposes, Ameren Illinois has not been precluded from filing for capital structure that applies an equity ratio greater than 50% if Ameren Illinois were able to justify such a capital structure. Thus, in order to preserve that important balance between financial stability and customer affordability, Ameren Illinois has some flexibility to manage its capital structure with equity content above 50%, a capability that Ameren Illinois has taken advantage of recently, as discussed next.

And, <u>third</u>, Ameren Illinois recently has received authorization to increase its equity ratio above that 50% threshold level. For instance, as part of Ameren Illinois' most recent natural gas rate proceeding (Docket 20-0308), the ICC authorized a 52.0% equity ratio, an increase from the previously-authorized 50.0% (Docket 18-0463). In its order in Docket 20-0308, the ICC "agree[d] with Ameren Illinois that it needs a stronger capital structure than the 50% that was approved in the Company's last gas rate case. The ICC note[d] that Ameren Illinois requires a strong capital structure to maintain its financial strength and credit ratings to adequately serve Illinois customers."[8] I would also mention that in April 2021, Ameren Illinois filed, as part of its electric distribution formula rate update (Docket 21-0365), in support of a capital structure with an equity ratio of 53.1%, again justifying a higher common equity ratio than the range deemed reasonable by the FEJA statute.

I would highlight one other important element that is consistent in the regulatory oversight of ATXI's and Ameren Illinois' capital structure – neither the FERC nor the ICC employ the use of Ameren Corporation's capital structure for ratemaking purposes.

[8] ICC Docket 29-0308, Order at 129, January 13, 2021.

VI. PASSAGE OF SENATE BILL 564 HAS NOT DIRECTLY IMPACTED THE COMPANY'S CREDIT RATINGS, ITS KEY RATING AGENCY CREDIT METRIC THRESHOLDS, OR ITS RELATIVE COST OF CAPITAL

Q. Does Ameren Missouri's business risk position factor into the Company's independent management of its capital structure?

A. Ameren Missouri's overall business risk position does influence how the Company manages its capital structure. For example, the Company may support a change to its proposed capital structure to the extent any actual or perceived change in its business risk impacts the Company's financial position, its credit ratings and credit profile, and its cost of accessing debt and equity capital.

Q. Are there objective ways to determine whether a change in the Company's business risk has impacted the Company's financial position and credit profile?

A. Perhaps the most transparent way to determine whether a perceived change in the Company's business risk impacts its financial position and credit profile is to review how the rating agencies have reacted to the perceived change in business risk. Specifically, have the rating agencies: (1) changed their ratings of the Company; (2) changed their ratings outlook on the Company; or (3) changed the Company's downgrade thresholds of key credit metrics? As a secondary, and perhaps less determinate, measure, we can look at the performance of Ameren Corporation common stock over time as well as the change to the stock's price-to-earnings ("P/E") ratio, both relative to Ameren Corporation peers, to determine whether the equity investor universe has disproportionately rewarded Ameren Corporation, and by result, its cost of equity, for any perceived change in its business risk position.

Q. How are credit ratings determined?

A. The two primary credit rating agencies are Moody's and Standard & Poor's Ratings Services ("S&P"). In assessing a company's ability to meet its financial obligations, Moody's and S&P generally – but each to varying degrees – consider both qualitative factors affecting the company's business risk and quantitative factors affecting its financial risk.

Q. Why do credit ratings matter?

A. Credit ratings have a significant effect on a company's ability to attract debt capital, and in extreme cases, whether the company can access debt capital at all. Credit ratings also impact the pricing and contractual terms at which a company may issue debt securities. This affects the cost of capital and, in Ameren Missouri's case, the rates customers must pay for utility service. In general, stronger credit ratings typically enable a utility to obtain debt capital at a lower cost, to the benefit of customers.

Q. How do a company's credit metrics affect its credit ratings?

A. Certain financial metrics factor significantly into the credit rating agencies' evaluations of a company's credit profile and the rating agencies' assignment of credit ratings.

Q. What credit metrics do the rating agencies rely upon in assignment of credit ratings for regulated electric and gas utilities?

A. The rating agencies evaluate a number of financial credit metrics in order to determine a regulated utility's financial strength. However, the financial metric that receives the most weight by both of the rating agencies is a company's funds from operation ("FFO") to debt ratio[9]. The FFO to debt ratio measures a company's ability to pay its debts using its operating

[9] S&P specifically evaluates the FFO to debt ratio while Moody's evaluates a similar metric – cash flow from operations pre-working capital to debt ratio. For simplicity, I will refer to each as the FFO to debt ratio.

cash flow alone, with lower ratios signifying a weaker credit position. This metric is of particular significance because it is perhaps the most common cause of downgraded credit quality for regulated utilities.

Q. Does Ameren Missouri target credit ratings when it maintains its capital structure?

A. Yes. As previously discussed, access to sufficient capital is critical to Ameren Missouri's financial health and stability and, in turn, to the service its customers receive and the rates customers pay for that service. Therefore, in my opinion, Ameren Missouri's issuer credit ratings should be securely investment grade (at least two notches stronger than Moody's and S&P's weakest investment grade issuer credit rating) to continue to support the financial integrity of the utility and ensure its access to necessary capital at a reasonable cost and on reasonable terms in both strong and weak markets.

Q. What are Ameren Missouri's current issuer credit ratings?

A. Currently, Ameren Missouri's issuer credit ratings at Moody's and S&P are Baa1 and BBB+, respectively, each two notches stronger than Moody's and S&P's weakest investment grade issuer credit ratings. Both credit ratings agencies report stable outlooks for Ameren Missouri credit ratings.

Q. What are Ameren Corporation's current issuer credit ratings?

A. Currently, Ameren Corporation's issuer credit ratings at Moody's and S&P are Baa1 and BBB+, respectively, the same issuer ratings as Ameren Missouri. Both credit ratings agencies report stable outlooks for Ameren Corporation's credit ratings.

Q. What are Ameren Missouri's and Ameren Corporation's current FFO to debt ratio downgrade thresholds at Moody's and S&P?

A. In its most recent September 13, 2021 credit opinion on Ameren Missouri, Moody's indicated that **____ ____________________________________**. For Ameren Corporation, Moody's most recent October 12, 2021 credit opinion cited a downgrade threshold of 17%. Due to its "family" approach to rating Ameren Corporation and its regulated utilities, including Ameren Missouri, S&P does not distinguish between the FFO to debt ratio downgrade thresholds at Ameren Missouri and Ameren Corporation. Rather, S&P only cites the metric downgrade threshold of Ameren Corporation, which under its "family" approach, would also result in a downgrade of Ameren Missouri. In its most recent April 30, 2021 credit opinion on Ameren Corporation, S&P cited an FFO to debt ratio downgrade threshold of 13%.

