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Witness:	*Peter Chari*
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MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

FINANCIAL ANALYSIS DEPARTMENT

SURREBUTTAL TESTIMONY

OF

PETER CHARI

UNION ELECTRIC COMPANY,
d/b/a Ameren Missouri

CASE NO. ER-2021-0240

Jefferson City, Missouri
November 2021

**** Denotes Confidential Information ****

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Q. Please state your name.

A. My name is Peter Chari.

Q. Are you the same Peter Chari who prepared the Rate of Return ("ROR") Section of Staff's Cost of Service Report ("Staff Report") filed September 3, 2021, and the rebuttal testimony on the same topic filed October 15, 2021, in this proceeding?

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimonies of Ann E. Bulkley and David Murray. Staff will also provide an update on Ameren Missouri's true-up capital structure. Ms. Bulkley sponsored testimony on behalf of Ameren Missouri Inc. ("Ameren Missouri" or the "Company"), a wholly-owned subsidiary of Ameren Corporation ("Ameren Corp." or the "parent Company") and Mr. Murray sponsored testimony on behalf of the Office of the Public Counsel ("OPC"). Ms. Bulkley responded to the authorized return on equity ("ROE") recommendation that Staff sponsored in the Staff Report. Mr. Murray responded to the authorized ROE and capital structure that Staff sponsored in the Staff Report.

EXECUTIVE SUMMARY

Q. What is Staff's main area of disagreement with Ms. Bulkley's rebuttal testimony?

A. Staff disagrees with Ms. Bulkley's assertion that Staff does not rely on its COE analyses to support its authorized ROE recommendation for Ameren Missouri.[1] Ms. Bulkley alleges that Staff's COE estimates are unreasonable, stating that Staff's "Two-Step" Discounted Cash Flow ("DCF") analysis understates the cost of equity when compared with the observed authorized equity returns for vertically-integrated electric utilities in other jurisdictions".[2]

Q. What concern do you have with the true-up capital structure provided by Ameren Missouri?

A. Staff expresses concern that the equity ratio in the true-up capital structure provided by Ameren Missouri as of September 30, 2021 is not reasonably justified.

Q. What are Staff's main area of disagreements with Mr. Murray's rebuttal testimony?

A. Staff disagrees with Mr. Murray on his recommendation of an authorized ROE that is contingent on the Commission accepting his recommended capital structure. Mr. Murray maintains his direct testimony ROE recommendation of 9.00% but is open to a maximum authorized ROE of 9.50% (the same ROE recommended by Staff) on the condition that the Commission accepts a capital structure for Ameren Missouri composed of 45% equity ratio. Staff reiterates its disagreement with Mr. Murray's recommendation of Ameren Corp.'s capital structure for Ameren Missouri's ratemaking in this proceeding.

<u>RESPONSE TO MS. BULKLEY'S REBUTTAL TESTIMONY</u>

Q. Please explain your disagreement with Ms. Bulkley's position that Staff does not rely on any of its COE analyses to recommend authorized ROE.

[1] Ann E. Bulkley's Rebuttal Testimony, pg. 34.
[2] Ibid pg. 36.

A. Ms. Bulkley's position on Staff's ROE analysis is summed up in the following statements from her rebuttal testimony:

> Mr. Chari does not actually rely on any of those analyses to support his recommendation for Ameren Missouri, as they all produce results that are significantly below his recommended ROE range and point estimate 9.50 percent. Rather, Mr. Chari's ROE recommendation is based on a comparison of the results of his Two-step DCF model in this case to the results of the model that he relied on in Empire District Electric's 2019 case. While I disagree with many aspects of Mr. Chari's DCF, CAPM and other benchmarking analyses, the fact is that Mr. Chari has not relied on those models in the development of his recommendation.[3]

While Ms. Bulkley correctly states in the second sentence of the above statements how Staff recommended its authorized ROE, she makes a blatantly unsupported accusation that Staff did not rely on the analyses of its COE models to recommend its authorized ROE in this proceeding. As Staff stated in its direct and rebuttal testimonies, Staff's recommendation was based on its COE analysis that showed that COE increased by 55 basis points ("bps") between the period of the Empire District Electric Company ("Empire") rate case and the current rate case.[4] To arrive at the conclusion that COE increased by up to 55 bps, Staff relied on the current COE estimates (8.29%) of its DCF model which shows that COE is up to 55 bps higher than the DCF COE (7.74%) estimate in the Empire rate case.[5] The DCF COE estimate of 8.29% is the average of Staff's DCF COE estimates ranging from 6.84% to 9.52%, as Ms. Bulkley also acknowledged in her rebuttal testimony.[6] It raises curiosity as to why Ms. Bulkley would conclude that Staff did not rely on the analyses of its COE models even with this clear evidence to the contrary. Ms. Bulkley's conclusion that Staff did not rely on its analyses seems to be

