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MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. ER-2024-0319

REBUTTAL TESTIMONY

OF

DARRYL SAGEL

ON

BEHALF OF

UNION ELECTRIC COMPANY

D/B/A AMEREN MISSOURI

**St. Louis, Missouri
January 2025**

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REBUTTAL TESTIMONY

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FILE NO. ER-2024-0319

1

I. INTRODUCTION

2

Q. Please state your name and business address.

3

A. My name is Darryl Sagel. My business address is One Ameren Plaza, 1901
4 Chouteau Ave., St. Louis, Missouri.

5

**Q. Are you the same Darryl Sagel that submitted direct testimony in this
6 case?**

7

A. Yes, I am.

8

II. PURPOSE OF TESTIMONY

9

Q. To what testimony or issues are you responding?

10

A. I am responding to the direct testimony of David Murray on behalf of the Office
11 of Public Counsel ("OPC") and the direct testimony of Christopher Walters on behalf of
12 Missouri Industrial Energy Consumers ("MIEC"), submitted in this proceeding as it relates to
13 recommended capital structure for Ameren Missouri (the "Company"). In addition, I am
14 responding to the direct testimony of Caroline Palmer on behalf of the Consumers Council of
15 Missouri ("CCM") submitted in this proceeding as it relates to Ameren Missouri's pursuit of
16 potential funds under the authority of the U.S. Department of Energy's ("DOE") Title 17 Energy
17 Infrastructure Reinvestment Program (the "EIR Program") in order to derive potential customer
18 benefits.

19

Q. Are you sponsoring any schedules in connection with your testimony?

1 while ensuring timely access to both equity and debt capital at reasonable
2 costs.

- 3 • Ameren Missouri's capital structure specifically and exclusively finances
4 Ameren Missouri's rate base, with parent company common equity
5 infusions sourced from actual third-party common equity raised by Ameren
6 Corporation, and long-term debt issued by Ameren Missouri and secured
7 by Ameren Missouri assets.
- 8 • Despite Ameren Corporation having employed more parent company debt
9 over the past several years to fund its business activities, this has been
10 balanced by significant equity issuance to maintain consolidated
11 capitalization ratios and credit strength. Specifically, Ameren Corporation's
12 capital allocation strategy and its funding approach across each of its
13 regulated utility businesses have assisted in maintaining Ameren
14 Corporation's consolidated credit profile and, more pertinent to this
15 proceeding, have not resulted in any negative impact on Ameren Missouri's
16 stand-alone credit profile.
- 17 • Recent improvements in Missouri's regulatory framework, specifically the
18 enactment of partial plant-in-service accounting ("PISA") in 2018 and the
19 passage of securitization legislation in 2021, have had no demonstrable
20 positive impact on the Company's credit ratings, its credit profile or its
21 access to, and cost of, debt and equity capital.
- 22 • Ameren Missouri's projected common equity ratio for ratemaking purposes
23 of ** _____ ** as of December 31, 2024, is consistent with common equity

1 ratios maintained by its utility peers and consistent with the Company's
2 actual common equity ratios over the past several years.

3 Ameren Missouri's capital structure supports strong and stable investment grade
4 credit ratings, allowing the Company to access debt capital at a competitive cost through
5 various market cycles, to the benefit of Ameren Missouri customers. The arbitrary use of
6 Ameren Corporation's capital structure would weaken the Company's credit profile,
7 including cash flows and key credit metrics, thereby increasing the likelihood of Ameren
8 Missouri suffering a ratings downgrade and experiencing the impact of stock price pressure
9 on Ameren Corporation's shares, both of which would increase the Company's cost of
10 capital and potentially result in higher customer rates.

11 **Q. What rationale does Mr. Murray provide for disregarding Ameren**
12 **Missouri's actual capital structure?**

13 A. Mr. Murray justifies his proposed capital structure that consists of
14 approximately 42% common equity as the capital structure that "... best represents the amount
15 of debt capacity Ameren Corp. considers reasonable and appropriate for its regulated utility
16 assets, including Ameren Missouri."² To the contrary, Ameren Corporation's consolidated
17 capital structure, net of short-term debt, is not reasonable or appropriate for the regulated utilities
18 owned by Ameren Corporation, including Ameren Missouri. Each of the capital structures of
19 Ameren Corporation and its regulated subsidiaries, including the Company, are managed
20 independently in a manner that supports an appropriate balance between financial stability and
21 customer affordability and considers discrete business, operational, regulatory and financial
22 issues specific to the legal entity. My direct testimony in this proceeding, as well as the rebuttal

² File No. ER-2024-0319, Direct Testimony of David Murray, p. 33, ll. 26-27, and p. 34, l. 1.

