

Exhibit No. 225

Exhibit No.:
Issue(s): Rate of Return
Witness: Peter Chari
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: ER-2021-0240
Date Testimony Prepared: November 5, 2021

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

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

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

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

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

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

20 **RESPONSE TO MS. BULKLEY'S REBUTTAL TESTIMONY**

21 Q. Please explain your disagreement with Ms. Bulkley's position that Staff does
22 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.

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

3 Mr. Chari does not actually rely on any of those analyses to support his
4 recommendation for Ameren Missouri, as they all produce results that
5 are significantly below his recommended ROE range and point estimate
6 9.50 percent. Rather, Mr. Chari's ROE recommendation is based on a
7 comparison of the results of his Two-step DCF model in this case to the
8 results of the model that he relied on in Empire District Electric's 2019
9 case. While I disagree with many aspects of Mr. Chari's DCF, CAPM
10 and other benchmarking analyses, the fact is that Mr. Chari has not relied
11 on those models in the development of his recommendation.³

12 While Ms. Bulkley correctly states in the second sentence of the above statements how Staff
13 recommended its authorized ROE, she makes a blatantly unsupported accusation that Staff did
14 not rely on the analyses of its COE models to recommend its authorized ROE in this proceeding.
15 As Staff stated in its direct and rebuttal testimonies, Staff's recommendation was based on its
16 COE analysis that showed that COE increased by 55 basis points ("bps") between the period of
17 the Empire District Electric Company ("Empire") rate case and the current rate case.⁴ To arrive
18 at the conclusion that COE increased by up to 55 bps, Staff relied on the current COE
19 estimates (8.29%) of its DCF model which shows that COE is up to 55 bps higher than the
20 DCF COE (7.74%) estimate in the Empire rate case.⁵ The DCF COE estimate of 8.29% is the
21 average of Staff's DCF COE estimates ranging from 6.84% to 9.52%, as Ms. Bulkley also
22 acknowledged in her rebuttal testimony.⁶ It raises curiosity as to why Ms. Bulkley would
23 conclude that Staff did not rely on the analyses of its COE models even with this clear evidence
24 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.

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

19 Q. Ms. Bulkley alleges that Staff's recommended authorized ROE of 9.50% is
20 43 basis points lower than the average authorized ROE (9.93%) for vertically integrated electric
21 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.

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

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

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

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

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

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

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

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

15 A. No. While Staff acknowledges Ms. Bulkley's concern that Staff's DCF model
16 does not follow the FERC's current two-step DCF methodology, Staff has not claimed that its
17 constant-growth DCF model is the same as the FERC's two-step DCF model in every
18 respect. Staff's position on the constant-growth DCF model is that the growth rate used
19 in the model should reflect the perpetual assumption of the constant-growth DCF model.
20 FERC currently recommends adjusting growth rates used in the DCF model by combining
21 analysts' estimated earnings per share ("EPS") growth rates with long-term GDP growth rates
22 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.

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

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

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

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.

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

4
5 **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			0.88%
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%

6
7
8 Notice that the estimated COE change calculated as preferred by Ms. Bulkley is 38 bps. Staff
9 originally estimated a COE change of 55 bps as shown in Table 2 below:¹⁴

10 *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.

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1 Q. How does Staff respond?

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

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

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

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

1 weighting DCF growth rate at 0.80 analysts' EPS growth rate and 0.20 long-term GDP growth
2 rate. Secondly, Staff finds it very curious that Ms. Bulkley, in her attempt to correct
3 Staff's analysis, ignores the issue of inconsistency she passionately raised earlier. In her rebuttal
4 testimony, Ms. Bulkley argued that because the DCF model that Staff used in the Empire rate
5 case is inconsistent with the DCF model used in the current rate case, it is not reasonable to
6 compare the results of the two models and conclude that the difference represent the difference
7 in market conditions.¹⁹ In Ms. Bulkley's 'adjustment' of Staff's DCF models, she chose to
8 adjust only the current DCF model, and compared it to an 'unadjusted' DCF model in the
9 Empire rate case. That is not being consistent. If Ms. Bulkley thinks a proper comparison can
10 be achieved by being consistent, then her corrections should show that. Staff can understand
11 why Ms. Bulkley would choose to be inconsistent – if she had been consistent, her corrected
12 analysis would have indicated that COE increased by 59 bps as indicated in Table 3 below, not
13 the 76 bps²⁰ she found:

14 **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.