[3] Ann E. Bulkley's rebuttal testimony, pg. 34.
[4] Staff Direct Report, Case No. ER-2021-0240, pg. 8.
[5] Ibid.
[6] Ann E. Bulkley rebuttal testimony, pg. 33.

based on the fact that Staff's DCF COE estimates are much less than its recommended authorized ROE.[7] It is Staff's position that COE estimates do not need to be the same as authorized ROE, as COE and authorized ROEs are two different concepts. In its analysis, Staff distinguishes between COE and authorized ROE. COE is a market-determined value, whereas authorized ROE is a commission-determined value. Objectively-estimated COEs have recently been much lower than authorized ROEs, with some COE estimates being around 7%.[8] While Staff does not delve into the reasons why COEs have been much lower than prevailing authorized ROEs, Staff's comparative analysis methodology appropriately informs the Commission of the changes in COE since the Commission's last authorized ROE, as a way to determine a fair and reasonable authorized ROE for Ameren Missouri. In her rebuttal testimony, Ms. Bulkley does not challenge the validity of Staff's comparative analysis methodology. Ms. Bulkley only raises issues with certain specific aspects of Staff's analysis: the authorized ROEs that Staff used to check the reasonableness of its recommended authorized ROE; the reasonableness of the results of Staff's COE models as compared to authorized ROE; the inputs to Staff's COE estimation models and; what Ms. Bulkley alleges is inconsistency between the DCF model used in the Empire rate case and the DCF model used in the current rate case. Staff addresses the specific issues that Ms. Bulkley raises regarding Staff's analysis in the remainder of this testimony.

Q. Ms. Bulkley alleges that Staff's recommended authorized ROE of 9.50% is 43 basis points lower than the average authorized ROE (9.93%) for vertically integrated electric utilities in the 10-year period between 2010 and 2020.[9] Is it reasonable to consider the

[7] Ann E. Bulkley's rebuttal testimony, pg. 36.
[8] http://energy-counsel.com/docs/Nice-Work-If-You-Can-Get-It-Fortnightly-August-2016.pdf.
[9] Ann. E. Bulkley's rebuttal testimony, Case No. ER-2021-0240, pg. 47.

authorized ROEs from the last ten years to determine reasonable authorized ROE for Ameren Missouri in this period?

A. No. The 10-year period between 2010 and 2020 is not comparable to the current period under which the current ROE analysis is being conducted. As shown in Table 3 in Staff's Cost of Service report, page 28, the average authorized ROE was 10.35% in 2010. Authorized ROEs remained elevated between 2010 and 2014 before a gradual decline from 9.66% in 2015 to 9.44% in 2021. It is easy to understand why it would be inappropriate to compare current authorized ROEs to the period of the last ten years – it would lead to an upward bias. A more comparable period is twelve months within the period of current ROE analysis. Average authorized ROEs in the last twelve months for electric utilities is approximately 9.44% as Staff indicated in the Cost of Service Report.

Q. Ms. Bulkley said Staff should have only reviewed vertically-integrated electric utilities to check the reasonableness its recommended authorized ROE. How does Staff respond?

A. Whether Staff considers authorized ROEs for all electric utilities or only authorized ROEs for vertically-integrated electric utilities, the conclusion is the same – Staff's recommended authorized ROE is consistent with authorized ROEs awarded to other electric utilities in the jurisdictions across the U.S. Out of 12 fully-litigated, vertically-integrated electric utility cases in the United States in the period between August 1, 2020, and August 30, 2021, the average was 9.33%. This average excludes cases that were decided by a formula rate methodology that is not comparable to the methodology used in Missouri. Staff also considered authorized ROEs for vertically-integrated electric utilities that were decided by a settlement decision. Out of 14 settled cases since

August 1, 2020, the average ROE was 9.53%. Clearly, there is some consensus in the last twelve months that an authorized ROE of 9.50%, as recommended by Staff, is reasonable.