Q. Mr. Murray states that "Ameren Missouri's business risk profile declined after Missouri passed Senate Bill ("SB") 564 …" and "Ameren Missouri was allowed a mechanism referred to as the Volume Indifference Reconciliation to Normal ("VIRN"), which reduced the business-risk profile for Ameren Missouri's natural gas distribution operations. Ameren's reduced business risk profile allows for greater debt capacity…."[10] Do you agree with his assessment?

A. I believe that SB 564 and the implementation of the VIRN rate rider mechanism,[11] in certain respects, enhanced Missouri's electric and gas regulatory framework, providing support for incremental investment in the state. Though, I would probably argue that

[10] File NO. GR-2021-0241, Direct Testimony of David Murray, page 3.ll. 11-12, ll. 17-21.
[11] The VIRN, as modified by the Stipulation and Agreement in GR-2019-0077, is actually now referred to as the Delivery Charge Adjustment (DCA) Rider.

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the VIRN did not in any material respect reduce Ameren Missouri's business risk profile, since the Company previously had similar partial revenue decoupling treatment for residential customers (though not for general service customers) through a different rate design mechanism. Yet, Mr. Murray alludes to an ability for the Company to "carry more leverage"[12] and benefit from a "lower cost of capital"[13] resulting from a reduced business risk position, which are just not supported by the facts.

Q. Since the passage of SB 564 in May 2018 or the implementation of the VIRN in 2019, have either of the rating agencies changed the ratings or ratings outlook of either Ameren Missouri or Ameren Corporation?

A. No. Neither Moody's nor S&P have taken any action on Ameren Missouri's or Ameren Corporation's ratings or ratings outlook since the passage of SB 564. In fact, the rating agencies have taken a relatively balanced (rather than purely constructive) stance in their credit opinions on Ameren Missouri and Ameren Corporation regarding the PISA framework, particularly due to the rate cap that is in place.

Q. What have the rating agencies communicated recently about Ameren Missouri's regulatory framework?

A. Moody's continues to believe that Ameren Missouri operates within a supportive legislative and regulatory environment in Missouri following the passage of SB 564. However, the agency has also reflected its concerns about some of the limiting features of the framework. In its September 13, 2021 credit opinion, Moody's states:

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[12] File NO. GR-2021-0241, Direct Testimony of David Murray, page 34, l. 26.
[13] File NO. GR-2021-0241, Direct Testimony of David Murray, page 34, l. 28.

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[redacted].**

Similarly, S&P, in its April 30, 2021 credit opinion notes:

[redacted].

While Mr. Murray wants to characterize the rating agency reaction following passage of SB 564 as being entirely supportive, in practice the rating agencies have taken a more neutral view of the regulatory mechanism.

Q. Since the passage of SB 564 in May 2018 or implementation of the VIRN in 2019, have the rating agencies changed the FFO to debt ratio downgrade thresholds of Ameren Missouri or Ameren Corporation?

A. Since the passage of SB 564, S&P has taken no action to change the FFO to debt downgrade threshold of Ameren Corporation (and by extension under its family ratings approach, Ameren Missouri) of 13%. Similarly, Moody's has not changed its FFO to debt ratio downgrade threshold for Ameren Missouri of 19%. This suggests that, in spite of any perceived reduced business risk, Ameren Missouri cannot incur incremental debt to fund its operations without having negative implications on its credit ratings and its cost of capital.

However, and as indicated by Mr. Murray, in its March 29, 2019 credit opinion, Moody's did reduce the FFO to debt ratio downgrade threshold for Ameren Corporation from 19% to 17%. While Moody's did not cite the specific factors that led to a modest relaxation of this credit metric, I believe (counter to Mr. Murray's implication that it was due solely to improvements in Missouri's regulatory environment) it was based in part on the improvements to the Missouri regulatory framework and in part due to a strong track record of strategy execution within the supportive regulatory frameworks of Ameren Corporation's Subsidiaries, Ameren Illinois, and ATXI. **____ ____ ____ ____ _____________** Yet, in his entire line of argument, Mr. Murray ignores the fact that the reduction of Ameren Corporation's metric downgrade threshold at Moody's has limited practical implications on Ameren Missouri's access to debt capital or its cost of capital, since Ameren Missouri issues its own debt (with Ameren Missouri debt investors looking exclusively at Ameren Missouri's credit profile). Also, as previously indicated, it does not rely upon Ameren Corporation for balance sheet support of the Company's financial obligations. To clarify, the reduction of Ameren Corporation's FFO to debt ratio downgrade threshold at Moody's improves Ameren Corporation's financing flexibility, permitting more financial leverage within the current rating category, but it does not directly impact Ameren Missouri financing flexibility, since the Company's metric downgrade threshold was not changed.

Q. How would you define Ameren Missouri's debt capacity?

A. I would characterize Ameren Missouri's debt capacity as the maximum amount of debt that the Company could theoretically carry without adversely impacting its current credit ratings. I believe the most objective approach to identifying Ameren Missouri's debt capacity is imputing the level of debt at which the Company equals its FFO to debt downgrade threshold at each of Moody's and S&P.

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Q. What was Ameren's Missouri's 2020 FFO to debt ratio as calculated by Moody's?

A. In Moody's September 13, 2021 credit opinion of Ameren Missouri, Moody's cites a 2020 FFO to debt ratio of 18.9%.

Q. Based on Ameren Missouri's 2020 FFO to debt ratio as calculated by Moody's, does the Company have additional debt capacity?

A. By virtue of the fact that Ameren Missouri's 2020 FFO to debt ratio of 18.9% was below Moody's downgrade threshold of 19%, I could argue that the Company has no additional debt capacity without facing significant risk of a ratings downgrade at Moody's. That said, Moody's does believe, as indicated in its September 13, 2021 credit opinion and based on financial guidance from the Company that assumes retention of current capitalization ratios, that Ameren Missouri will **"____ ____________"** Ameren Missouri believes it is financially prudent to maintain some degree of financial cushion above its FFO to debt ratio downgrade threshold so as to be able to withstand any unanticipated negative impact to its financial performance without risk of an immediate negative reaction by Moody's. Therefore, Ameren Missouri would not be a proponent of maintaining its capital structure at its maximum calculated debt capacity. Just as it may be true that an individual family could "afford" to borrow more money to buy a bigger home if certain common metrics exist (e.g., the percentage of housing costs to overall income), it does not mean that borrowing the absolute highest amount of money the metric suggests is possible is a sound financial decision.

