

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

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| In the Matter of the Application of Union Electric Company |) | |
| d/b/a Ameren Missouri for an Order Authorizing |) | |
| the Borrowing of Up to \$800,000,000 Aggregate |) | <u>File No. EF-2014-0094</u> |
| Principal Amount Under a Long-Term Credit Facility |) | |

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission, by and through undersigned counsel of the Staff Counsel's Office, and files the Staff Recommendation. In support thereof, the Staff states as follows:

1. On October 15, 2013, Union Electric Company d/b/a Ameren Missouri ("Ameren Missouri") filed an Application for permission and authority, under Sections 393.180 and 393.200 RSMo. 2000, 4 CSR 240-3.120 and 4 CSR 240-2.060 to incur up to \$800,000,000 aggregate principal amount of new borrowings under a long-term credit facility under its 2012 Missouri Credit Agreement. The Staff's accompanying recommendation details how the Ameren Missouri's filing, which on first view might appear to be a short-term financing arrangement not requiring Commission authorization under Section 393.200.1 RSMo. 2000, is in actuality a long-term financing arrangement requiring Commission authorization under Section 393.200.1 RSMo. 2000 and thereby Section 393.180 RSMo. 2000 and 4 CSR 240-3.120 and 4 CSR 240-2.060(1).¹

¹ The Staff's Recommendation also relates in some detail that Laclede Gas Company and Kansas City Power & Light Company have entered into multi-year credit facility agreements, but have not filed with the Commission for authorization to do so.

2. In Paragraph 18 of its pleading entitled “Application” filed on October 15, 2013, Ameren Missouri stated that it requests the Commission approve this Application so that it is effective no later than March 31, 2014.

3. The Staff has worked diligently processing Ameren Missouri’s Application. However, due to other pending Commission business, the Staff has twice had to request additional time to file its recommendation.

4. Having completed its analysis, the Staff recommends to the Commission that it deny approval of Ameren Missouri’s Application unless the Commission is able to obtain agreement from Ameren Missouri on the following conditions in the Staff’s recommendation:

A. That Ameren Missouri file with the Commission all final terms and conditions of borrowings made under the credit facility, which shall include, but not be limited to, applicable interest rates and the purposes of those proceeds. Subsequent to the filing of the final terms and conditions of any borrowings made under the credit facility, Ameren Missouri shall submit monthly reports to the Staff addressing the status of such borrowings, which shall include, but not be limited to the following information: when Ameren Missouri plans to retire the borrowings, the source of funds Ameren Missouri plans to use to retire the borrowings, explanation as to why Ameren Missouri did not issue commercial paper, and how much additional short-term financing Ameren Missouri anticipates it will need over the period such borrowings remain outstanding.

B. That Ameren Missouri file a notice with the Commission if Ameren Missouri borrows funds directly from Ameren, while Ameren has an outstanding borrowing supported by the shared credit facility with Ameren Missouri. Ameren Missouri’s notification shall be accompanied by an explanation as to why Ameren Missouri did not directly borrow funds through its access to the commercial paper markets or the credit facility.

C. That the Commission’s order shall not constitute an opinion of prudence on the overall structure of Ameren’s and Ameren Missouri’s 2012 Missouri Credit Agreement.

D. 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, which includes, but is not limited to the capital structure of Ameren Missouri, and that the Commission reserves the right to consider the rate making treatment to be afforded these financing transactions and their effect on cost of capital, in any later proceeding or proceedings.

WHEREFORE the Staff files the accompanying *Staff Recommendation* containing the Staff's analysis of Ameren Missouri's request for permission and authority, and Staff's recommended conditions necessary for the Commission to obtain agreement on from Ameren Missouri, in order for the Commission to approve Ameren Missouri's Application.

Respectfully submitted,

/s/ Steven Dottheim

Steven Dottheim
Chief Deputy Staff Counsel
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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing *Staff Recommendation* have been transmitted electronically to all counsel of record this 31st day of January, 2014.