1 testimony herein, explicitly support the use of Ameren Missouri's actual capital structure for the
2 purpose of establishing rates in this proceeding.

3 In addition, Mr. Murray seems to conveniently ignore the risk that utilizing Ameren
4 Corporation's capital structure, which contains lower equity content than Ameren Missouri's
5 actual capital structure, could actually result in an increase to the Company's cost of capital and
6 by consequence, its customer rates. I discuss this concept later in my testimony.

7 **IV. AMEREN MISSOURI'S CAPITAL STRUCTURE IS INDEPENDENTLY**
8 **MANAGED AND EXCLUSIVELY FINANCES AMEREN MISSOURI**
9 **RATE BASE**

10
11 **Q. Mr. Murray suggests that Ameren Corporation is "... managing its**
12 **regulated utility subsidiary capital structures primarily for purposes of ratemaking."**³
13 **How do you respond?**

14 A. I struggle to understand what Mr. Murray means or insinuates by suggesting
15 that Ameren Corporation manages the capital structure of Ameren Missouri, "for the purposes
16 of ratemaking." Perhaps he is implying that the Company's capital structure is controlled
17 exclusively for the benefit of Ameren Corporation shareholders, which could not be further from
18 the truth. To respond to this assertion, however, I will reiterate that Ameren Missouri's capital
19 structure is independently evaluated, developed and managed over time in a manner that
20 appropriately considers its stand-alone financial health and risk profile, while ensuring timely
21 access to both equity and debt capital at reasonable costs. This independent management
22 supports the continued use of Ameren Missouri's actual capital structure for the purpose of
23 setting rates in this proceeding. Contrary to Mr. Murray's assertion, Ameren Corporation's and
24 Ameren Missouri's financing decisions and objectives do not "... primarily concentrate on the

³ *Id.* at p. 34, ll. 5-6.

1 amount of leverage Ameren Corp. can carry on a consolidated basis."⁴ Because Ameren
2 Corporation does not expressly dictate Ameren Missouri's capital structure, but rather works
3 mutually with Ameren Missouri to identify objective considerations for establishing a prudent
4 capital structure (as discussed below), there is no conflict of interest between Ameren
5 Corporation and Ameren Missouri, as Mr. Murray insinuates.

6 Mr. Murray points to the fact that Ameren Missouri's capital structure having remained
7 in close proximity to its authorized ratemaking capital structures over time (e.g., "Ameren
8 Missouri's common equity ratios for rate cases since 2010 have been in the range of 51.26% to
9 52.30%..."⁵) as evidence that Ameren Corporation is managing the Company's capital structure
10 for the benefit of Ameren Corporation shareholders. I disagree with Mr. Murray's assessment.
11 In fact, such historical balance sheet performance reflects prudent capital management, taking
12 into consideration appropriate financial, operational and regulatory factors.

13 **Q. How does Ameren Missouri independently manage its capital structure?**

14 A. The Company's capital structure is independently managed through an approach
15 that supports maintaining the Company's financial strength and integrity at a reasonable cost to
16 its customers. Ameren Missouri finances itself through its own public debt issuances, maintains
17 its own credit ratings and produces separate filings for the Securities and Exchange Commission
18 ("SEC"). Evaluation and management of a suitable Ameren Missouri capital structure over time
19 involves sensible consideration of Ameren Missouri-specific business and financial risk,
20 including key rating agency-defined credit metrics required to support its strong and stable
21 investment grade credit ratings. Despite Ameren Corporation's owning and financing other
22 regulated businesses not directly related to Ameren Missouri, Ameren Missouri's capital

⁴ *Id.* at p. 44, ll. 26-27.

⁵ *Id.* at p. 41, ll. 4-5.

1 structure is specifically managed over time to ensure continued financial strength, as well as to
2 maintain a credit profile that provides the Company timely access to required capital to fund
3 Ameren Missouri operations and to support its obligation to provide safe and adequate service
4 to all customers in its service territory, at a competitive cost for the benefit of Ameren Missouri
5 customers.

6 Mr. Murray states that Ameren Corporation's, "... subsidiaries do not have the
7 capability to manage their own capital needs"⁶ as they rely in part on Ameren Services
8 Company, which provides various corporate support services to Ameren's subsidiaries
9 related to certain accounting, financial, treasury, and legal services. This structure, with
10 the Commission's blessing, was put in place to take advantage of economies of scale
11 available through centralized functions – with such efficiencies passed on to Ameren
12 Missouri and other subsidiaries' customers in the form of lower costs that in turn result in
13 lower rates. Just because Ameren Corporation has established a support services'
14 organization does not mean that Ameren Missouri and other subsidiaries lack discrete
15 financial capabilities or independence.