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Q. Do you believe that Mr. Murray's proposed capital structure, which includes 54.18% long-term debt falls within your definition of Ameren Missouri's debt capacity?

A. No, the capital structure proposed by Mr. Murray contains an excessive amount of debt and would place the Company at significant risk of a credit ratings downgrade, particularly at Moody's. As illustration, we have calculated what Ameren Missouri's FFO to debt ratio in 2020 would have been had the Company (including both its electric and natural gas businesses) utilized Mr. Murray's proposed capital structure, including 54.18% long-term debt. **____ ________________________,[14] ____ ____________________** This financial weakening, along with potential rating agency concerns about the supportiveness of the regulatory environment should the Commission apply a hypothetical capital structure for ratemaking purposes (which I will discuss later), would put the Company at meaningful risk of credit rating downgrades.

Q. Mr. Murray suggests that because Ameren Missouri's business risk has declined, it is afforded a lower debt cost of capital that should be passed on to customers in the form of a lower authorized common equity ratio. Do you agree?

A. Mr. Murray offers no supporting evidence that Ameren Missouri's debt cost of capital has declined since the passage of SB 564 or since the implementation of the VIRN. While Ameren Missouri's cost of capital has arguably declined in recent years, this phenomenon has been due predominantly to a decline in both U.S. Treasury rates and the spread to U.S. Treasury rates that dictates the cost of newly issued debt. Such reduction in the cost of capital

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[14] Assumes similar capital structure treatment across both electric and gas utility rate base.

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has already been shared with the Company's customers as the Company has issued long-term debt in recent years. However, in no way can we directly trace any incremental reduction in the debt cost of capital to the passage of SB 564 and any perception of reduced business risk. As stated above, there has been no change to Ameren Missouri's credit ratings and credit outlooks since May 2018. Therefore, there is no objective basis to suggest that Ameren Missouri's debt cost of capital has been reduced as a result of the passage of SB 564 or the implementation of the VIRN.

Q. Are there any other material factors that have influenced Ameren Missouri's credit quality over the past several years since the passage of SB 564?

A. Yes. I would specifically point to the negative credit quality implications of the change in the federal corporate tax rate in the Tax Cuts and Jobs Act ("TCJA") that became effective on January 1, 2018. The TCJA brought significant benefits to Ameren Missouri's customers in the form of reductions in current taxes and excess deferred taxes that they received and are continuing to receive through new base rates established in the Company's subsequent ratemaking proceedings. However, realization of these benefits by customers carries with it certain potentially significant adverse financial impacts to Ameren Missouri. Because of the change in the federal corporate tax rate, Ameren Missouri collects a lower amount of tax from its customers, resulting in reduced cash flows and, consequently, a lower prospective FFO to debt ratio. The TCJA also excluded public utility property from bonus depreciation eligibility, which further reduced cash flow contributions from deferred taxes. On June 18, 2018, Moody's cited the change in the federal tax rate, loss of bonus depreciation, and the resulting increase in financial risk for utilities as the driver for changing its outlook on the U.S. regulated electric and gas utility sector from "stable" to "negative." This was the first time Moody's had given the regulated public utility sector a "negative" outlook in its history of issuing sector outlooks, which underscores how serious this issue could become if not addressed by constructive, proactive regulation. The Moody's report specifically identifies the issuance of credit-supportive rate orders as an offset to this reduced cash flow issue. While Moody's did subsequently change its outlook for the utility industry back to "stable" from "negative" on November 9, 2019, it did so as a result of the implementation of more proactive regulatory and financial actions to address sector cash flows following passage of the TCJA, with such regulatory actions including increased authorized equity layers. In this proceeding, approving Ameren Missouri's 51.93% equity ratio (projected as of September 30, 2021) can help ensure that the Company supports an FFO to debt ratio above downgrade threshold levels identified by the rating agencies, allowing Ameren Missouri to maintain its current strong credit ratings.

Q. Mr. Murray stated that, as result of the passage of SB 564, equity investors view Ameren Corporation as a "premium utility."[15] How do you respond?

A. Mr. Murray is apparently attempting to correlate Ameren Corporation's stock price trading levels relative to corporate peers to its underlying equity cost of capital. Yet Mr. Murray does not provide any compelling evidence to support his assertion that Ameren Corporation stock performance, and by implication, Ameren Missouri's equity cost of capital, has been meaningfully impacted by the lower business risk environment in Missouri following passage of SB 564.

In Schedule DTS-R1, I compare Ameren Corporation's stock price performance versus a group of identified gas distribution company corporate peers from May 31, 2018 (the day before SB 564 was signed into law) to September 30, 2021. Over the designated period of time,

[15] File NO. GR-2021-0241, Direct Testimony of David Murray, page 36, l.9.

Ameren Corporation's stock price did outperform the gas peer group average by a significant degree (51.9%). However, I would characterize Ameren Corporation's outperformance as being driven more by the fact that its business mix is more heavily weighted toward electric utility operations rather than gas delivery operations. Specifically, over the last several years, the investment community has expressed concerns around the gas delivery business model as many communities have considered phasing out natural gas for home cooking and heating, citing concerns about climate change. The result of these investor concerns, and the possibility that large swaths of the natural gas delivery system will become stranded assets, has been significant underperformance of pure-play natural gas delivery companies relative to electric utility peers. Since Ameren Corporation obtains a large percentage (over 80%) of its earnings from electric utility activities, its stock price has been more insulated from the effects of a potential natural gas delivery phase-out. Within my rebuttal testimony in the concurrent Ameren Missouri electric rate proceeding (File No. ER-2021-0240), I demonstrate that Ameren Corporation's stock price has more closely tracked its electric utility peers. For these reasons, I do not believe that we can specifically correlate passage of the PISA framework to the stock price outperformance over the identified period.

In Schedule DTS-R2, I compare Ameren Corporation's forward year P/E multiple versus the same corporate gas peer group from May 31, 2018 to September 30, 2021. While Ameren Corporation's common stock has recently traded at a next-12-months ("NTM") P/E multiple premium to the median of the identified peer gas utility companies (20.4x vs. 15.7x as of September 30, 2021), this premium has become more notable since early 2020 for the reasons described above related to investor concerns regarding the future of the natural gas delivery industry. Similar to its stock price performance, Ameren Corporation's NTM P/E multiple notably expanded versus the peer group since early 2020, well after the passage of SB 564. Therefore, it is not reasonable to suggest that investors are placing a premium on Ameren Corporation's common stock due specifically to the passage of SB 564 and its impact on business risk.

