

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EF-2021-0011, Union Electric Company, d/b/a Ameren Missouri

FROM: Peter Chari, Senior Utility Regulatory Auditor, Financial Analysis Department

/s/ Seoung Joun Won, 08/31/2020 /s/ Jamie Myers 08/31/2020
Financial Analysis Department / Date Staff Counsel's Office / Date

SUBJECT: Staff Recommendation Concerning the Application of Union Electric Company, d/b/a Ameren Missouri ("Ameren Missouri," "Company," or "Applicant"), for Authority to Issue and Sell Up to \$550,000,000 Aggregate Principal Amount of Additional Long-Term Indebtedness ("New Indebtedness").

DATE: August 31, 2020

1. (a) **Type of Issue:** First Mortgage Bonds or other forms of Secured Indebtedness (including Senior Secured Debt Securities Secured by First Mortgage Bonds). They will be issued under indentures previously filed with the Missouri Public Service Commission ("Commission"). See pages 7 and 8, paragraph 12, items c. and d. of the Application.
- (b) **Amount:** Up to \$550,000,000.
- (c) **Rate:** Fixed or variable rate not to exceed the greater of (i) 5.00%, or (ii) a rate that is consistent with similar securities of comparable credit quality and maturities issued by other issuers considering prevailing financial market conditions at the time.
- (d) **Other Provisions:** The price to be paid to Applicant for the various series of the New Indebtedness (as defined in the Application) will not be less than 92% of the aggregate principal amount thereof; the terms of maturity for the various series of the secured indebtedness will not exceed 40 years.
2. **Proposed Date of Transaction:** Anytime during the one-year period after the effective date of the order or orders resulting from the Company's Application.
3. (a) **Statement of Purpose of the Issue:** Company proposes to use the proceeds from the issuance and sale of the New Indebtedness, after deduction of commissions or discounts paid to the underwriters in connection with the New Indebtedness: to partially finance the

acquisition of wind generation facilities¹, scheduled to occur in the fourth quarter of 2020. The acquisition of the wind generation facilities is estimated to cost about \$** _____ **, ** _____ ** of which is to be funded by long-term debt, and ** _____ ** by equity.

(b) From a financial perspective, does Staff deem this Statement of Purpose of the Issue reasonable?:

Yes, with conditions imposed by the Commission as indicated below at page 6.

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

Such instruments have not been executed, but a statement of the general terms and conditions were included in the Application.

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

No. Pursuant to Section 2 of 20 CSR 4240-10.125, as stated in Paragraph 14 of the Application, this is to be provided as soon as possible after it is obtained.

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

Yes

7. Capital expenditure schedule reviewed:

Yes

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

Yes. Ameren Missouri states at Paragraph 16 of the Application that a fee is required pursuant to Section 386.300, RSMo. for the entire issuance because the proposed issuances of New Indebtedness will be used for issuance of new indebtedness. The fee is calculated to be \$140,500, and will be deposited with the Commission when and as required.

¹ High Prairie Wind Farm (*see* Case No. EA-2018-0202) and the Outlaw Project (*see* Case No. EA-2019-0181).

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 below).

COMMENTS:

Ameren Missouri is a public utility engaged in providing electric and gas utility services in portions of Missouri under the jurisdiction of this Commission.

On August 11, 2020, Ameren Missouri filed an Application with the Commission requesting approval for authority to issue and sell up to \$550,000,000 aggregate principal amount of secured indebtedness under indentures previously filed with the Commission (see pages 7 and 8, Paragraph 12, items c. and d. of the Application). Ameren Missouri states in its Application at page 6, Paragraph 11, item b.:

The series of the New Indebtedness will be offered to the public or privately placed (or a combination of both) through commercial or investment banking firms or groups of firms selected through negotiation and/or competitive bidding. Sales of the series of the New Indebtedness could be through underwriters or dealers, directly to a limited number of purchasers or to a single purchaser, or through agents designated by Applicant. Compensation to be paid for underwriting or privately placing the New Indebtedness will be determined based on prevailing financial market conditions.

The Applicant further states in its Application at page 8, Paragraph 12, item e. that it:

...proposes to issue the New Indebtedness under its existing authority from the Securities and Exchange Commission ("SEC"), for such securities issued in public transactions or pursuant to private placement with or without registration rights.

Staff applies the "not detrimental to the public interest" standard to financing applications. In reviewing requests for long-term financing authority, Staff analyzes the requested amount as it relates to the stated uses to ensure that the amount requested is reasonable and generally supports long-term capital investment. Staff also analyzes the pro forma impact the requested financing may have on the company's credit metrics, which may include the estimated impact on the parent company's credit metrics if the subject company's rating is influenced by the parent company's financial risk.

Ameren Missouri states in its Application at page 5, Paragraph 11 that the proceeds will be used to:

[T]o partially finance the acquisition of \$1.2 billion of wind (renewable) generation facilities, scheduled to occur in the fourth quarter of 2020.

Staff has verified that Ameren Missouri's projected capital expenditure plan supports the need for the \$550 million long-term debt. Ameren Missouri currently projects that it needs

** _____², _____

_____**

The pro forma impact of Ameren Missouri's proposed debt financing on Ameren Missouri's and Ameren's balance sheet as of June 30, 2020 is as follows:

Ameren Missouri:

	<u>As of June 30, 2020</u>	<u>Pro Forma</u>
Common Equity	** _____ **	** _____ **
Preferred Stock	** _____ **	** _____ **
Long-Term Debt	** _____ **	** _____ **
Short-Term Debt	** _____ **	** _____ **

Ameren:

	<u>As of June 30, 2020</u>	<u>Pro Form</u>
Common Equity	** _____ **	** _____ **
Preferred Stock	** _____ **	** _____ **
Long-Term Debt	** _____ **	** _____ **
Short-Term Debt	** _____ **	** _____ **

The above capital structure ratios imply a slight net increase (5 basis points) and decrease (28 basis points) in debt for Ameren Missouri and Ameren Corporation, respectively. Consequently, the impact of the proposed long-term financing on the Ameren Missouri's financial risk is insignificant.

² Ameren Missouri Response to Staff Data Request No. 0006.

³ Ameren Missouri Response to Staff Data Request No. 0006.

RECOMMENDED CONDITIONS:

Staff recommends that the Commission approve the Application submitted by Ameren Missouri in this case as not detrimental to the public interest as Ameren Missouri states in its Application at page 9, Paragraph 19, first sentence, 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 ten (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 any analyses performed to determine that the terms for the debt it decided to issue were the most reasonable. The analysis should include, but not be limited to, indicative pricing information provided by investment banks;
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.

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) Case No. EF-2021-0011
an Order Authorizing the Issue and Sale of)
Additional Long-Term Indebtedness Related)
to Wind Investments

AFFIDAVIT OF PETER CHARI

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COME NOW PETER CHARI and on his oath declares 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, under penalty of perjury.

Further the Affiants sayeth not.

/s/ Peter Chari
PETER CHARI