16 From a governance standpoint, Ameren Missouri has in place a separate Board of
17 Directors currently comprised of four individuals, all of whom are officers of Ameren
18 Missouri and two of whom are jointly officers of Ameren Corporation. The Board of
19 Directors of Ameren Missouri meets at least quarterly and exerts oversight of key
20 regulatory, legal, managerial, and financial matters. As part of its responsibilities for
21 financial oversight and fiscal discipline, the Board of Directors of Ameren Missouri
22 approves the Company's capital budget and financings, as well as all cash distributions

⁶ *Id.* at p. 42, l. 11.

1 (i.e., dividends) from Ameren Missouri to Ameren Corporation. Through the exercise of
2 the subsidiary Board's fiduciary duties, the Company exerts significant independent control
3 of its capital structure.

4 **Q Why is the actual capital financing Ameren Missouri's rate base**
5 **relevant?**

6 A. Ameren Missouri's actual capital structure is relevant and appropriate for
7 ratemaking purposes because it is the *only* capital that is financing Ameren Missouri's
8 jurisdictional rate base to which the overall rate of return set in this proceeding will be
9 applied. In contrast, the hypothetical capital structure proposed by Mr. Murray contains
10 capital that does not finance Ameren Missouri's jurisdictional rate base and is not available
11 for investment in Ameren Missouri by Ameren Corporation. Thus, Ameren Missouri
12 should be evaluated as a stand-alone entity, including with regard to its capital structure.
13 To do otherwise violates the basic financial principle that the use of funds invested gives
14 rise to the risk of the investment. It is fundamental that individual investors expect a return
15 commensurate with the risk associated with where their capital is invested. In this
16 proceeding, that capital is both provided by and invested in Ameren Missouri. Therefore,
17 Ameren Missouri must be viewed on its own merits, including the actual capital structure
18 financing its rate base.

19 **Q. Can you specifically identify the sources of Ameren Missouri's**
20 **independently-managed capital?**

21 A. Ameren Missouri's capital structure represents the actual dollars that are
22 financing the jurisdictional rate base to which the rate of return authorized in this
23 proceeding will be applied. In contrast, the hypothetical capital structure proposed by Mr.

1 Murray contains capital that does not finance Ameren Missouri's jurisdictional rate base.
2 Ameren Missouri's entire long-term debt balance consists of long-term debt marketed and
3 issued by Ameren Missouri to third-party investors. Ameren Missouri's long-term debt is
4 secured exclusively by its own assets and not the assets of Ameren Corporation or the other
5 Ameren Corporation utility subsidiaries, Ameren Illinois Company ("Ameren Illinois" or
6 "AIC") and Ameren Transmission Company of Illinois ("ATXI"). In addition, Ameren
7 Missouri's assets do not guarantee Ameren Corporation's, AIC's, or ATXI's long-term debt.
8 Moreover, whenever Ameren Missouri seeks to raise long-term external capital, it must
9 navigate a defined process to achieve financing authority from the Commission, whereby
10 the Company must demonstrate that such financing is being utilized to fund long-term
11 assets and the regulated operations of the business.

12 Similarly, Ameren Missouri's entire preferred stock balance consists of preferred
13 stock marketed and issued by Ameren Missouri to third-party investors. Ameren Missouri's
14 common equity balance consists of common equity contributions from Ameren
15 Corporation and retained Ameren Missouri earnings. The common equity invested over
16 time by Ameren Corporation into Ameren Missouri has been specifically financed with
17 common equity raised by Ameren Corporation from third-party investors. For example, in
18 August 2019, Ameren Corporation issued 7.5 million common shares under a forward sale
19 agreement. Upon settlement of the shares sold forward, which occurred at two distinct
20 times in December 2020 and February 2021, Ameren Corporation received net proceeds
21 of \$538 million. That amount was entirely and immediately contributed to Ameren
22 Missouri and Ameren Missouri, in turn, used it to finance a portion of the Company's 700-
23 megawatt ("MW") wind generation investment. In 2024, Ameren Corporation contributed

1 \$470 million of equity to Ameren Missouri through two separate infusions in the second
2 quarter (\$350 million) and the fourth quarter (\$120 million), with such funds derived from
3 common equity issued by Ameren Corporation in 2023 and 2024 through forward sale
4 agreements and through its dividend reinvestment program.