Q. In summary, do you believe that the lower business risk environment in Missouri following passage of SB 564 supports reducing Ameren Missouri's regulatory common equity ratio below its actual equity ratio?

A. No. The change in Ameren Missouri's business risk following passage of SB 564 has had no demonstrable positive impact on the Company's financial position, its credit profile and its access to, and cost of, debt and equity capital. As a result, a reduction of Ameren Missouri's regulatory equity ratio below its actual level is certainly not justified on this basis. In addition, any action to reduce Ameren Missouri's common equity ratio in this proceeding, in combination with the recent degradation of credit metrics due to the customer rate reductions culminating from the TCJA, would serve to significantly reduce Ameren Missouri's credit quality, potentially negatively impacting its credit ratings and increasing the cost of serving Missouri customers. I discuss this concept further in the next section of my testimony.

Q. Mr. Murray questions Ameren Missouri's approach to issuing long-term debt, suggesting that the Company's issuance strategy prevents its customers from realizing a lower cost of debt capital. How do you respond?

A. First, I would note that prior to every long-term debt issuance, the Company is required to seek financing approval by the Commission, a process that is public and considers many factors, including the structure of the security and its resulting cost to customers. Next, Mr. Murray suggests that if Ameren Missouri had issued shorter-term debt tenors, Ameren

Missouri's cost of debt would be lower. While this may be true in the short term, issuing shorter-dated debt securities exposes the Company to longer-term interest rate and market risk and results in more frequent (and therefore, higher) issuance fees. Thus, Mr. Murray cannot reliably demonstrate that the Company's customers would be better off over time since he has no foreknowledge of interest rate markets or broader corporate debt markets over the next 10 to 30 years. Ameren Missouri is extremely thoughtful in its approach to issuing debt securities, considering the current and prospective interest rate environment, its debt maturity schedule and fixed income investor receptivity / preferred tenors. For instance, in the low interest rate environment which the U.S. has experienced in recent years, Ameren Missouri has tended to issue debt with longer tenors in an attempt to lock in attractive financing coupons for a lengthy period of time. On balance, the Company believes that its customers benefit from having this long-term rate certainty. In addition, the Company (and Ameren Corporation more broadly) is mindful of its debt maturity schedule, and has implemented measures to ensure that it is not burdened with significant refinancing risk in any given year.

VII. THE USE OF A PARENT COMPANY OR HYPOTHETICAL CAPITAL STRUCTURE FOR AMEREN MISSOURI IN THIS PROCEEDING IS NOT JUSTIFIED

Q. Mr. Murray proposes using a parent company/hypothetical capital structure with common equity ratios that are lower than Ameren Missouri's actual common equity ratio. Is using a parent company/hypothetical capital structure in this proceeding appropriate?

A. No.

Q. Are there ever situations when it would be appropriate to use a parent company/hypothetical capital structure to set rates for a regulated subsidiary?

A. There may be situations under which it would be more appropriate to use a parent/hypothetical capital structure, but this case is not one of those situations.

Q. What factors should typically be considered when determining whether to use a regulated subsidiary's or parent company/hypothetical capital structure for ratemaking purposes for the regulated subsidiary?

A. The factors typically considered in determining whether the use of a regulated subsidiary's actual capital structure or a parent company's capital structure for ratemaking are provided by David C. Parcell in The Cost of Capital – A Practitioner's Guide ("CRRA Guide") prepared for the Society of Utility and Regulatory Financial Analysts ("SURFA") and provided as the study guide to candidates for SURFA's Certified Rate of Return Certification Examination. The CRRA Guide notes that these factors will "help determine whether the utility vs. parent capital structure is appropriate."[16] They are:

1) Whether the subsidiary utility obtains all of its capital from its parent, or issues its own debt and preferred stock;
2) Whether the parent guarantees any of the securities issued by the subsidiary;
3) Whether the subsidiary's capital structure is independent of its parent (i.e., existence of double leverage, absence of proper relationship between risk and leverage of utility and non-utility subsidiaries); and
4) Whether the parent (or consolidated enterprise) is diversified into non-utility operations.

[16] David C. Parcell, The Cost of Capital – A Practitioner's Guide. Prepared for the Society of Utility and Regulatory Financial Analysts, 2010 Edition.

Mr. Murray specifically recommends using Ameren Corporation's approximate capital structure for purposes of this proceeding. Consequently, I believe that the CRRA Guide factors are relevant for consideration of Mr. Murray's recommendations.

Q. Does the application of these factors to Ameren Missouri support the use of Ameren Missouri's actual capital structure for ratemaking purposes?

A. Yes. Application of the factors highlighted in the CRRA Guide listed above to Ameren Missouri supports the use of Ameren Missouri's actual capital structure for ratemaking purposes. As previously discussed, Ameren Missouri does not obtain any long-term debt or preferred stock from Ameren Corporation, but rather issues its own long-term debt and preferred stock to outside investors. In addition, Ameren Missouri's long-term debt is secured by its own assets and not the assets of Ameren Corporation. Ameren Missouri and its issued debt securities and preferred stock securities have separate and distinct credit ratings from Ameren Corporation, as provided by both Moody's and S&P. Double leverage cannot be said to exist since no proceeds of Ameren Corporation long-term debt issuances have been used as an equity infusion into Ameren Missouri. Finally, Ameren Corporation is not meaningfully diversified into non-utility operations.

In view of the foregoing, Ameren Missouri has an independently determined capital structure. Therefore, the only conclusion to be drawn is that Ameren Missouri's stand-alone capital structure is appropriate for ratemaking purposes.

VIII. AMEREN MISSOURI'S PROPOSED COMMON EQUITY RATIO IS CONSISTENT WITH UTILITY PEERS AND SUPPORTS STRONG AND STABLE CREDIT RATINGS

Q. How does Ameren Missouri's common equity ratio of 51.93%, projected as of September 30, 2021, compare to the common equity ratios recently authorized by comparable utilities?

A. Ameren Missouri has gathered information on gas utility companies' authorized common equity ratios effective between 2014 and 2021 year-to-date. Ameren Missouri's projected September 30, 2021 common equity ratio is consistent with, if not slightly below, those authorized, on balance, by the regulated gas utility operating subsidiaries of publicly-traded utilities in that identified peer group. As highlighted in Schedule DTS-R3, the median authorized effective common equity ratio[17] for the Company's identified peer set in 2020 was 55.00%, within a range between 49.00% and 77.76%. Expanding the data set to include 2019-2021 year-to-date provides similar results, as does the data dating back to 2014. The Company believes that the median authorized effective common equity ratio, rather than the mean (55.58% in 2020), is the appropriate comparison measure because the median has the effect of muting certain proceedings in which authorized equity ratios were aberrantly high. Ameren Missouri's common equity ratio of 51.93% projected as of September 30, 2021, is moderately below the median (55.00%) derived by the data set.