Q. Ms. Bulkley argues that the results of Staff's DCF model are unreasonable because they are too low compared to the observed authorized equity returns for vertically-integrated electric utilities in other jurisdictions.[10] Is Ms. Bulkley's argument valid?

A. No. As Staff already explained above, Ms. Bulkley's argument is predicated on her unreasonable assumption that authorized ROEs and COEs are the same. Objective COE estimates have been much lower than prevailing authorized ROEs, hence Staff's estimated COEs are lower than prevailing authorized ROEs. As Staff explained, Staff's comparative analysis methodology appropriately estimates the fair and reasonable recommended authorized ROE.

Q. Ms. Bulkley alleges that Staff's 'Two-Step DCF' analysis does not follow the Federal Energy Regulatory Commission's ("FERC") current methodology. Is this a valid allegation?

A. No. While Staff acknowledges Ms. Bulkley's concern that Staff's DCF model does not follow the FERC's current two-step DCF methodology, Staff has not claimed that its constant-growth DCF model is the same as the FERC's two-step DCF model in every respect. Staff's position on the constant-growth DCF model is that the growth rate used in the model should reflect the perpetual assumption of the constant-growth DCF model. FERC currently recommends adjusting growth rates used in the DCF model by combining analysts' estimated earnings per share ("EPS") growth rates with long-term GDP growth rates at 0.8 analyst's EPS growth rates plus 0.2 estimated long-term GDP growth rates. Until its

[10] Ann E. Bulkley's rebuttal testimony, pg. 36.

order in the FERC Opinion 569-A in May 2020, FERC recommended adjusting DCF growth rates by combining analysts' estimated EPS with long-term GDP growth rates at two-thirds analysts' EPS plus one-third long-term GDP growth rates. It is interesting that Ms. Bulkley does not dispute Staff's position that analysts' estimated EPS growth rates are not appropriate for use exclusively in the constant-growth DCF model. Ms. Bulkley did not adjust the short-term EPS growth rates she used in her constant-growth DCF model to reflect the long-term assumption in the constant-growth DCF model. Not adjusting the short-term growth rates for the long-term assumption in the constant-growth DCF model caused Ms. Bulkley's DCF COE estimates to be unreasonably high.

Q. Ms. Bulkley raises concern that Staff's current DCF model is inconsistent with the DCF model that Staff used in the Empire rate case because the growth rate in the DCF model was developed using different growth assumptions.[11] Is Ms. Bulkley's concern valid?

A. No. Firstly, Ms. Bulkley is wrong to say that, "Mr. Chari relied on DPS growth rates to establish his growth range".[12] While Staff did not estimate the growth rate in the DCF model used in the Empire rate case the same way as in the current rate case, Staff considered the same factors in both cases to decide on the appropriate growth rate to use in the DCF model. As in the current rate case, Staff reviewed historical EPS, historical dividend per share ("DPS"), historical book value per share ("BVPS"), analysts' projected EPS growth rates, as well as long-term GDP growth rates to arrive at an appropriate DCF growth rate to use in the DCF model.[13] Secondly, if Staff had estimated the growth rate used in the Empire rate case DCF model the same way as in the current rate case, Staff's estimated COE change would not

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[11] Ann E. Bulkley's rebuttal testimony, pg. 38.
[12] Ibid, pg. 39 lines 2 and 3.
[13] Staff's Cost of Service Report, Case No. ER-2019-0374, pgs. 14 and 15. See the following schedules from the Staff's Direct Cost of Service Report: PC-9-1, PC-9-2 and PC-9-3.

be materially different from what Staff estimated without making the DCF models consistent. Staff recalculated the COE change as Ms. Bulkley would prefer. The results of Staff's recalculations are shown in Table 1 below:

Table 1. New COE Change Estimates with Consistent DCF Models

					Low	High	Mean
DCF Range					6.86%	9.54%	8.30%
Reproduced Cost of Equity Estimates for the Proxy Group in the Empire Case No. ER-2019-0374							
					Low	**High**	**Mean**
DCF Range					6.10%	8.67%	7.92%
DCF COE Difference Between The Current Case and Empire Rate Case							**0.38%**
Commission Allowed ROE in Empire Rate Case							**9.25%**
Adjustment of Empire's Authorized ROE with DCF COE estimate to reflect Increase in COE, and setting of Upper Limit of Range of Reasonableness							**9.63%**
Lower Limit of Range of Reasonableness							9.25%
Range of Reasonableness with Upper Limit rounded down to 9.80%							9.25% - 9.80%