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

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

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

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

16 A. Staff acknowledges that there are differences surrounding dates and data used in
17 Staff's analysis as presented in schedule PC-10 and the testimony of Staff's Cost of Service
18 Report. Staff corrected these discrepancies in data request (No. 0792) correspondence with
19 Ms. Bulkley. Staff inadvertently testified that the risk-free rate used in the CAPM was a
20 three-month average of 30-year U.S. Treasury bond yields ending May 31, 2021. The correct
21 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.

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

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

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

13 **RESPONSE TO MR. MURRAY’S REBUTTAL TESTIMONY**

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

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

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

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

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

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

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

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

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

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

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

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

1 Q. Please state what Mr. Murray confirmed.

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

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

10 (2) That Ameren Missouri's capital structure supports its credit rating.
11 Mr. Murray admits that, "Moody's gives weight to Ameren Missouri's
12 stand-alone capital structure for purposes of assigning its long-term issuer
13 rating of 'Baa1'"²⁶ However, he believes it is inappropriate for Staff to
14 make a blanket statement that Ameren Missouri's capital structure supports
15 its credit rating. Mr. Murray cites S&P Global Rating's statement that it
16 uses a group rating methodology to assign a credit rating to Ameren
17 Missouri as evidence that Ameren Missouri's own capital structure is not
18 used to support its credit rating. There is nothing in S&P Global Rating's
19 statement that suggests that Ameren Missouri's capital structure does not
20 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.

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

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

10 **TRUE-UP CAPITAL STRUCTURE**

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

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

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

16 A. Staff is concerned that Ameren Missouri increased the equity ratio in its true-up
17 capital structure unjustifiably. Staff compared the capital structure that Ameren Missouri
18 provided as of June 30, 2021 to the true-up capital structure and noticed that the equity ratio
19 portion of the capital structure increased by about 165 basis points. Ameren Missouri's capital
20 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).

Surrebuttal Testimony of
Peter Chari

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

3 A. Ameren Missouri recommended a pro forma, as of true-up date of
4 September 30, 2021, capital structure composed of 47.34% long-term debt, 51.93% common
5 equity and 0.73% preferred stock. Upon realizing that the pro forma capital structure
6 recommended by Ameren Missouri contained a higher equity ratio than the capital structure as
7 of June 30, 2021, Staff issued a data request to inquire how the two capital structures differed
8 so much and how they would be reconciled by September 30, 2021.³⁰ Ameren Missouri's
9 witness, Darryl T. Sagel, explained that the difference between the June 30, 2021 and
10 September 30, 2021 capital structures was "*** [REDACTED]

11 [REDACTED]
12 [REDACTED] ***³¹ Mr. Sagel added, to explain how the equity ratio will
13 be raised to the 'typical levels'³² [or to 51.93%], that "*** [REDACTED]

14 [REDACTED]
15 [REDACTED]
16 [REDACTED] ***³³ Staff issued additional data request (No. 0651.3) to
17 understand the exact form of cash flow that Mr. Sagel referred to and if such cash flow is
18 consistent with how Ameren Missouri funded its capital expenditure. Mr. Sagel indicated that
19 the cash flow that he referred to was "operating cash flow."³⁴ Mr. Sagel also pointed out that
20 operating cash flow "is not the primary means by which the Company finances capital

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.

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

14 **SUMMARY AND CONCLUSIONS**

15 Q. Please summarize the conclusions of your surrebuttal testimony.

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

³⁵ Ibid.

Surrebuttal Testimony of
Peter Chari

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

3 Q. Does this conclude your testimony?

4 A. Yes.