[17] The authorized effective common equity ratio is the authorized regulatory common equity ratio in place for an operating utility for a particular year, even if the underlying party did not have a rate proceeding outcome in that year. For instance, if a peer utility was authorized a 50.0% equity ratio in 2014 and later authorized a 52.0% equity ratio in 2017, our analysis assumes that utility has an equity ratio of 50.0% in 2015 and 2016.

Q. Does this consistency support the reasonableness of Ameren Missouri's proposed capital structure for purposes of setting rates in this proceeding?

A. Yes. I would call specific attention to a citation from Charles Phillip's The Regulation of Public Utilities – Theory and Practice[18], which suggests "a hypothetical capital structure is used only where a utility's actual capitalization is clearly out of line with those of other utilities in its industry or where a utility is diversified." Ameren Missouri meets neither of these criteria: the Company's capital structure is in line with those of its peers and the Company (as well as its parent company, Ameren Corporation) is not meaningfully diversified into non-regulated activities or businesses.

Q. Mr. Murray highlights the fact that Ameren Corporation has incurred additional parent company debt over the past several years resulting in an increase of Ameren Corporation parent debt as a proportion of consolidated debt. For what purposes were the proceeds of recent Ameren Corporation parent debt issuances used?

A. Proceeds from recent parent company debt issuance were used for a number of purposes, including:

- Paying dividends to its common shareholders over the past several years at levels that are well in excess of dividend distributions received from regulated subsidiaries, including Ameren Missouri. This is a function of the regulated subsidiaries reinvesting significant operating cash flow and retained earnings into their long-term regulated assets. The result of this under-collection by Ameren Corporation has caused Ameren Corporation's retained earnings (and by extension, its common equity ratio), after paying dividends to common

[18] Charles F. Phillips, Jr., The Regulation of Public Utilities – Theory and Practice, 1993, Public Utility Reports, Inc., Arlington VA, at 391.

shareholders, to be disproportionately impacted relative to its regulated subsidiaries' retained earnings.

- Paying increasing amounts of debt service on Ameren parent long-term debt.
- Ameren Corporation funding increasing investment to support ATXI equity needs and, to a lesser degree, Ameren Illinois equity needs.

I would note here, as I did previously, that no proceeds from the issuance of Ameren Corporation parent long-term debt were used to infuse capital into Ameren Missouri.

Q. Earlier, you discussed Ameren Missouri's debt capacity. Do you believe that Ameren Corporation's debt capacity has increased in recent years?

A. Previously, I suggested a concept that the debt capacity is the maximum amount of debt that a business could carry without adversely impacting its current credit ratings, with an objective approach to identifying the debt capacity as being the level of debt at which the company equals its FFO to debt ratio downgrade threshold at each of Moody's and S&P. With this concept in mind, I would suggest Ameren Corporation's debt capacity did increase in early 2019 when Moody's (in its March 29, 2019 credit opinion) reduced the FFO to debt ratio downgrade threshold of Ameren Corporation from 19% to 17%[19]. This change has given Ameren Corporation more flexibility to take on additional leverage without negatively impacting its credit rating at Moody's.

Q Has the implied increase in debt capacity at Ameren Corporation impacted Ameren Missouri's debt capacity?

A. No. As previously referenced, Ameren Missouri's FFO to debt downgrade threshold has remained at 19% for quite some time, so the additional financial flexibility

[19] S&P's FFO to debt ratio downgrade threshold is at a lower 13% level, so Ameren Corporation's debt capacity did not increase with respect to the S&P credit rating when Moody's took its action in March 2019.

afforded to Ameren Corporation by virtue of its lower FFO to debt ratio downgrade threshold at Moody's as of March 2019 does not translate into additional financial flexibility for Ameren Missouri.

Q Has Ameren Missouri's financial health or access to debt and equity capital been adversely impacted by Ameren Corporation's recent incurrence of parent long-term debt?

A. No. Ameren Missouri's financial health, as evidenced by its credit ratings, which have been maintained at strong levels in recent years, provides timely access to both debt and equity capital at reasonable costs.

Q. Are you aware of any evidence in rating agency reports suggesting that Ameren Corporation's unrelated financing activities has any negative impact on Ameren Missouri's credit ratings?

A. No. Neither Moody's nor S&P have expressed any concerns about the impact of Ameren Corporation financing activities on Ameren Missouri's credit profile. Specifically, neither Moody's nor S&P's most recent credit opinions on Ameren Missouri (September 13, 2021 and April 30, 2021) make any mention of Ameren Corporation's holding company leverage. However, in its October 12, 2021, credit opinion on Ameren Corporation, Moody's highlighted that **____**

Q. Is Ameren Corporation's parent debt as a percentage of consolidated debt out of line with identified peer holding companies?

A. Per Table 1 below, Ameren Corporation's parent debt as a percentage of consolidated debt based on December 31, 2020 reported figures actually is in line with, even moderately below, the adjusted mean and median of the identified peer group. Notably, only

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three out of the twelve utilities within the peer group had lower holding company leverage than Ameren at that time.

Table 1

	Holding Company Debt as a % of Consolidated Debt[1]
Atmos Energy	100.0%
NiSource	97.1%
Northwest Natural Gas	8.8%
ONE Gas	100.0%
South Jersey Industries	45.5%
Southwest Gas	1.7%
Spire	36.6%
Ameren	**18.0%**
Peer Mean[1]	**23.2%**
Peer Median[1]	**22.7%**

[1]Data as of December 31, 2020. Debt includes short-term debt.

[2]Mean and median excludes Atmos Energy, NiSource and ONE Gas, w ho fund all operations at the holding company.

I would also mention that in Moody's October 12, 2021 credit opinion, the rating agency states that ** ____ **

Q. What would be the consequence to Ameren Missouri's credit profile and credit ratings of approving common equity content that is consistent with Ameren Corporation's consolidated equity ratio for ratemaking purposes and below Ameren Missouri's actual equity ratio, as suggested by Mr. Murray?