5 Furthermore, all of Ameren Missouri's capital supports Ameren Missouri's rate
6 base, and no portion of the Company's rate base is supported by capital outside of Ameren
7 Missouri. Mr. Murray suggests that, "... there is no way to trace the capital once Ameren
8 Corp. receives it and redeploys it..."⁷ That statement is false, because the capital that
9 Ameren Missouri receives from Ameren Corporation is quite easily traceable as it is
10 sourced exclusively from common equity raised by Ameren Corporation from third-party
11 investors.

12 **Q. Are any of Ameren Missouri's assets pledged to support obligations of**
13 **Ameren Corporation or any of Ameren Corporation's other subsidiaries, or does**
14 **Ameren Missouri rely on Ameren Corporation to support any Ameren Missouri long-**
15 **term debt obligations?**

16 A. As discussed above, Ameren Missouri's assets are not used in any way to
17 provide support for, or guarantee obligations of, Ameren Corporation, AIC or ATXI, and
18 Ameren Missouri does not rely upon any balance sheet support of Ameren Corporation to
19 satisfy its debt obligations.

20 **Q. Mr. Murray calls into question Ameren Missouri's capital structure**
21 **having remained relatively constant in recent years. Does the fact that Ameren**
22 **Missouri has maintained a capital structure with approximately 52% common equity**

⁷ ER-2022-0337, Direct Testimony of David Murray, p. 45, ll. 3-4.

1 **over the last several years, and in this proceeding has filed to preserve this common**
2 **equity ratio, provide evidence that Ameren Corporation is managing Ameren**
3 **Missouri's capital structure for the benefit of Ameren Corporation's shareholders?**

4 A. No. It only evidences the fact that Ameren Missouri believes that the
5 approximately 52% common equity ratio has been, and continues to be, the appropriate
6 amount of equity content to preserve its healthy financial profile while ensuring timely
7 access to both equity and debt capital at reasonable costs.

8 **Q. Mr. Murray suggests that Ameren Missouri's lack of a dividend policy,**
9 **similar to Ameren Corporation's targeted dividend payout ratio, supports the fact**
10 **that Ameren Missouri's capital structure is not managed independently. How do you**
11 **respond?**

12 A. Ameren Missouri's failure to individually adhere to Ameren Corporation's
13 published dividend policy over time further evidences Ameren Missouri's independent
14 financial management. As previously indicated, Ameren Missouri's Board of Directors
15 exercises discretion over the amount of dividends paid to Ameren Corporation over time,
16 considering, among other factors, its own capital reinvestment needs and maintaining a
17 prudent capital structure. Prior to 2020, Ameren Missouri distributed a significant portion
18 of its earnings to Ameren Corporation, which Ameren Corporation used in large part to
19 support its dividend payments to common shareholders. However, subsequent to the
20 passage of Senate Bill 564 ("SB 564") in 2018 and the related implementation of PISA,
21 Ameren Missouri significantly increased its annual capital deployment to support its Smart
22 Energy Plan (with investments to effectuate a modernized energy grid that will be more
23 reliable, resilient and secure, to the benefit of Missouri families and businesses) and its

1 energy transition investments. With the accelerated capital spending, the Company's cash
2 flow position changed meaningfully, and Ameren Missouri determined, in consideration
3 of its distribution policy (a responsibility of the Ameren Missouri Board of Directors) that
4 it would be financially imprudent and detrimental to the Company's financial position to
5 continue to distribute a material portion of its earnings to Ameren Corporation. In fact, in
6 2020 and 2021, Ameren Missouri did not dividend any funds to Ameren Corporation, and
7 during calendar years 2022 through 2024, Ameren Missouri distributed a total of only \$55
8 million of dividends to Ameren Corporation. Rather, during those five years, the Company
9 received net almost \$1.1 billion of capital infusions from Ameren Corporation to support
10 its capital investment program and the acquisition of renewable energy generation, sourced
11 exclusively from common equity capital Ameren Corporation issued in 2020 through 2024.
12 Because Ameren Missouri ceased to provide material dividends to Ameren Corporation
13 during 2020-2024, Ameren Corporation had to lean more on parent company debt issuance
14 to support its common dividend requirements and fund parent company debt service. The
15 result of this phenomenon, as I will cover later in my testimony, was the incursion of
16 slightly higher Ameren Corporation leverage levels in recent years. The very fact that
17 Ameren Missouri has taken actions to alter its dividend policy in recent years in order to
18 address the changing cash needs of the Company (though, to the detriment of Ameren
19 Corporation's cash position), is persuasive evidence of Ameren Missouri's financial
20 independence. Specifically, Ameren Missouri's independent financial oversight has
21 allowed the Company to manage its capital structure in a responsible and prudent manner
22 even as its cash flow position has profoundly changed.

