

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EF-2022-0164, Union Electric Company d/b/a Ameren Missouri

FROM: Randall Jennings, Financial and Business Analysis Division

/s/ Seoung Joun Won, PhD 02/28/2022

Financial & Business Analysis / Date

/s/ Jeffrey A. Keevil 02/28/2022

Staff Counsel's Office / Date

SUBJECT: Staff Recommendation concerning the Application of Union Electric Company d/b/a Ameren Missouri ("Ameren MO", "Company," or "Applicant"), for Approval of Financing Authority of the issue and sale of additional long-term indebtedness ("New Indebtedness").

DATE: February 28, 2022

1. (a) **Type of Issues:** First Mortgage Bonds or other forms of secured indebtedness (including senior secured debt securities secured by a corresponding series of first mortgage bonds).
 - (b) **Amount:** Up to \$525 Million.
 - (c) **Rate:** The interest rate will not 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 Provision:** The price to be paid to Applicant for the various series of the New Indebtedness will not be less than 92% of the aggregate principal amount thereof; the terms of maturity for the various series of the New Indebtedness will not exceed 40 years (or longer tenor if comparable to maturities of similar securities issued by other issuers); and one or more series of the New Indebtedness may include terms providing that the series will not be redeemable at all for a certain period of time.
2. **Proposed Date(s) of Transaction:** Any time during the one-year period after the effective date of the order.
 - (a) **Statement of Purpose of the Issue:** Applicant expects to use most, if not all, of the proceeds to discharge, refund or retire outstanding short-term indebtedness. However, any proceeds from the issuance and sale of the New Indebtedness in an amount that exceeds

**** Denotes Confidential Information ****

Appendix A

the Applicant's short-term debt balance on the date prior to issuance will be used to fund near-term capital expenditures.

(b) Does Staff deem this Statement of Purpose of the Issue reasonable?

Yes.

3. Copies of executed instruments defining terms of the proposed securities:

Such instruments have not been executed.

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

Yes.

5. Pro-forma Balance Sheet and Income Statement reviewed:

Yes.

6. Capital expenditure schedule reviewed:

Yes.

7. Journal entries required to be filed by Ameren MO to allow for the Fee Schedule to be applied:

Unknown until securities are issued.

8. Recommendation of the Staff:

Conditional Approval granted (see Comments and Recommended Conditions below).

COMMENTS:

Ameren MO, a subsidiary of Ameren Corporation., is a Missouri corporation with its principal office and place of business at One Ameren Plaza, 1901 Choteau Avenue, St. Louis, Missouri 63103. The Applicant is in the business of the providing electricity and gas utility services in portions of Missouri as a public utility under the jurisdiction of the Commission.

On February 3, 2022, Ameren MO submitted an application, pursuant to Sections 393.180 and 393.200, RSMo., requesting authority to issue and sell up to \$525,000,000 aggregate principal amount of additional long-term indebtedness (“New Indebtedness”) to fund capital expenditures and/or refinance its short-term debt. However, any proceeds from the issuance and sale of the New Indebtedness in an amount that exceeds the Applicant's short-term debt balance on the date prior to issuance will be used to fund near-term capital expenditures.¹ According to its Board Resolution, Ameren MO ** [REDACTED]

[REDACTED] **. ² At the time of application, the Applicant stated its short-term debt as of February 3, 2022 was ** [REDACTED]

[REDACTED] **. ³

Staff applies the “not detrimental to the public interest” standard to financing applications. In reviewing requests for issuing financing agreements, Staff analyzes the requested amount as it relates to the stated uses to ensure the amount requested is reasonable, and whether it generally supports long-term capital investment. Additionally, Staff analyzes the cost effectiveness of the source of funds.

Important in Staff’s analysis of stated uses is determining whether the stated uses match the allowable purposes of investment in long-term capital, improvement and maintenance of service, and refunding of short-term and/or long-term obligations used for allowable purposes.⁴ Staff analyzes the pro forma impact the requested financing may have on the company’s credit and financial risk. To analyze the impact of the requested financing on the company’s financial risk, Staff estimates the possible change in credit ratings due to the financing. Worsening credit ratings indicate increasing financial risk, and vice versa.

Ameren MO is rated by credit rating agencies and last met with Moody’s and Standard & Poor’s (S&P) on 10/26/21 and 01/20/22 respectively.⁵ The S&P website shows a credit rating of BBB+ assigned on 12/04/13 and last reviewed on 04/09/21.⁶ S&P classifies major electric utilities in the “Excellent” Business Risk Profile (BRP) category, so it is reasonable to classify a large electric utility like Ameren MO the same (“Excellent”).

¹ Ameren MO Application, Page 9 Paragraph 16.

² Ameren MO Certified Copy of Resolutions.

³ Ameren MO Application, Page 5 Paragraph 11.

⁴ The allowable purposes of long-term financing authorization are provided in Section 393.200.1, RSMo.