/s/ Steven Dottheim

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EF-2014-0094

FROM: David Murray, Financial Analysis

/s/ David Murray 01/31/14
Financial Analysis

/s/ Steven Dottheim 01/31/14
Staff Counsel

SUBJECT: Staff Recommendation to approve, with conditions, the Application of Union Electric Company d/b/a Ameren Missouri for authority to extend the termination date of its \$800,000,000 credit facility until November 14, 2017, with the possibility of an extension for two additional one-year periods, until November 14, 2019.

DATE: January 31, 2014

1.
 - (a) **Type of Issue:** Revolving Loans, Competitive Loans and Swingline Loans
 - (b) **Amount:** Up to \$800,000,000.
 - (c) **Rate:** Three Potential Methods: (1) the highest of the following: Prime Rate, Federal Funds Effective Rate plus 0.5% or an adjusted Eurodollar Rate plus 1.0%; (2) a fixed Eurodollar rate tied to the applicable borrowing period, plus a margin; (3) fixed rates offered by lenders in a competitive bid process.
2. **Proposed Date of Transaction:** Subsequent to the Commission's Approval.
3.
 - (a) **Statement of purpose of the Transaction:** Ameren Missouri's Application does not directly explain the purpose of extending the credit facility termination date on the 2012 Missouri Credit Agreement, but it is Staff's understanding based on conversations with Ameren Missouri that it is to ensure the commitment of participating lenders for a period greater than 364 days. Ameren Missouri believes that amending its credit facility to allow for a termination date that extends for multiple years will lock in Ameren Missouri's ability to access the necessary amount short-term capital to meet its short-term funding requirements.
 - (b) **From a financial perspective, does Staff deem this purpose reasonable?**

Yes, with the proposed conditions.
4. **Type of Transaction:** Amendment to the termination date of the already executed 2012 Missouri Credit Agreement.

5. Copies of executed instruments defining terms of the proposed transaction:

The credit facility has already been executed, but borrowings under the credit facility have not. Therefore, the Commission should condition approval on Ameren Missouri's commitment to file the terms and conditions with the Commission each time a borrowing is made directly from the credit facility.

6. Certified copy of resolution of the directors of Ameren Missouri, or other legal documents authorizing the proposed transaction reviewed:

Yes.

7. Capital expenditure schedule reviewed:

No.

8. Recommendation of the Staff:

Deny approval, unless conditions proposed at end of the recommendation are imposed. (*see Comments*).

COMMENTS:

Ameren Missouri is a wholly-owned subsidiary of Ameren Corporation, and also a Missouri corporation with its principal place of business at One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103. Ameren Missouri provides electric and gas utility services in portions of Missouri under the jurisdiction of this Commission.

On October 15, 2013, Ameren Missouri filed an application with the Missouri Public Service Commission requesting approval to amend its current executed \$800 million credit facility ("2012 Missouri Credit Agreement") to allow the termination date of that facility to be extended to November 14, 2017, with the potential for it to be extended for two additional one-year periods until November 14, 2019.

Staff emphasizes that Ameren Missouri is not requesting authority to execute the credit facility, which allows Ameren Missouri to directly borrow up to \$800 million. Ameren and Ameren Missouri have already executed the credit facility, the 2012 Missouri Credit Agreement, which is a shared credit facility between Ameren and Ameren Missouri for a maximum one year period without Commission authority being required. The credit facility allows for total borrowings of up to \$1 billion, with Ameren having direct access to up to \$500 million and Ameren Missouri having direct access to up to \$800 million. Staff is concerned about Ameren Missouri sharing a credit facility with Ameren because Ameren Missouri's assets, and the cash flow they create, are the primary reason the two companies have up to \$1 billion of capacity under the credit facility.

Staff is further concerned about the ability of Ameren to reduce Ameren Missouri's direct access by up to \$300 million, by Ameren borrowing over \$200 million up to its \$500 million sublimit. In response to Staff Data Request No. 0008, Ameren Missouri assured Staff that Ameren Missouri's \$800 million of capacity would be "adequate to support a strong, stable liquidity profile and meet the company's needs." While it is possible Ameren Missouri may not need capacity greater than \$800 million, this does not eliminate Staff's concern that the shared credit facility allows for potential impairment of Ameren Missouri's ability to access capital. In fact, in 2008 Ameren Missouri needed additional borrowing capacity over its then sublimit of \$500 million to support its capital needs, and it was left with no other option than to borrow \$92 million from Ameren. Although one may interpret this as a benefit of Ameren Missouri's affiliation with Ameren, it is Staff's position that Ameren Missouri's assets could support direct access of up to \$1 billion of credit capacity. This Staff position is supported by the fact that Great Plains Energy's Missouri subsidiary utilities, Kansas City Power & Light Company ("KCPL") and KCP&L Greater Missouri Operations ("GMO"), have direct access to \$1 billion of credit capacity and combined KCPL and GMO have a smaller asset base than Ameren Missouri.