1 **Q What would have been the impact to Ameren Missouri's financial**
2 **position if Ameren Missouri had a dividend policy consistent with that of Ameren**
3 **Corporation (e.g., targeted dividend payout ratio of 55% - 65%)?**

4 A. If Ameren Missouri consistently distributed 55% to 65% of its earnings to
5 Ameren Corporation in the form of dividends without any countervailing action, the
6 Company's capital structure would have degraded, relevant credit metrics would have
7 declined and eventually the Company would have suffered rating agency downgrades,
8 resulting in a higher relative cost of debt capital borne by its customers. To address this
9 financial deterioration, it is likely the Company would have required equity contributions
10 from its parent company – essentially the parent contributing the same cash that it
11 originally received from Ameren Missouri in the form of dividends. This would have been
12 a highly inefficient round-tripping of capital.

13 **V. AMEREN CORPORATION'S CAPITAL STRUCTURE IS**
14 **INDEPENDENTLY MANAGED AND HAS NOT NEGATIVELY IMPACTED**
15 **AMEREN MISSOURI'S FINANCIAL AND CREDIT POSITION**
16

17 **Q. Why does Ameren Missouri's capital structure contain a higher equity**
18 **ratio than Ameren Corporation's capital structure?**

19 A. As noted previously in my testimony, Ameren Missouri's capital structure is
20 independently managed, based on consideration of Ameren Missouri-specific business and
21 financial risks, with the objective to maintain Company financial health and integrity at a
22 reasonable cost of capital. In addition to Ameren Missouri, Ameren Corporation also owns and
23 operates other regulated businesses, principally AIC and ATXI. Therefore, Ameren
24 Corporation's consolidated capital structure is meaningfully influenced by the respective capital
25 structures of each of Ameren Corporation's regulated subsidiaries and their respective funding

1 approaches. Like Ameren Missouri's capital structure, the capital structure of Ameren
2 Corporation is managed independently based on the relevant business and financial risks
3 applicable to the consolidated enterprise, while also supporting the earnings per share ("EPS")
4 growth and total return objectives of Ameren Corporation's common shareholders. In the case
5 of Ameren Corporation's capital structure, specific consideration is given to common
6 shareholder dividend requirements, anticipated cash distributions from operating subsidiaries,
7 holding company debt obligations, and financial support of AIC's and ATXI's capital
8 investment programs, while maintaining targeted credit ratings and strong stock price
9 performance that support access to debt and equity capital on attractive terms.

10 **Q. Mr. Murray also suggests that the capital structures of Ameren's other**
11 **subsidiaries, AIC and ATXI, are managed for ratemaking purposes. How do you**
12 **respond?**

13 A. Though the capital structures of ATXI and AIC are not subject to this
14 Commission's jurisdiction, nor are ATXI's and AIC's management of their respective capital
15 structures a matter for this Commission's scrutiny, I feel compelled to correct Mr. Murray's
16 erroneous assertions. Similar to Ameren Missouri and Ameren Corporation, both ATXI's and
17 AIC's capital structures are managed independently based on consideration of their respective
18 business and financial risks and objectives, while considering distinct regulatory motivations
19 (e.g., the Federal Energy Regulatory Commission ("FERC") has historically attempted to incent
20 new transmission investment, supporting renewable energy development and regional
21 electricity grid reliability, through authorization of returns and equity ratios that are relatively
22 higher than state-regulated utility assets). And, importantly, in managing their capital structures,
23 both ATXI and AIC support an appropriate balance between financial stability and customer

1 affordability while considering discrete business, operational, regulatory and financial issues
2 specific to the legal entity.

3 Mr. Murray references some of the history in Illinois regarding the regulation of capital
4 structure in recent electric and gas rate proceedings, and in certain respects, his description does
5 not exactly align with reality. But, more importantly, Mr. Murray ignores a couple of key
6 considerations.