Notice that the estimated COE change calculated as preferred by Ms. Bulkley is 38 bps. Staff originally estimated a COE change of 55 bps as shown in Table 2 below: [14]

continued on next page

[14] Ibid, Schedule PC-11

Table 2. Old COE Change Estimates with Inconsistent DCF Models

	Low	High	Mean
DCF Range	6.84%	9.52%	8.29%
Reproduced Cost of Equity Estimates for the Proxy Group in the Empire Case No. ER-2019-0374			
	Low	**High**	**Mean**
DCF Range	7.34%	8.14%	7.74%
DCF COE Difference Between The Current Case and Empire Rate Case			**0.55%**
Commission Allowed ROE in Empire Rate Case			**9.25%**
Adjustment of Empire's Authorized ROE with DCF COE estimate to reflect Increase in COE, and setting of Upper Limit of Range of Reasonableness			**9.80%**
Lower Limit of Range of Reasonableness			9.25%
Range of Reasonableness with Upper Limit rounded down to 9.80%			9.25% - 9.80%

As shown in the tables above, the estimated COE change decreased, instead of increasing. Bulkley's revelations actually strengthened Staff's position that the authorized ROE should be increased by only 25 bps instead of 55 bps, from 9.25% TO 9.50%.

Q. Ms. Bulkley takes issue with Staff's partial adjustment of the Commission's current 9.25% Empire authorized ROE for purposes of recommending an ROE for Ameren Missouri, charging that the partial adjustment is inconsistent with how Staff adjusted the ROE in the 2019 Empire rate case, as well as how Staff Witness Dr. Won adjusted his authorized ROE in the concurrent Ameren Missouri gas rate case. The following are the exact words of Ms. Bulkley on this:

> Mr. Chari's adjustments in this case are inconsistent with the Empire District Electric case and have the effect of understating the ROE. While I do not agree with all aspects of Mr. Chari's comparative analysis, his conclusion from the comparison of the 2019 DCF from the Empire District Electric case and his analysis in this case is that the COE had increased by 55 basis points. However, Mr. Chari makes a 25-basis point adjustment to the 9.25 percent ROE that he recommended and that was approved by the Commission in the Empire District Electric Case. Mr. Chari does not offer any meaningful explanation as to why it is appropriate to limit the increase to 25-basis points.[15]

[15] Ann E. Bulkley's rebuttal testimony, Case No. ER-2021-0240, PG. 40.

Q. How does Staff respond?

A. Staff explained in both Staff's Cost of Service Report and its rebuttal testimony that due to the current economic conditions that are characterized by transitory risks such as high expected inflation, it is reasonable to increase the authorized ROE by only 25 bps instead of the full COE change of 55 bps. It is Staff's position that the current economic conditions are causing COE models to indicate higher than usual COE estimates. The economy is still dealing with holdover effects of the coronavirus pandemic ("COVID-19") recession. Inflation and unemployment are higher than they were before the pandemic, which pose a challenge, with potential downside to the economy, to policymakers.[16] There is nothing in Staff's past ROE adjustments that suggest that the only way to adjust the Commission's authorized ROE is by the full amount of the COE change, as Ms. Bulkley seems to suggest. What Staff did is akin, although for different reasons, to what Ms. Bulkley did when she recommended an authorized ROE range of 9.75% to 10.50% even though her COE estimates ranged from as low as 8% to as high as 13%.[17] Staff would like to reiterate that it disagrees with Ms. Bulkley's recommendations as explained in its rebuttal testimony.

Q. Ms. Bulkley claims to correct Staff's DCF results to reflect the FERC's current approach on DCF growth rates, to show how Staff's comparative analysis would be different.[18] Do you agree with Ms. Bulkley's corrections?