Although Staff has the above concerns about the overall structure of the credit facility and whether Ameren Missouri's financial flexibility is constrained by Ameren's desire to maintain credit access at the holding company level rather than at the subsidiary level, authorization of the structure of the credit facility is not what is before the Commission in this Application. Here Ameren Missouri is seeking authorization to extend the termination date on its access to the \$800 million sublimit specifically dedicated to it in the credit facility. Before 2010, the termination dates on the credit facilities in which Ameren Missouri was a participant, were less than one year.

Staff understood borrowings utilities were making under credit facilities, whether a 364-day facility or a multi-year credit facility, would not be outstanding for much more than a few months, but certainly less than a year. Consequently, when Ameren Missouri filed this application Staff expressed its concerns to Ameren Missouri regarding its request for Commission authority to allow borrowings that are fully intended to be short-term in nature to remain outstanding for a period greater than a year. Staff views that such a circumstance may be a signal that a utility is experiencing some type of financial strain, causing it to carry a balance on its credit facility beyond a year. If such circumstances should occur, Staff believes the Commission should know why it is occurring and whether it is causing the utility to forego or delay projects that may be necessary and in the public interest.

Although Ameren Missouri initially told Staff that it believed it needed Commission authority for only those borrowings that may remain outstanding for more than a year, after further discussions with Staff, it became apparent that Ameren Missouri's position is that any borrowing under the credit facility is an issuance of long-term debt, due to the fact that such a borrowing was not technically due until the expiration of the credit facility. Even though Ameren Missouri never intends to carry balances much more than 30 days, let alone multiple years, the stated maturity under the terms of the credit facility is the termination date of the credit facility.

Ameren Missouri's interpretation of the classification of borrowings under a credit facility seems to Staff to be at odds with the interpretations of other Missouri utilities. Both Laclede Gas Company ("Laclede Gas") and KCPL have executed multi-year credit facilities, but neither have filed applications with the Commission for authority to enter into them. Consequently, Staff compared the terms and conditions of their multi-year credit facilities to those of Ameren Missouri's credit facility to determine if there was something different in them that would require Ameren Missouri to require Commission authority, but not Laclede Gas or KCPL. Laclede Gas' multi-year credit facility has a provision that requires loans under the credit facility to be paid on the earlier of the "(i) last day of the Revolving Credit Period and (ii) 364 days after the date of borrowing." Consequently, even though Laclede Gas has a multi-year credit facility, the terms of the facility specifically restrict borrowings from going over 364 days after the date of borrowing. However, this is not the case for KCPL's multi-year credit facility. The terms of KCPL's multi-year credit facility do not require payment until the termination date of the facility, which is currently in October of 2018. KCPL's multi-year credit facility specifically states: "The Borrower shall (a) repay the principal amount of all Advances made to it on the Facility Termination Date..." Based on Ameren Missouri's interpretation, any borrowings KCPL makes under its credit facility are long-term borrowings, and therefore, unless KCPL had first obtained Commission authority to extend the termination date on its credit facility, such borrowings may be considered void.

Staff Counsel has reviewed that statute (Section 393.200.1.) governing the Commission's authority over long-term borrowings. Because the statute plainly indicates any debt that is "payable at periods of more than twelve months" is considered to be long-term debt for purposes of Commission authority, Staff agrees with Ameren Missouri's interpretation.

Although KCPL has not filed an application for Commission authority for its multi-year credit facility that allows for borrowings to be extended over multiple years, KCPL has not directly borrowed any funds under its multi-year credit facility. In fact, KCPL didn't even borrow funds directly from its multi-year credit facility during the financial crisis when the commercial paper markets tightened dramatically. However, even if KCPL were to make a direct borrowing under its credit facility, Staff is uncertain if KCPL believes it would be required to seek Commission authority to do so. Staff will notify KCPL of Staff's interpretation and provide a copy of this Staff Memorandum.