7 First, Mr. Murray does not account for some of the salient differences in business
8 activities and business risks between Ameren Missouri and Ameren Illinois – namely that
9 Ameren Missouri operates a fully integrated electric utility business, including ownership of
10 coal-fired and nuclear generation, while Ameren Illinois is principally involved in energy
11 delivery activities. Energy delivery activities are viewed by the broad financial community
12 (rating agencies and investors), as well as by Ameren management, as being less risky in nature
13 than generation activities (particularly coal and nuclear, but also generation in general), which,
14 all else being equal, supports a higher level of financial leverage. For instance, in Moody's
15 Investors Service ("Moody's") most recent (May 15, 2024) credit opinion of Ameren
16 Corporation, the rating agency states:

17 **
18 _____
19 _____
20 _____
21 _____
22 _____
23 _____ **

24 Second, while the passage of the Future Energy Jobs Act ("FEJA") in 2016 codified a
25 prior agreement with the Illinois Commerce Commission ("ICC") Staff and the Illinois
26 Industrial Energy Consumers stipulating that an equity ratio up to and including 50% is deemed
27 reasonable for ratemaking purposes, Ameren Illinois had not been precluded from filing for

1 capital structures that apply an equity ratio greater than 50% if Ameren Illinois were able to
2 justify such a capital structure. In addition, under the current multi-year rate plan framework
3 for Illinois electric utilities that took effect in 2024 and codified under the Illinois Energy
4 Transition Legislation enacted in September 2021, a capital structure up to and including 50%
5 common equity is deemed prudent and reasonable, though the ICC has discretion to authorize
6 a higher equity ratio. Thus, in order to preserve that important balance between financial
7 stability and customer affordability, Ameren Illinois has some flexibility to independently
8 manage its capital structure with equity content above 50%.

9 I would highlight one other important element that is consistent in the regulatory
10 oversight of ATXI's and AIC's capital structure – neither the FERC nor the ICC employ the use
11 of Ameren Corporation's capital structure for ratemaking purposes.

12 **VI. PASSAGE OF SENATE BILL 564 AND THE MISSOURI ELECTRICITY**
13 **BILL REDUCTION ASSISTANCE ACT (THE "SECURITIZATION**
14 **STATUTE") HAS NOT DIRECTLY IMPACTED THE COMPANY'S**
15 **CREDIT RATINGS, ITS KEY RATING AGENCY CREDIT METRIC**
16 **THRESHOLDS, OR ITS RELATIVE COST OF CAPITAL**
17

18 **Q. Does Ameren Missouri's business risk position factor into the Company's**
19 **independent management of its capital structure?**

20 A. Ameren Missouri's overall business risk position does influence how the
21 Company manages its capital structure. For example, the Company may support a change to
22 its proposed capital structure to the extent any actual or perceived change in its business risk
23 impacts the Company's financial position, its credit ratings and credit profile, and its cost of
24 accessing debt and equity capital.

25 **Q. Are there objective ways to determine whether a change in the Company's**
26 **business risk has impacted the Company's financial position and credit profile?**

1 A. Perhaps the most transparent way to determine whether a perceived change in
2 the Company's business risk impacts its financial position and credit profile is to review how
3 the rating agencies have reacted to the perceived change in business risk. Specifically, have the
4 rating agencies: (1) changed their ratings of the Company; (2) changed their ratings outlook on
5 the Company; or (3) changed the Company's downgrade thresholds of key credit metrics? As a
6 secondary, and perhaps less determinate, measure, we can look at the performance of Ameren
7 Corporation common stock over time as well as the change to the stock's price-to-earnings
8 ("P/E") ratio, both relative to Ameren Corporation peers, to determine whether the equity
9 investor universe has disproportionately rewarded Ameren Corporation, and by result, its cost
10 of equity, for any perceived change in its business risk position.

11 **Q. How are credit ratings determined?**

12 A. The two primary credit rating agencies are Moody's and Standard & Poor's
13 Ratings Services ("S&P"). In assessing a company's ability to meet its financial obligations,
14 Moody's and S&P generally – but each to varying degrees – consider both qualitative factors
15 affecting the company's business risk and quantitative factors affecting its financial risk.

16 **Q. Why do credit ratings matter?**

17 A. Credit ratings have a significant effect on a company's ability to attract debt
18 capital, and in extreme cases, whether the company can access debt capital at all. Credit ratings
19 also impact the pricing and contractual terms at which a company may issue debt securities.
20 This affects the cost of capital and, in Ameren Missouri's case, the rates customers must pay for
21 utility service. In general, stronger credit ratings typically enable a utility to obtain debt capital
22 at a lower cost, to the benefit of customers.

23 **Q. How do a company's credit metrics affect its credit ratings?**

1 A. Certain financial metrics factor significantly into the credit rating agencies'
2 evaluations of a company's credit profile and the rating agencies' assignment of credit ratings.