A. Applying a common equity ratio that is consistent with Ameren Corporation's consolidated common equity ratio to establish rates in this proceeding would significantly weaken Ameren Missouri's credit metrics, including key metrics evaluated by the rating agencies for purposes of assigning credit ratings. While it is difficult to predict the ultimate impact of weaker credit metrics on the Company's credit ratings, as such ratings are a function of a number of qualitative and quantitative factors, it is without a doubt that weaker credit metrics would contribute to increased financial risk and higher likelihood of a ratings downgrade. Additionally, rejection by the Commission of Ameren Missouri's actual capital structure, absent compelling evidence that the actual capital structure is inappropriate or unreasonable, could deepen rating agency concerns regarding the supportiveness of the Missouri regulatory environment, which would pressure Ameren Missouri's credit ratings. To the extent that Ameren Missouri's credit ratings were downgraded, Ameren Missouri's access to required debt capital to finance its operations could become more challenging and likely more expensive, which would be harmful to Ameren Missouri customers.

Q. What would be the impact on Ameren Missouri's FFO to debt ratio at Moody's if Mr. Murray's recommended equity ratio of 45% were adopted?

A. Mr. Murray claims that Ameren Missouri's capital structure does not reflect its true debt capacity. Yet, as previously discussed, Ameren Missouri's FFO to debt ratios have trended down in recent years, diminishing its credit quality and curtailing incremental debt capacity at its current credit ratings. For instance, Moody's has calculated Ameren Missouri's 2020 FFO to debt ratio at 18.9%, which places the Company's performance below its established 19% downgrade threshold for that metric last year. **

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Consequently, I have serious concerns that using the parent company equity ratio proposed by Mr. Murray, with or without an associated reduction in the allowed ROE, would place Ameren Missouri at significant risk of a rating downgrade at Moody's.

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[20] Assumes similar capital structure treatment across both electric and gas utility rate base.

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Q. Do you have any evidence that the rating agencies would view Commission acceptance and approval of a capital structure consistent with the parent company for ratemaking purposes as a credit negative outcome?

A. Yes. I would specifically highlight a credit opinion written by Moody's on February 5, 2018, shortly after the Commission conducted an initial discussion in the Laclede Gas and Missouri Gas Energy (collectively, "Spire Missouri") rate proceedings (File Nos. GR-2017-0215 and GR-2017-0216) suggesting that parent company Spire Inc.'s ("Spire") equity ratio should be used for ratemaking purposes rather than the actual equity ratio of Spire Missouri. In the report, Moody's stated that the Commission's use of Spire's capital structure in the rate cases would be **"____________________ ____________________ ____________________."**

Moody's further added that **"____________________ ____________________ ____________________ ____________________ ____________________ __________"**

Furthermore, following the February 21, 2018 order in the Spire Missouri rate cases, in which the Commission ultimately approved the use of Spire Missouri's actual capital structure rather than Spire's (the parent's) capital structure, Moody's, in a March 1, 2018 credit opinion, stated that **"____________________ ____________________

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Moody's negative reaction to both the initial discussion and the positive reaction to the final Commission order in Spire Missouri's rate cases demonstrates that the rating agencies would likely view Commission approval of a hypothetical equity ratio below Ameren Missouri's actual equity ratio as a credit negative outcome.

Q. What would be the consequence on Ameren Corporation's stock price and inherent cost of equity of using an equity ratio consistent with Ameren Corporation's consolidated equity ratio for ratemaking purposes that is below Ameren Missouri's actual equity ratio, as suggested by Mr. Murray?

A. Using the approximate parent company common equity ratio that is below Ameren Missouri's actual common equity ratio to establish rates in this proceeding would likely place pressure on Ameren Corporation's share price. A lower relative share price makes it more challenging and expensive for Ameren Corporation to deploy equity capital to fund operations at Ameren Missouri, with such higher cost of equity capital ultimately passed along to Ameren Missouri customers in the form of higher rates.

Q. Do you have any evidence that Ameren Corporation's stock price would face pressure if the Commission approved the targeted parent company equity ratio below Ameren Missouri's actual equity ratio?

A. Yes. On January 31, 2018, the date that the Commission initially discussed the Spire Missouri rate cases, suggesting that parent company Spire's equity ratio should be used for ratemaking purposes rather than the actual equity ratios of Spire Missouri, Spire's share price declined 3.3% as compared to a 1.0% increase in the PHLX Utility

Sector Index (the "UTY"). On the following day, February 1, 2018, Spire's stock price declined an additional 5.0% as compared to a 1.6% decline in the UTY.

The stock price decline during that period was in part a response to commentary published by several prominent Wall Street equity analysts that was negative in tone. For instance, Wells Fargo analysts Sarah Akers and Neil Kalton stated in a report published on February 1, 2018 that **"____

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________________."** Another equity analyst from Guggenheim Securities, Shahriar Pourreza, wrote on February 1, 2018 that **"________________________________

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The negative share price reaction to the initial Commission discussion in Spire Missouri's rate cases demonstrates that Ameren Corporation's stock price could face similar pressure if the Commission approves the parent company equity ratio below Ameren Missouri's actual equity ratio. The effect of a lower relative share price is a more challenging and expensive outlook for Ameren Corporation to deploy equity capital to fund operations at Ameren Missouri.

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Q. In recommending that the Commission utilize the parent company capital structure for ratemaking purposes, Mr. Murray alludes to Ameren Missouri's "commitment to investing significant amounts of capital" and posits that his recommended hypothetical capital structure is a more efficient capital structure for Ameren Missouri. How does Mr. Murray's position line up with your discussion regarding potential negative credit ratings and stock price consequences in the event the Commission approved an equity ratio below Ameren Missouri's actual equity ratio?

A. Mr. Murray ignores the fact that arbitrarily utilizing the parent company capital structure, and the potential for negative rating agency reactions and stock price pressure, could actually result in an increase to the Company's cost of capital, and by consequence, higher customer rates. Furthermore, taking such action to arbitrarily alter the Company's capital structure as it executes a significant capital expenditure program, creates risk around the financing costs of the capital program to enhance customer service and reliability, with Ameren Missouri's customers ultimately bearing those risks.