A. No. Ms. Bulkley's corrections (adjustments) are nothing but a misleading attempt to cast doubt on Staff's analysis. Firstly, as already explained, Staff disagrees with Ms. Bulkley's position that Staff should have incorporated the FERC's current approach of

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[16] https://www.reuters.com/business/feds-powell-frustrating-that-supply-chain-kinks-arent-getting-better-2021-09-29/.
[17] Ann E. Bulkley's rebuttal testimony, Case No. ER-2021-0240, pg. 23.
[18] Ibid, pg. 41

weighting DCF growth rate at 0.80 analysts' EPS growth rate and 0.20 long-term GDP growth rate. Secondly, Staff finds it very curious that Ms. Bulkley, in her attempt to correct Staff's analysis, ignores the issue of inconsistency she passionately raised earlier. In her rebuttal testimony, Ms. Bulkley argued that because the DCF model that Staff used in the Empire rate case is inconsistent with the DCF model used in the current rate case, it is not reasonable to compare the results of the two models and conclude that the difference represent the difference in market conditions.[19] In Ms. Bulkley's 'adjustment' of Staff's DCF models, she chose to adjust only the current DCF model, and compared it to an 'unadjusted' DCF model in the Empire rate case. That is not being consistent. If Ms. Bulkley thinks a proper comparison can be achieved by being consistent, then her corrections should show that. Staff can understand why Ms. Bulkley would choose to be inconsistent – if she had been consistent, her corrected analysis would have indicated that COE increased by 59 bps as indicated in Table 3 below, not the 76 bps[20] she found:

Table 3. New COE Change Estimates with Current FERC Approach

					Low	High	Mean
DCF Range					6.89%	11.81%	8.66%
Reproduced Cost of Equity Estimates for the Proxy Group in the Empire Case No. ER-2019-0374							
					Low	**High**	**Mean**
DCF Range					6.03%	8.95%	8.07%
DCF COE Difference Between The Current Case and Empire Rate Case							**0.59%**
Commission Allowed ROE in Empire Rate Case							**9.25%**
Adjustment of Empire's Authorized ROE with DCF COE estimate to reflect Increase in COE, and setting of Upper Limit of Range of Reasonableness							**9.84%**
Lower Limit of Range of Reasonableness							9.25%
Range of Reasonableness with Upper Limit rounded down to 9.80%							9.25% - 9.80%

[19] Ibid, pg. 39, lines 5 to 7.
[20] Ibid, pg. 41, line 15.

There is no material difference between Staff's original finding that COE increased by 55 bps and the new finding that COE increased by 59 bps.

Q. What does Staff have to say about the additional adjustment that Ms. Bulkley made that indicates that Ameren Missouri's recommended ROE would be 10.01% if Staff had been consistent with the approach used in the Empire rate case?[21]

A. Staff reiterates that, just like other ROR witnesses, it uses reasonable judgment, guided by prevailing economic and market conditions, when using the COE models to estimate the appropriate recommended authorized ROE. As Staff already explained, because of the transitory business risks such as high inflation that exist in the market currently, COEs are unsustainably high. In Staff's reasonable judgment, an adjustment of +25 bps to the Commission's 9.25% Empire authorized ROE fairly takes into consideration the current economic conditions.

Q. Ms. Bulkley pointed out that Staff's testimony on CAPM analysis is different from the analysis provided in Appendix 2 of the Staff's Cost of Service Report.[22] How does Staff respond?

A. Staff acknowledges that there are differences surrounding dates and data used in Staff's analysis as presented in schedule PC-10 and the testimony of Staff's Cost of Service Report. Staff corrected these discrepancies in data request (No. 0792) correspondence with Ms. Bulkley. Staff inadvertently testified that the risk-free rate used in the CAPM was a three-month average of 30-year U.S. Treasury bond yields ending May 31, 2021. The correct dates are three months ending July 31, 2021. Ms. Bulkley, in her rebuttal testimony stated that,

[21] Ann E. Bulkley's rebuttal testimony, Case No. ER-2021-0240, pg. 41, line 18.
[22] Ibid, pg. 42.

"Mr. Chari uses a risk-free rate of 2.14 percent, which is the average of yield on the 30-year Treasury bond for the three months ended April 2021".[23] This is incorrect. Staff also inadvertently stated that it used beta coefficient values from Market Intelligence. Staff used beta coefficient values from Value Line. These discrepancies were a result of last minute changes to Staff's analysis that were not reflected in the testimony.

Q. What did Staff use the results of its CAPM and bond yield-plus risk premium ("BYPRP") analyses for?

A. Staff used the results of its CAPM and BYPRP analyses for checking the reasonableness of its DCF COE estimates, not as a direct estimate for its authorized ROE recommendation. Ms. Bulkley repeats her unreasonable position that Staff's CAPM and BYPRP COE estimates are invalid because they are too low compared to prevailing authorized ROEs.