3 **Q. What credit metrics do the rating agencies rely upon in assignment of**
4 **credit ratings for regulated electric and gas utilities?**

5 A. The rating agencies evaluate a number of financial credit metrics in order to
6 determine a regulated utility's financial strength. However, the financial metric that receives the
7 most weight by both of the rating agencies is a company's funds from operation ("FFO") to debt
8 ratio.⁸ The FFO to debt ratio measures a company's ability to pay its debts using its operating
9 cash flow alone, with lower ratios signifying a weaker credit position. This metric is of particular
10 significance because it is perhaps the most common cause of downgraded credit quality for
11 regulated utilities.

12 **Q. Does Ameren Missouri target credit ratings when it maintains its capital**
13 **structure?**

14 A. Yes. As previously discussed, access to sufficient capital is critical to Ameren
15 Missouri's financial health and stability and, in turn, to the service its customers receive and the
16 rates customers pay for that service. Therefore, in my opinion, Ameren Missouri's issuer credit
17 ratings should be securely investment grade (at least two notches stronger than Moody's and
18 S&P's weakest investment grade issuer credit rating) to continue to support the financial
19 integrity of the utility and ensure its access to necessary capital at a reasonable cost and on
20 reasonable terms in both strong and weak markets.

21 **Q. What are Ameren Missouri's current issuer credit ratings?**

⁸ S&P specifically evaluates the FFO to debt ratio while Moody's evaluates a similar metric – cash flow from operations pre-working capital to debt ratio. For simplicity, I will refer to each as the FFO to debt ratio.

1 A. Currently, Ameren Missouri's issuer credit ratings at Moody's and S&P are
2 Baa1 and BBB+, respectively, each two notches stronger than Moody's and S&P's weakest
3 investment grade issuer credit ratings. Both credit ratings agencies report stable outlooks for
4 Ameren Missouri credit ratings.

5 **Q. What are Ameren Corporation's current issuer credit ratings?**

6 A. Currently, Ameren Corporation's issuer credit ratings at Moody's and S&P are
7 Baa1 and BBB+, respectively, the same issuer ratings as Ameren Missouri. Both credit ratings
8 agencies report stable outlooks for Ameren Corporation's credit ratings.

9 **Q. What are Ameren Missouri's and Ameren Corporation's current FFO to**
10 **debt ratio downgrade thresholds at Moody's and S&P?**

11 A. In its most recent May 13, 2024 credit opinion on Ameren Missouri, Moody's
12 indicated that ** _____

13 _____

14 _____

15 _____** For Ameren Corporation, Moody's most recent May 15, 2024 credit opinion cited an
16 FFO to debt ratio downgrade threshold of 17%. Due to its "family" approach to rating Ameren
17 Corporation and its regulated utilities, including Ameren Missouri, S&P does not distinguish
18 between the FFO to debt ratio downgrade thresholds at Ameren Missouri and Ameren
19 Corporation. Rather, S&P only cites the metric downgrade threshold of Ameren Corporation,
20 which, under its "family" approach, would also result in a downgrade of Ameren Missouri. In
21 its most recent March 20, 2024 credit opinion on Ameren Corporation, S&P cited an FFO to
22 debt ratio downgrade threshold of 13%.

1 **Q. Mr. Murray states that "the business risk for utility investments in**
2 **Missouri is lower... Ameren's reduced business risk allows for greater debt capacity..."⁹**
3 **Do you agree with his assessment?**

4 A. I believe that SB 564 enhanced Missouri's electric regulatory framework,
5 providing support for incremental investment in the state. In addition, the Securitization Statute
6 passed in 2021 provides an efficient and cost-effective tool for Ameren Missouri to recover
7 previously incurred energy transition costs. Yet, Mr. Murray alludes to an ability for the
8 Company to "carry more leverage"¹⁰ and benefit from a "lower cost of capital"¹¹ resulting from
9 a reduced business risk position, which are just not supported by the facts.

10 **Q. Since the passage of SB 564 in May 2018, have either of the rating agencies**
11 **changed the ratings or ratings outlook of either Ameren Missouri or Ameren**
12 **Corporation?**

13 A. No. Neither Moody's nor S&P have taken any action on Ameren Missouri's or
14 Ameren Corporation's ratings or ratings outlook since the passage of SB 564. In fact, the rating
15 agencies have taken a relatively balanced (rather than purely constructive) stance in their credit
16 opinions on Ameren Missouri and Ameren Corporation regarding the PISA framework,
17 particularly due to the rate cap that is in place.

18 **Q. What have the rating agencies communicated recently about Ameren**
19 **Missouri's PISA framework?**

20 A. Moody's continues to believe that Ameren Missouri operates within a
21 supportive legislative and regulatory environment in Missouri following the passage of SB 564.