⁵ Ameren MO response to Staff’s Data Request No. 0003.

⁶ S&P website (www.spglobal.com/ratings) retrieved 02/07/22.

Staff evaluated the potential impact of Ameren MO’s proposed financing on its credit risk by estimating the possible change in Ameren MO’s credit ratings. After the pro forma adjustments, the Funds From Operations (“FFO”) to Total Debt, Total Debt to Total Capital ratios for Ameren MO are within the FRP range of “Significant.” The Total Debt to Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”) ratio for Ameren MO is within the FRP range of “Aggressive.” Continuing with the assumption that Ameren MO has an “Excellent” BRP, this would be consistent with a credit rating range of ‘A-’ to ‘BBB’ for Ameren MO. Staff inquired if Ameren MO had determined the amount of debt the Company believes it can issue before straining its credit quality. Ameren MO did not identify a dollar amount but stated the Company maintains an appropriate balance of debt and equity in its capital structure typically ranging from 47% to 49% debt at recent quarter-ends.⁷

The capital structure as of September 30, 2021 and pro forma (based on the issuance of the proposed bonds) are:

Ameren MO

	<u>As of December 31, 2021⁸</u>	<u>Pro Forma 2022⁹</u>
Common Equity	** [REDACTED] **	** [REDACTED] **
Preferred Stock	** [REDACTED] **	** [REDACTED] **
Long-Term Debt	** [REDACTED] **	** [REDACTED] **
Short-Term Debt	** [REDACTED] **	** [REDACTED] **
Total	100.00%	100.01%

Ameren Corp.

	<u>As of December 31, 2021¹⁰</u>	<u>Pro Forma 2022¹¹</u>
Common Equity	** [REDACTED] **	** [REDACTED] **
Preferred Stock	** [REDACTED] **	** [REDACTED] **
Long-Term Debt	** [REDACTED] **	** [REDACTED] **
Short-Term Debt	** [REDACTED] **	** [REDACTED] **
Total	100.00%	100.01%

⁷ Ameren MO response to Staff’s Data Request No. 0002.

⁸ Ameren MO Application, Schedule 3 Page 6.

⁹ Ibid.

¹⁰ Ameren MO Application, Schedule 4 Page 6.

¹¹ Ibid.

Staff inquired if Ameren MO could use a more economical source of funding and asked Ameren MO for a cost comparison analysis between the cost of debts of the long-term debt in the Application and the cost of debt of other sources. Ameren MO stated the long-term debt contemplated in this application, a secured bond issuance in the public debt market is consistent with past issuances by the Company. Ameren MO also stated that public bond issuances are offered to the largest group of potential buyers, providing the most competitive pricing and that by issuing first mortgage bonds, Ameren MO is able to leverage its credit ratings to drive the coupon lower. Ameren MO concluded saying they seek ongoing advice from its large bank group that serve as underwriters on its bond offerings with the ultimate goal in mind to issue long-term debt in the most competitive and efficient manner.¹² Ameren MO stated they have not had any communications with a financial institution regarding the proposed dates, fees, or structure of an indenture to be issued¹³ nor has any communication taken place with the credit rating agencies regarding the contents of this application.¹⁴

RECOMMENDED CONDITIONS:

Staff recommends that the Commission approve the Application submitted by Ameren MO in this case as not detrimental to the public interest, subject to the following conditions:

1. That nothing in the Commission's order shall be considered a finding by the Commission of the value of this transaction for rate making purposes, and that the Commission reserve the right to consider the rate making treatment to be afforded the financing transaction and its impact on cost of capital, in any later rate proceeding;
2. That the Company shall file with the Commission within thirty (30) days of issuance of any financing secured by the Mortgage Indenture 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;

¹² Ameren MO response to Staff's Data Request No. 0006.

¹³ Ameren MO response to Staff's Data Request No. 0005.

¹⁴ Ameren MO response to Staff's Data Request No. 0003.

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 MO’s corporate credit quality or the credit quality of its securities;
5. That Ameren MO be required to file a five-year capitalization expenditure schedule in future finance cases;
6. Fee will be filed if the New Indebtedness is an amount that exceeds the Applicant's short-term debt balance on the date prior to issuance or will not be used to discharge, refund or retire outstanding indebtedness; and
7. That the Commission’s grant of authority shall be limited to \$525 million and shall expire one year from the effective date of the order in this proceeding.

**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)
Additional Long-Term Indebtedness)
Case No. EF-2022-0164

AFFIDAVIT OF RANDALL JENNINGS

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

COMES NOW Randall Jennings 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.

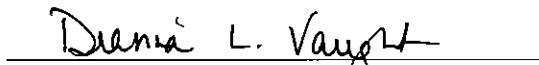
Further the Affiant sayeth not.



RANDALL JENNINGS

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 28th day of February, 2022.



Notary Public

DIANNA L. VAUGHT Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: July 18, 2023 Commission Number: 15207377
