

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EF-2021-0176, Union Electric Company, d/b/a Ameren Missouri

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

/s/ Seoung Joun Won, PhD 04/23/2021 /s/ Travis Pringle 04/23/2021
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 \$650,000,000 Aggregate Principal Amount of Additional Long-Term Indebtedness ("New Indebtedness").

DATE: April 23, 2021

1. (a) **Type of Issue:** First Mortgage Bonds or other forms of Secured Indebtedness (including Senior Secured Debt Securities secured by a corresponding series of 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 \$650,000,000.
 - (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 (or longer tenor if comparable to maturities of similar securities issued by other issuers). 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 of Transaction:** Anytime during the one-year period after the effective date of the order or orders resulting from the Company's Application.

** Denotes Confidential Information **

APPENDIX A

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 commercial or investment banking firms in connection with the New Indebtedness, to refinance short-term debt consisting of commercial paper borrowings and potentially money pool borrowings and/or credit facility borrowings. The amount of Applicant's short-term debt as of March 25, 2021 was \$193,150,000, consisting entirely of commercial paper borrowings. Applicant anticipates to incur additional short-term debt for capital expenditures, to be refinanced with the proceeds from the issuance of the long-term debt requested in this Application, of up to \$515,163,710, between April and June of 2021.¹ Applicant incurs short-term debt to fund its cash requirements, as cash expenditures exceed cash receipts. The amount of short-term debt outstanding on March 25, 2021, represents an accumulation of such short-term funding of Applicant's cash requirements

(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 13 of the Application, this is to be provided as soon as possible after it is obtained.

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

Yes

7. **Capital expenditure schedule reviewed:**

Yes, a five-year capitalization expenditure schedule is reviewed.

¹ Response to Staff Data Request No. 0010.

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

No fee is required for long-term debt issuance used to refinance short-term debt, pursuant to Section 386.300, RSMo. Ameren has outstanding short-term debt of \$193,150,000, as of March 25, 2021. Ameren anticipates to incur additional short-term debt of up to \$515,163,710, between April and June 2021, to be refinanced with the requested financing authority.² Any long-term debt issuance not used to refinance short-term debt will be subject to a fee.

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 March 26, 2021, Ameren Missouri filed an Application with the Commission requesting approval for authority to issue and sell up to \$650,000,000 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 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 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 7, 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. In October 2020, Applicant filed a Form S-3

² Response to Staff Data Request No. 0010.

registration statement with the SEC registering the issuance of an unspecified amount of the New Indebtedness which expires in October 2023.

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 Amended Application at page 5, Paragraph 10 that the proceeds will be used to:

[F]und capital expenditures and/or refinance short-term debt consisting of commercial paper borrowings and potentially money pool borrowings and/or credit facility borrowings. The amount of Applicant's short-term debt as of March 25, 2021 was \$193,150,000, consisting entirely of commercial paper borrowings. Applicant anticipates to incur additional short-term debt of up to \$515,163,710 between April and June of 2021.

Staff has verified that Ameren Missouri’s projected capital expenditure plan supports the need for the \$650 million long-term debt. Ameren Missouri's 2021 total projected capital expenditures totaled just over \$2.2 billion, equating to roughly \$184 million of expenditures per month.³ Ameren Missouri currently projects that it needs ** _____ ** for the period 2021 to 2025.⁴

The pro forma impact of Ameren Missouri’s proposed debt financing on Ameren Missouri’s and Ameren’s balance sheet as of December 31, 2020 is as follows:

Ameren Missouri:

| | <u>As of December 31, 2020</u> | | <u>Pro Forma</u> | |
|-----------------|---------------------------------------|-------|-------------------------|-------|
| Common Equity | ** | _____ | ** | _____ |
| Preferred Stock | ** | _____ | ** | _____ |
| Long-Term Debt | ** | _____ | ** | _____ |
| Short-Term Debt | ** | _____ | ** | _____ |

³ Schedule 6, Ameren Missouri’s Application.

⁴ Schedule 5, Ameren Missouri’s Application.

Ameren Corporation:

| | <u>As of December 31, 2020</u> | | <u>Pro Forma</u> | |
|-----------------|---------------------------------------|-------|-------------------------|-------|
| Common Equity | ** | _____ | ** | _____ |
| Preferred Stock | ** | _____ | ** | _____ |
| Long-Term Debt | ** | _____ | ** | _____ |
| Short-Term Debt | ** | _____ | ** | _____ |

The above capital structure ratios imply a net increase (3.17%) and decrease (1.40%) in debt for Ameren Missouri and Ameren Corporation, respectively. The results of financial ratios, such as Funds From Operations (“FFO”) Interest Coverage, FFO to Total Debt, and Total Debt to Total Capital, indicate that both Ameren Missouri and Ameren Corporation’s financial risk profile is not significantly changed by the approval of the Application.⁵ Consequently, the impact of the proposed long-term financing on the Ameren Missouri’s financial risk is insignificant.

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 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;

⁵ Schedule 3 and Schedule 4, Ameren Missouri’s Application.

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;
7. That the Commission’s grant of authority shall expire one year from the effective date of the order in this proceeding; and
8. That any debt issuance not used for refinancing outstanding short-term debt be subject to a fee payable to the Missouri Public Service Commission, per Section 386.300, RSMo.