It is quite possible; if not probable that, now that Ameren Missouri's credit standing has improved due to Ameren's decision to divest its merchant-generation assets, Ameren Missouri may never have to directly borrow under its multi-year credit facility, even during periods such as the financial crisis in 2008 and 2009. Ameren Missouri would likely just use the credit facility to support its direct access to the commercial paper markets, which are undoubtedly short-term borrowings. However, apparently Ameren Missouri wants to cover its bases and ensure that the Commission would not challenge its ability after-the-fact to make this direct borrowing because it could potentially be considered long-term debt under Section 393.200.

Regardless, Staff does not believe it would be detrimental to the public if Ameren Missouri extends the credit facility termination date until as late as November 14, 2019. However, because each borrowing under the credit facility would ultimately be classified as long-term debt, Staff believes the Commission should be notified of each and every borrowing under the credit facility so it can monitor, evaluate and understand why Ameren Missouri borrowed directly from the credit facility rather than issuing commercial paper, as most financially stable utility companies should be able to do. As Staff discovered through its data requests to Ameren Missouri, Ameren Missouri has only had to directly borrow funds under its credit facility one time since 2010. Consequently, Staff does not consider requiring Ameren Missouri to notify the Commission of its borrowings as unduly burdensome. Once Ameren Missouri notifies the Commission of a borrowing, Staff believes the Commission should require Ameren Missouri to provide monthly reports of the status of its borrowings to Staff so that Staff can determine if Ameren Missouri is experiencing liquidity problems due to circumstances specific to Ameren Missouri, due to its affiliation with Ameren and/or due to general disruption in the financial markets.

Staff proposes the Commission grant to Ameren Missouri the authority requested, but with the below conditions to address Staff's concerns regarding the unique nature of Ameren Missouri's request.

RECOMMENDED CONDITIONS:

Staff recommends that this Application be approved with the following conditions:

1. That Ameren Missouri file with the Commission all final terms and conditions of borrowings made under the credit facility, which shall include, but not be limited to, applicable interest rates and the purposes of those proceeds. Subsequent to the filing of the final terms and conditions of any borrowings made under the credit facility, Ameren Missouri shall submit monthly reports to the Staff addressing the status of such borrowings, which shall include, but not be limited to the following information: when Ameren Missouri plans to retire the borrowings, the source of funds Ameren Missouri plans to use to retire the borrowings, explanation as to why Ameren Missouri did not issue commercial paper, and how much additional short-term financing Ameren Missouri anticipates it will need over the period such borrowings remain outstanding.
2. That Ameren Missouri file a notice with the Commission if Ameren Missouri borrows funds directly from Ameren, while Ameren has an outstanding borrowing supported by the shared credit facility with Ameren Missouri. Ameren Missouri's notification shall be accompanied by an explanation as to why Ameren Missouri did not directly borrow funds through its access to the commercial paper markets or the credit facility.

3. That the Commission's order shall not constitute an opinion of prudence on the overall structure of Ameren's and Ameren Missouri's 2012 Missouri Credit Agreement.
4. 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, which includes, but is not limited to the capital structure of Ameren Missouri, and that the Commission reserves the right to consider the rate making treatment to be afforded these financing transactions and their effect on cost of capital, in any later proceeding or proceedings.

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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 Borrowing of up)
to \$800,000,000 Aggregate Principal)
Amount under a Long-Term Credit Facility)

Case No. EF-2014-0094

AFFIDAVIT OF DAVID MURRAY

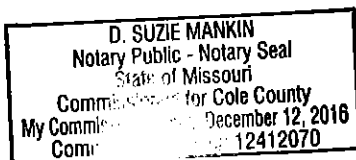
STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

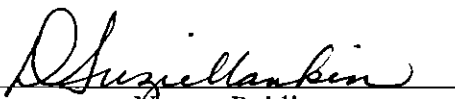
David Murray, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.



David Murray

Subscribed and sworn to before me this 31st day of January, 2014.





Notary Public