

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
File No. EF-2024-0099, Union Electric Company, d/b/a Ameren Missouri

FROM: Seoung Joun Won, PhD, Regulatory Compliance Manager
Financial Analysis Department

/s/ Seoung Joun Won 12/08/2023
Regulatory Compliance Manager / 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 Additional Long-Term Indebtedness (“New Indebtedness”).

DATE: December 08, 2023

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) issuing one or more new series of bonds or other form of secured indebtedness and/or by issuing additional bonds or other form of secured indebtedness of an existing series previously authorized by the Commission.
 - (b) **Amount:** Up to \$900,000,000.
 - (c) **Rate:** Fixed or variable rate not to exceed the greater of (i) 9.00%, 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 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.

(a) **Statement of Purpose of the Issue:** Company proposes to use 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 fund capital expenditures and/or refinance short-term debt, which may consist of commercial paper borrowings, money pool borrowings and/or credit facility borrowings. The amount of Applicant's short-term debt as of November 13, 2023, was \$141,600,000, consisting entirely of commercial paper borrowings. The Applicant incurs short-term debt to fund its cash requirements, as cash expenditures exceed cash receipts. The amount of short-term debt outstanding on November 13, 2023, represents an accumulation of such short-term funding for 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 5.

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

Such instruments have not been executed.

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

No. Company has stated this will 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 has been reviewed.

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

Currently, no fee is required pursuant to §386.300, RSMo, because the proposed issuances of New Indebtedness will be used to discharge, refund or retire outstanding indebtedness, but any proceeds from the issuance and sale of the New Indebtedness in an amount that exceeds the Applicant's short-term debt balance on the date prior to issuance will be used to fund near-term capital expenditures for which a fee will be required and paid to the Commission.

9. **Recommendation of the Staff:**

Conditional Approval (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 and is a subsidiary of Ameren Corporation. Ameren Missouri supplies electric to a 24,000 square mile area in central and eastern Missouri and to approximately 1.2 million customers.¹ Ameren Missouri and Ameren Corp are currently rated by both Moody's and S&P, with both receiving the same corresponding ratings of Baa1 and BBB+ by each agency, respectively.²

On November 13, 2023, Ameren Missouri filed a *Request for Waiver of 60-Day Notice Requirement, Motion for Expedited Treatment, and Application for Financing Authority* ("Application") with the Commission requesting approval for authority to issue and sell up to \$900,000,000 aggregate principal amount of secured indebtedness. Ameren Missouri states in its Application at page 6, Paragraph 12, 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 8, Paragraph 12, item e. that:

Applicant 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 2023, Applicant filed a Form S-3 registration statement with the SEC registering the issuance of an unspecified amount of the New Indebtedness which expires in October 2026.

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

¹ SEC 10-K, Filed on 2/21/2023.

² S&P Capital IQ Pro.

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:

[A]fter deduction of commissions or discounts paid to commercial or investment banking firms in connection with the New Indebtedness, to fund capital expenditures and/or refinance short-term debt, which may consist of commercial paper borrowings, money pool borrowings and/or credit facility borrowings.

Staff has verified that Ameren Missouri’s projected capital expenditure plan supports the need for the additional \$900 million long-term debt. Ameren Missouri’s 2024 total projected capital expenditures totaled just over ** [REDACTED] **, equating to roughly ** [REDACTED] ** of expenditures per month.³ Ameren Missouri currently projects that it needs approximately ** [REDACTED] ** for the period 2024 to 2027.⁴

The pro forma impact of Ameren Missouri’s proposed debt financing on Ameren Missouri’s and Ameren’s balance sheet as of September 30, 2022 is as follows:

Ameren Missouri:⁵

	<u>As of September 30, 2023</u>	<u>Pro Forma</u>
Common Equity	** [REDACTED] **	** [REDACTED] **
Preferred Stock	** [REDACTED] **	** [REDACTED] **
Long-Term Debt	** [REDACTED] **	** [REDACTED] **
Short-Term Debt	** [REDACTED] **	** [REDACTED] **

Ameren Corporation:⁶

	<u>As of September 30, 2023</u>	<u>Pro Forma</u>
Common Equity	** [REDACTED] **	** [REDACTED] **
Preferred Stock	** [REDACTED] **	** [REDACTED] **
Long-Term Debt	** [REDACTED] **	** [REDACTED] **
Short-Term Debt	** [REDACTED] **	** [REDACTED] **

³ Schedule 5, The Application.