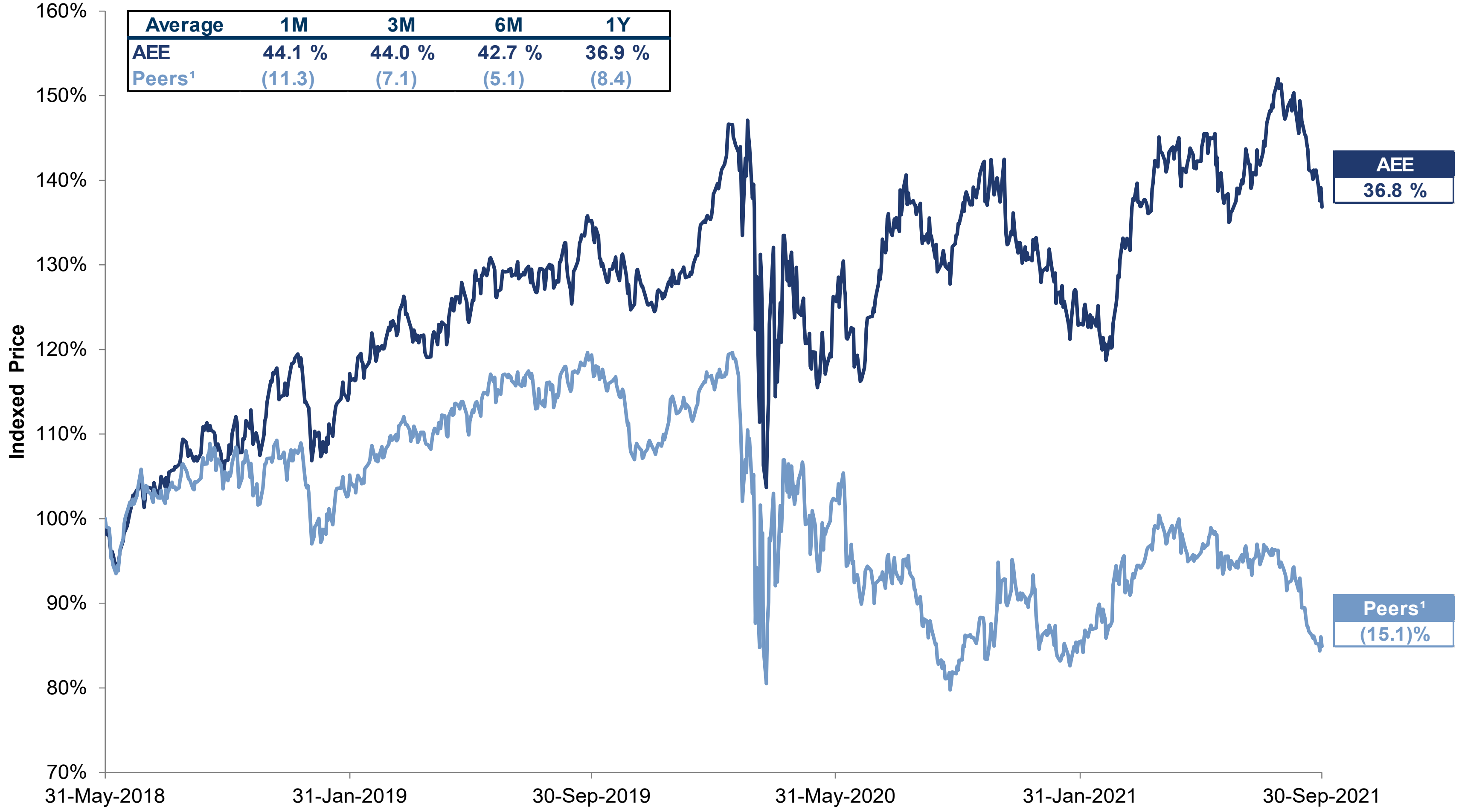
Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

Ameren Corp. Stock Price Performance Vs. Gas Utility Peers

May 31, 2018 to September 30, 2021

DTS-R1

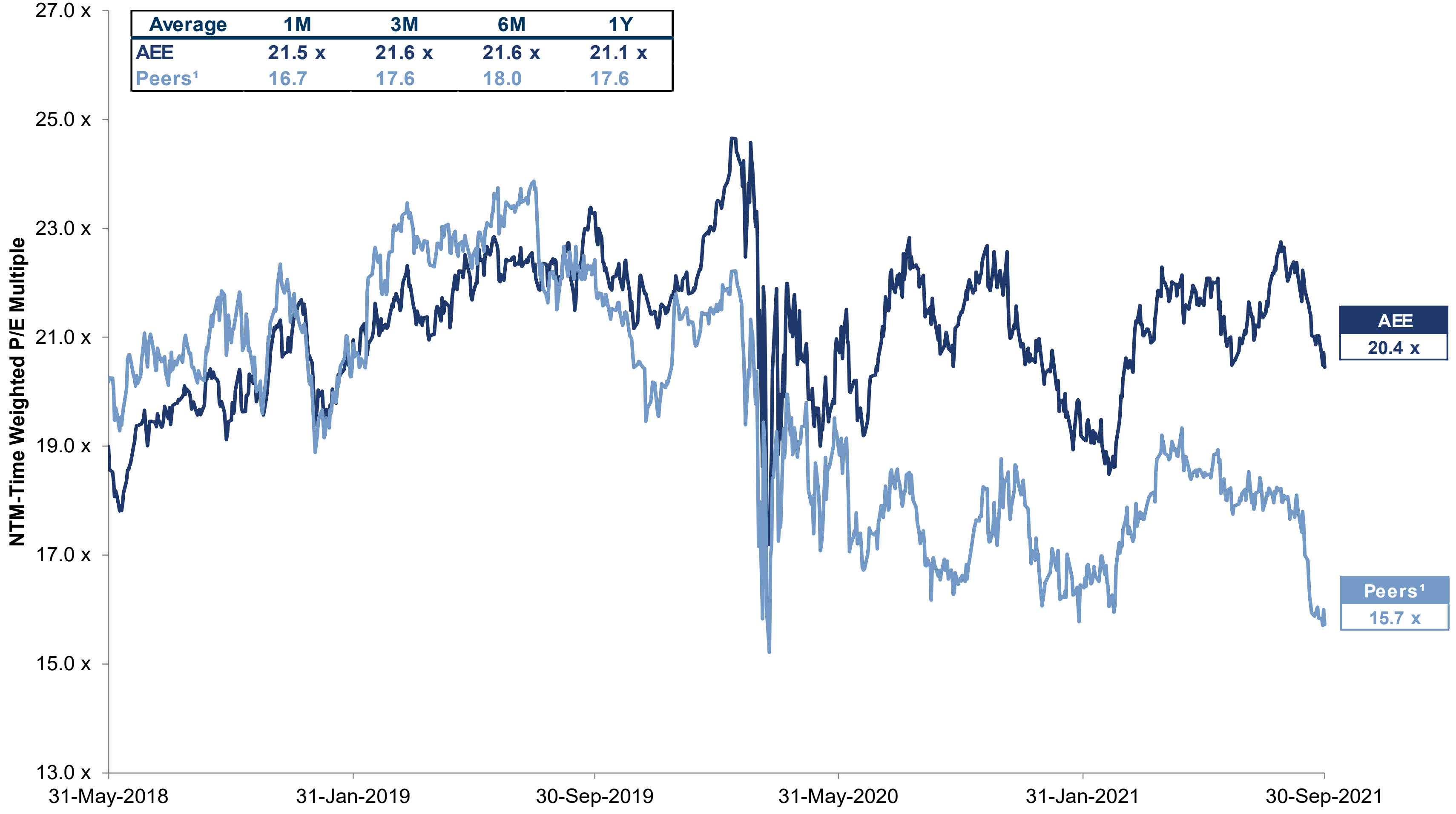


Source: Bloomberg market data as of 4-Oct-2021
[1] Represents peer average. Peers consist of Atmos Energy, NiSource, Northwest Natural Gas, ONE Gas, South Jersey Industries, Southwest Gas, Spire.