<u>RESPONSE TO MR. MURRAY'S REBUTTAL TESTIMONY</u>

Q. Has Mr. Murray changed his recommended authorized ROE in the rebuttal testimony?

A. Somewhat. Although Mr. Murray maintains his recommended authorized ROE of 9.00% for Ameren Missouri, he is now open to increase his authorized ROE recommendation to 9.50% on the condition that the Commission set a capital structure with 45% common equity for Ameren Missouri.

Q. Does Staff agree with Mr. Murray's new recommended authorized ROE of 9.50%?

[23] Ann E. Bulkley's rebuttal testimony, Case No. ER-2021-0240, pg. 43.

A. Yes. However, Staff disagrees with the capital structure condition that Mr. Murray attaches to his new recommendation. It is Staff's position that authorized ROE and capital structure recommendations should be considered separately. Staff maintains its recommendation of 9.50% authorized ROE, in a reasonable range of 9.25% to 9.80% in this proceeding.

Q. Has Mr. Murray changed his capital structure recommendation in this proceeding?

A. No. Mr. Murray still recommends the Commission authorize Ameren Missouri a 45% common equity ratio for ratemaking in this proceeding.[24] Mr. Murray argues that, in his opinion, because Ameren Corp. is taking advantage of Ameren Missouri's lower business risk, Ameren Missouri's capital structure should match Ameren Corp.'s.

Q. What capital structure does Staff recommend in this proceeding?

A. Staff still maintains that the appropriate capital structure to use to set Ameren Missouri's ROR in this proceeding is Ameren Missouri's standalone capital structure. As of this testimony, Ameren Missouri has provided information that supports a capital structure of 50.32% common equity, 48.93% long-term debt and 0.75% preferred stock, as of June 30, 2021.

Q. Has Mr. Murray presented any new information in the rebuttal testimony to change Staff's capital structure recommendation?

A. No. In fact, Mr. Murray confirmed some of Staff's reasons for recommending Ameren Missouri's own capital structure, instead of Ameren Corp.'s, for ratemaking in this proceeding.

[24] David Murray's rebuttal testimony, Case No. ER-2021-0240, pg. 5.

Q. Please state what Mr. Murray confirmed.

A. Mr. Murray confirmed the following about Staff's reasons for recommending Ameren Missouri's own capital structure for ratemaking in this proceeding:

(1) That Ameren Missouri issues its own long-term debt and short-term debt directly to third-party investors.[25] While Mr. Murray takes issue with the fact that Ameren Missouri shares a credit facility with its affiliates, he fails to explain how this changes the fact that Ameren Missouri issues its own long-term debt. As a matter of fact, all Ameren Missouri's long-term debts to the third-parties were approved by the Commission.

(2) That Ameren Missouri's capital structure supports its credit rating. Mr. Murray admits that, "Moody's gives weight to Ameren Missouri's stand-alone capital structure for purposes of assigning its long-term issuer rating of 'Baa1'"[26] However, he believes it is inappropriate for Staff to make a blanket statement that Ameren Missouri's capital structure supports its credit rating. Mr. Murray cites S&P Global Rating's statement that it uses a group rating methodology to assign a credit rating to Ameren Missouri as evidence that Ameren Missouri's own capital structure is not used to support its credit rating. There is nothing in S&P Global Rating's statement that suggests that Ameren Missouri's capital structure does not support its own credit rating.

[25] David Murray's rebuttal testimony, Case No. ER-2021-0240, pg. 9, lines 14 and 15.
[26] Ibid, pg. 10, lines 13 and 14.

(3) That Ameren Missouri's assets are not pledged as security for Ameren Corp.'s debt or any of its affiliates.[27]

In the 2017 Spire rate cases, the Commission's decision on capital structure was based on whether the operating utility subsidiary had an independently determined capital structure with its own long-term debt issuances secured by its own assets that were the subject of that rate case, and that those assets did not secure the debt of the parent or its other utilities or unregulated operations.[28] The circumstances are the same in this rate case; therefore, Staff recommends the Commission find Ameren Missouri's own capital structure appropriate for setting ROR in this proceeding.