⁴ Ibid.

⁵ Schedule 3, The Application.

⁶ Schedule 4, The Application.

The above capital structure ratios imply a net increase (1.46%) in total debt for Ameren Missouri and a small net increase (0.08%) in total debt for Ameren Corporation. The resulting changes to financial ratios, such as Funds From Operations (“FFO”) to Total Debt, Total Debt to EBITDA,⁷ Total Debt to Total Capital, and FFO to Interest Coverage, indicate that all ratios for Ameren Missouri and Ameren Corporation’s financial risk profile are not significantly changed by the approval of the Application.⁸ The FFO to Total Debt ratio declines from ** [REDACTED] ** for Ameren Corporation and ** [REDACTED] ** for Ameren Missouri. Additionally, the Total Debt to Capital changes from ** [REDACTED] ** for Ameren Corporation and from ** [REDACTED] ** for Ameren Missouri. In addition, the FFO to Interest Coverage ratio declines from ** [REDACTED] ** for Ameren Corporation and from ** [REDACTED] ** for Ameren Missouri. Consequently, the impact of the proposed long-term financing on Ameren Missouri’s and Ameren Corporation’s financial risk is insignificant.

In addition, Staff has investigated the change of Ameren Missouri’s cost of debt due to the New Indebtedness. Ameren Missouri anticipated a net increase of 0.286% in embedded cost of debt as of September 30, 2023.⁹ Considering there has been a net increase greater than 3.0% in the 30-Year Treasury Bond Yield after the COVID-19 pandemic in 2020, a less than .3% increase in Ameren Missouri’s expected cost of long-term debt is not unreasonable.¹⁰

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 thirty (30) 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

⁷ EBITDA = Earnings Before Interest, Taxes, Depreciation, & Amortization.

⁸ Schedule 3 and Schedule 4, The Application.

⁹ Staff Data Request No. 0005.

¹⁰ FRED Economic Data, <https://fred.stlouisfed.org/series/DGS30>.

- 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 be given authority to enter into agreements in order to use, at its discretion, derivative instruments such as interest rate swaps, treasury locks, forward-starting swaps, caps, collars or other derivatives, to manage the risk associated with interest rate fluctuations and other financial exposures that may occur before the issuance of the New Indebtedness;
 4. That the Company shall file with the Commission any information concerning communication with credit rating agencies concerning any such issuance;
 5. That the Company 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 Ameren Missouri provide a certified copy of the resolutions of Applicant's Board of Directors prior to financing;
 8. Should any proceeds from the issuance and sale of the New Indebtedness exceed the Applicant's short-term debt balance on the date prior to issuance and be used to fund near-term capital expenditures, Ameren Missouri will pay appropriate fees to the Commission; and
 9. That the Commission's grant of authority shall expire three years 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) **File No. EF-2024-0099**
for an Order Authorizing the Issue and)
Sale of Additional Long-Term)
Indebtedness)

AFFIDAVIT OF SEOUNG JOUN WON, PhD

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

COMES NOW SEOUNG JOUN WON, PhD, and on his oath states that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation*; and that the same is true and correct according to his best knowledge and belief.

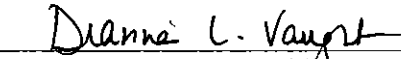
Further the Affiant sayeth not.



SEOUNG JOUN WON, PhD

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 7th day of December 2023.



Notary Public

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2027
Commission Number: 15207377