Ameren Corp. NTM P/E Multiples Vs. Gas Utility Peers

May 31, 2018 to September 30, 2021

DTS-R2



Source: Bloomberg market data as of 4-Oct-2021
¹ Represents peer median. Peers consist of Atmos Energy, NiSource, Northwest Natural Gas, ONE Gas, South Jersey Industries, Southwest Gas, Spire.

AUTHORIZED COMMON EQUITY RATIO - GAS PROXY GROUP UTILITY OPERATING COMPANIES
DTS-R3

Company Name	States of Operation	Docket No.	EFFECTIVE EQUITY RATIO 2014	2015	2016	2017	2018	2019	2020	2021
Atmos Energy Corp.	Colorado	D-17AL-0429G	52.57%	52.57%	52.57%	52.57%	55.58%	55.58%	55.58%	55.58%
Atmos Energy Corp.	Kansas	D-19-ATMG-525-RTS	53.00%	53.00%	NA	NA	NA	NA	56.32%	56.32%
Atmos Energy Corp.	Kentucky	C-2018-00281	49.16%	49.16%	NA	NA	52.57%	58.06%	58.06%	58.06%
Atmos Energy Corp.	Mississippi	D-15AL-0299G	77.76%	77.76%	77.76%	77.76%	77.76%	77.76%	77.76%	77.76%
Atmos Energy Corp.	Tennessee	D-19-00018	51.32%	53.13%	53.13%	53.13%	51.40%	58.38%	58.38%	58.38%
Atmos Energy Corp.	Texas	D-GUD-10900	51.69%	NA	NA	NA	NA	60.18%	60.12%	60.12%
Columbia Gas of Maryland Inc	Maryland	C-9644	53.84%	53.84%	NA	NA	NA	52.90%	52.63%	52.63%
Columbia Gas of Pennsylvania	Pennsylvania	D-R-2020-3018835	NA	NA	NA	NA	NA	NA	NA	54.19%
Columbia Gas of Virginia Inc	Virginia	C-PUR-2018-00131	42.70%	42.01%	42.01%	NA	NA	NA	NA	NA
Northwest Natural Gas Co.	Oregon	D-UG-388	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
Northwest Natural Gas Co.	Washington	D-UG-181053	50.74%	50.74%	50.74%	50.74%	50.74%	49.00%	49.00%	49.00%
Oklahoma Natural Gas Co	Oklahoma	Ca-PUD202000022	NA	NA	60.50%	NA	NA	NA	NA	NA
Texas Gas Service Co.	Texas	D-GUD-10928	59.24%	59.24%	NA	NA	NA	NA	59.00%	59.00%
Elizabethtown Gas Co.	New Jersey	D-GR19040486	47.89%	47.89%	47.89%	46.00%	46.00%	51.50%	51.50%	51.50%
South Jersey Gas Co.	New Jersey	D-GR20030243	51.90%	51.90%	51.90%	52.50%	52.50%	52.50%	54.00%	54.00%
Southwest Gas Corp.	Arizona	D-G-01551A-19-0055	52.30%	52.30%	52.30%	51.70%	51.70%	51.70%	51.10%	51.10%
Southwest Gas Corp.	California (SoCal)	A-19-08-015 (SoCal)	55.00%	55.00%	55.00%	55.00%	55.00%	55.00%	55.00%	52.00%
Southwest Gas Corp.	California (NoCal)	A-19-08-015 (NoCal)	55.00%	55.00%	55.00%	55.00%	55.00%	55.00%	55.00%	52.00%
Southwest Gas Corp.	California (LkTah)	A-19-08-015 (LkTah)	55.00%	55.00%	55.00%	55.00%	55.00%	55.00%	55.00%	52.00%
Southwest Gas Corp.	Nevada	D-20-02023 (Southern)	59.06%	59.06%	59.06%	59.06%	49.66%	49.66%	49.26%	49.26%
Missouri Gas Energy	Missouri	C-GR-2017-0216	NA	NA	NA	NA	54.16%	54.16%	54.16%	54.16%
Spire Missouri Inc.	Missouri	C-GR-2017-0215	NA	NA	NA	NA	54.16%	54.16%	54.16%	54.16%
MEAN			53.79%	53.98%	54.49%	54.87%	54.08%	55.33%	55.58%	55.06%
LOW			42.70%	42.01%	42.01%	46.00%	46.00%	49.00%	49.00%	49.00%
HIGH			77.76%	77.76%	77.76%	77.76%	77.76%	77.76%	77.76%	77.76%
MEDIAN			52.44%	53.00%	52.85%	52.85%	52.57%	54.16%	55.00%	54.08%

Notes:
[1] Source: SNL Financial
[2] Includes gas operating companies in the proxy group
[3] Operating Subsidiaries with rate cases not covered by SNL Financial were excluded from the analysis.
[4] Analysis excludes operating companies that operate in jurisdictions that include zero cost capital items in the capital structure, including Arkansas, Florida, Indiana, and Michigan.
[5] Analysis excludes operating companies for which the company's latest rate case was decided in 2007 or prior, i.e., only companies with a rate case in 2008 or later are included.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a Ameren Missouri's Tariffs to Adjust Its Revenues for Gas Service.	)))	Case No. GR-2021-0241

AFFIDAVIT OF DARRYL T. SAGEL

STATE OF MISSOURI)
) ss
CITY OF ST. LOUIS)

Darryl T. Sagel, being first duly sworn on his oath, states:

My name is Darryl T. Sagel, and on his oath declare that he is of sound mind and lawful age; that he has prepared the foregoing *Rebuttal Testimony*; and further, under the penalty of perjury, that the same is true and correct to the best of my knowledge and belief.

/s/Darryl T. Sagel
Darryl T. Sagel

Sworn to me this 14th day of October, 2021