<u>TRUE-UP CAPITAL STRUCTURE</u>

Q. What is Ameren Missouri's capital structure as of the true-up date of September 30, 2021?

A. Ameren Missouri's capital structure as of the true-up date is composed of 47.298% long-term debt, 0.72% preferred equity and 51.974% common equity.[29]

Q. What concern do you have with the true-up capital structure?

A. Staff is concerned that Ameren Missouri increased the equity ratio in its true-up capital structure unjustifiably. Staff compared the capital structure that Ameren Missouri provided as of June 30, 2021 to the true-up capital structure and noticed that the equity ratio portion of the capital structure increased by about 165 basis points. Ameren Missouri's capital structure as of June 30, 2021 contained 50.32% equity ratio.

[27] Ibid, pg. 12, lines 10 to 15.
[28] On page 43, Amended Report and Order issued March 7, 2018, in Case Nos. GR-2017-0215 and GR-2017-0216.
[29] ADJ04_Cost of Capital TU (True-up data submission).

Q. What capital structure did Ameren Missouri recommend for ratemaking purposes in this proceeding?

A. Ameren Missouri recommended a pro forma, as of true-up date of September 30, 2021, capital structure composed of 47.34% long-term debt, 51.93% common equity and 0.73% preferred stock. Upon realizing that the pro forma capital structure recommended by Ameren Missouri contained a higher equity ratio than the capital structure as of June 30, 2021, Staff issued a data request to inquire how the two capital structures differed so much and how they would be reconciled by September 30, 2021.[30] Ameren Missouri's witness, Darryl T. Sagel, explained that the difference between the June 30, 2021 and September 30, 2021 capital structures was "** [redacted] **".[31] Mr. Sagel added, to explain how the equity ratio will be raised to the 'typical levels[32]' [or to 51.93%], that "** [redacted] **".[33] Staff issued additional data request (No. 0651.3) to understand the exact form of cash flow that Mr. Sagel referred to and if such cash flow is consistent with how Ameren Missouri funded its capital expenditure. Mr. Sagel indicated that the cash flow that he referred to was "operating cash flow."[34] Mr. Sagel also pointed out that operating cash flow "is not the primary means by which the Company finances capital

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[30] Staff's Data Request No. 0651.
[31] Ameren Missouri's response to Staff's Data Request No. 0651.
[32] Mr. Sagel indicated that the typical level of equity ratio is between 51.81% and 52.51%, page 11 of his direct testimony.
[33] Ibid.
[34] Ameren Missouri's response to Staff's Data Request No. 0651.3.

expenditures".[35] Mr. Sagel's response raises a raises serious question - is Ameren Missouri placing operating cash flow (presumably in the form of retained earnings) in the capital structure only to boost its equity ratio for ratemaking purposes? Capital structure should reflect the way a utility finances its rate base. However, since Mr. Sagel indicated that operating cash flow is not the primary means by which Ameren Missouri finances its capital expenditures, it raises suspicion that Ameren Missouri is only trying to boost its equity ratio as of September 30, 2021 in order to raise its ROR. Staff recommends at this time that the Commission reject Ameren Missouri's recommended capital structure as unreasonable. Staff maintains its recommended capital structure as of June 30, 2021, composed of 48.92% long-term debt, 50.32% common equity and 0.75% preferred stock. However, one data request on this topic is still outstanding. Staff will consider updating Ameren Missouri's capital structure through September 30, 2021, if Ameren Missouri provides additional support for its capital structure balances at that point in time.

<u>SUMMARY AND CONCLUSIONS</u>

Q. Please summarize the conclusions of your surrebuttal testimony.

A. Ms. Bulkley and Staff disagree over the appropriate ROE for Ameren Missouri. Ms. Bulkley recommends an authorized ROE of 9.90%. Staff recommends an authorized ROE of 9.50%. Ms. Bulkley's belief that the COE and the authorized ROE are equivalent defies basic financial logic and, more importantly, market evidence. While Staff agrees with Mr. Murray's new recommended ROE of 9.50% for Ameren Missouri, Staff disagrees that there should be any conditions attached to the Commission's ROE determination. Mr. Murray's position that Ameren Missouri's capital structure should match Ameren Corp.'s capital

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[35] Ibid.

structure because Ameren Corp. is taking advantage of Ameren Missouri's low business risk is without basis.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a Ameren Missouri's Tariffs to Adjust Its Revenues for Electric Service	)))	Case No. ER-2021-0240

AFFIDAVIT OF PETER CHARI

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW PETER CHARI, and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Surrebuttal Testimony of Peter Chari;* and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

PETER CHARI

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 4th day of November, 2021.

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

Dianna L. Vaught
Notary Public