

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EF-2018-0213, Union Electric Company, d/b/a Ameren Missouri

FROM: David Murray, CFA, Financial Analysis

/s/ David Murray, CFA 03/09/2018
Case Coordinator / Date

/s/ Steven Dottheim 03/09/2018
Staff Counsel's Office / Date

SUBJECT: Staff Recommendation concerning the Application of Union Electric Company, d/b/a Ameren Missouri ("Ameren Missouri," "Company," or "Applicant"), for Authority to issue and sell up to \$425,000,000 aggregate principal amount of additional long-term indebtedness.

DATE: March 9, 2018

1. (a) **Type of Issue:** Senior secured indebtedness issued under indentures previously filed with the Missouri Public Service Commission ("Commission"). See Paragraph 5, c. and d. in the Application.

(b) **Amount:** Up to \$425,000,000.

(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% or more than 100% 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:** Applicant proposes to use the proceeds from the issuance and sale of the New Indebtedness, after deduction of commissions or discounts paid to underwriters in connection with the New Indebtedness to refinance short-term debt to be incurred for purposes of redeeming long-term debt due on April 1, 2018 as well as an amount of short-term debt already outstanding as of January 31, 2018.

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

Yes, with conditions imposed.

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

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 Paragraph 7, this is to be provided as soon as a 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:**

No

9. **Recommendation of the Staff:**

Conditional Approval granted pending receipt of a certified copy of the resolutions of Applicant's Board of Directors and definite terms of issuance (see Comments and Recommended Conditions).

COMMENTS:

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

On February 1, 2018, Ameren Missouri filed an Application with the Missouri Public Service Commission ("Commission") requesting approval for authority to issue and sell up to \$425,000,000 aggregate principal amount of secured indebtedness under indentures previously filed with the Commission (see Paragraph 5 c. and d.). Ameren Missouri states in its Application:

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

The Applicant further states that it:

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

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 that the proceeds will be used to refinance \$178.52 million of long-term debt due on April 1, 2018, and to refinance short-term debt already outstanding. The major cause for the recent increase in Ameren Missouri's short-term debt balance is due to cash used for operating activities as well as additional capital expenditures.

Ameren Missouri has invested additional capital in its system, causing its net property, plant and equipment balance to increase by \$273 million (or 2.38%) since the end of 2016. Because Ameren Missouri hasn't been investing significant capital into its system, Ameren Missouri's cash flow has supported approximately 80% of the dividends paid to Ameren shareholders even though it contributes 60% of net income to Ameren's net income. As Staff discussed in Ameren Missouri's recent rate case, Case No. ER-2017-0179, Ameren Missouri's assets produce significant amounts of cash flow, specifically funds from operations (FFO) as defined by Standard & Poor's, as compared to the amount of debt it has outstanding (FFO/debt). This supports Ameren Missouri using more leverage than it currently utilizes. Therefore, Staff is not concerned about Ameren Missouri's Application to issue \$425 million of long-term debt, of which \$178.52 million will be used to refinance long-term debt already outstanding.

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

Ameren Missouri:

	<u>As of January 31, 2018</u>	<u>Pro Forma</u>
Common Equity	** _____ **	** _____ **
Preferred Stock	** _____ **	** _____ **
Long-Term Debt	** _____ **	** _____ **
Short-Term Debt	** _____ **	** _____ **

Ameren:

	<u>As of January 31, 2018</u>	<u>Pro Forma</u>
Common Equity	** _____ **	** _____ **
Preferred Stock	** _____ **	** _____ **
Long-Term Debt	** _____ **	** _____ **
Short-Term Debt	** _____ **	** _____ **

As can be seen from the above capital structure ratios, the common equity ratios don't change for either company because the proposed financing is simply replacing other debt already on the balance sheet.

Staff also analyzed three key credit metrics to assess the relative impact the proposed financing may have on both Ameren Missouri's and Ameren's credit quality. Because the proposed financing in the Application is to simply refinance current short-term debt and maturing long-term debt, the impact on the credit metrics is minimal. Consequently, the proposed financing will not impact on Ameren or Ameren Missouri's credit rating, and therefore, either entity's ability to attract capital. The specifics can be found in its entirety on the Confidential - Schedule 1 attached to this recommendation.

RECOMMENDED CONDITIONS:

Staff recommends that the Commission approve the Application submitted by Ameren Missouri in this case subject to the following conditions:

1. That nothing in the Commission's order shall be considered a finding by the Commission of the value of this transaction for rate making purposes, and that the Commission reserve the right to consider the rate making treatment to be afforded the financing transaction and its impact on cost of capital, in a later rate proceeding;

2. That the Company shall file with the Commission within 10 days of issuance of any financing authorized pursuant to a Commission order in this proceeding, a report including the amount of secured indebtedness issued, date of issuance, interest rate (initial rate if variable), maturity date, redemption schedules or special terms, if any, use of proceeds, estimated expenses, and loan or indenture agreement concerning each issuance. In addition, the Company shall also provide the analysis, to include but not be limited to indicative pricing information provided by investment banks, it performed to determine that the terms for the debt it decided to issue were the most reasonable at the time;
3. That the Company shall file with the Commission any information concerning communication with credit rating agencies concerning any such issuance;
4. That the Company shall file with the Commission as a non-case related submission in EFIS under “Resources” - “Non-Case Related Query” - “Ordered Submission” any credit rating agency reports published on Ameren Missouri’s or Ameren’s corporate credit quality or the credit quality of its securities;
5. That Ameren Missouri be required to file a five-year capitalization expenditure schedule in future finance cases;
6. That Ameren Missouri be required to file in future finance cases whereby the use of proceeds includes the repayment of short-term debt which cannot be linked to the repayment of long-term debt, a schedule that reconciles short-term debt incurred for purposes of long-term capital projects specifically and individually disclosed in quarterly and annual filings with the Securities and Exchange Commission. For those capital expenditures not categorized in Securities and Exchange Commission filings, Ameren Missouri shall provide an aggregate sum of the miscellaneous expenditures;
7. That the Commission’s grant of authority shall expire one year from the effective date of the order in this proceeding.

Attached:

Confidential Schedule 1 - Selected Pro Forma Financial Ratios

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-2018-0213
an Order Authorizing the Issue and Sale of Up)	
to \$425,000,000 Aggregate Principal Amount)	
of Additional Long-term Indebtedness)	

AFFIDAVIT OF DAVID MURRAY, CFA

STATE OF MISSOURI)	
)	ss.
COUNTY OF COLE)	

COMES NOW DAVID MURRAY, CFA 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.

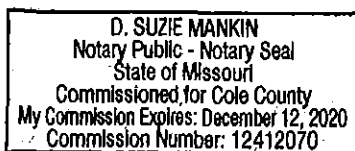
Further the Affiant sayeth not.

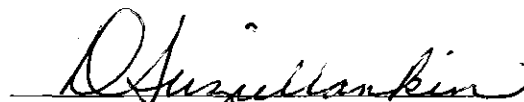


DAVID MURRAY, CFA

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 9th day of March 2018.





Notary Public

SCHEDULE 1

HAS BEEN DEEMED

CONFIDENTIAL

IN ITS ENTIRETY