⁹ File No. ER-2024-0319, Direct Testimony of David Murray, p 3, l. 25, and p 4, ll. 6-7.

¹⁰ File No. ER-2024-0319, Direct Testimony of David Murray, p 36, ll. 8.

¹¹ *Id.*, l. 10.

1 However, the agencies have also reflected their concerns about some of the limiting features of
2 the framework. In its May 13, 2024 credit opinion, Moody's states:

3 ** _____
4 _____
5 _____
6 _____
7 _____
8 _____
9 _____
10 _____**

11 Similarly, S&P, in its April 30, 2021 credit opinion notes:

12 ** _____
13 _____
14 _____
15 _____
16 _____**

17 S&P also noted more recently in its March 20, 2024 credit opinion that ** _____
18 _____
19 _____
20 _____**

21 While Mr. Murray wants to characterize the rating agency reaction following passage
22 of SB 564 as being entirely supportive, in practice the rating agencies have taken a more neutral
23 view of the regulatory mechanism.

24 **Q. Since the passage of the Securitization Statute in July 2021, have either of**
25 **the rating agencies changed the ratings or ratings outlook of either Ameren Missouri or**
26 **Ameren Corporation?**

27 A. No.

1 **Q. Since the passage of SB 564 in May 2018 or the Securitization Statute in**
2 **July 2021, have the rating agencies changed the FFO to debt ratio downgrade thresholds**
3 **of Ameren Missouri or Ameren Corporation?**

4 A. Since the passage of SB 564 and the Securitization Statute, S&P has taken no
5 action to change the FFO to debt downgrade threshold of Ameren Corporation (and by
6 extension under its family ratings approach, Ameren Missouri) of 13%. In its May 13, 2024
7 credit opinion, Moody's reduced its FFO to debt ratio downgrade threshold for Ameren Missouri
8 to 18% from 19% identified in previous credit opinions. There is no specific discussion in the
9 May 13, 2024 credit opinion that supported Moody's downgrade threshold reduction, but the
10 agency did mention that Ameren Missouri has been operating recently with little to no cushion
11 above its threshold. As Ameren Missouri's FFO to debt ratios were at or below the previous
12 19% threshold in three of the four years between 2020 and 2023 without the agency taking any
13 action, it appears that Moody's is now willing to give the Company a bit more flexibility on this
14 metric prospectively, though its credit outlook indicates that the Company ****will continue to**
15 **maintain a relatively stable financial profile even during its elevated capital expenditure**
16 **program, including a ratio of CFO pre-W/C to debt in the 19%-21% range.**** These
17 agency positions on the Company's credit metrics suggest that, in spite of any perceived reduced
18 business risk, Ameren Missouri cannot incur incremental debt to fund its operations without
19 having negative implications on its credit ratings and its cost of capital.

20 As indicated by Mr. Murray, in its March 29, 2019, credit opinion, Moody's did reduce
21 the FFO to debt ratio downgrade threshold for Ameren Corporation from 19% to 17%. While
22 Moody's did not cite the specific factors that led to a modest relaxation of this credit metric, I
23 believe (counter to Mr. Murray's implication that it was due solely to improvements in

1 Missouri's regulatory environment) it was based in part on the improvements to the Missouri
2 regulatory framework and in part due to a strong track record of strategy execution within the
3 then-supportive regulatory frameworks of Ameren Corporation's AIC and ATXI subsidiaries.

4 ** _____
5 _____
6 _____
7 _____
8 _____
9 _____
10 _____ ** Yet,

11 in his entire line of argument, Mr. Murray ignores the fact that the reduction of Ameren
12 Corporation's metric downgrade threshold at Moody's has limited practical implications on
13 Ameren Missouri's access to debt capital or its cost of capital, since Ameren Missouri issues its
14 own debt (with Ameren Missouri debt investors looking exclusively at Ameren Missouri's credit
15 profile) and, as previously indicated, does not rely upon Ameren Corporation for balance sheet
16 support of the Company's financial obligations. To clarify, the reduction of Ameren
17 Corporation's FFO to debt ratio downgrade threshold at Moody's in 2019 improved Ameren
18 Corporation's financing flexibility, permitting more financial leverage within the current rating
19 category, but it did not directly impact Ameren Missouri financing flexibility, since the
20 Company's metric downgrade threshold was not changed at that time.

21 **Q. How would you define Ameren Missouri's debt capacity?**

22 A. I would characterize Ameren Missouri's debt capacity as the maximum amount
23 of debt that the Company could theoretically carry without adversely impacting its current credit

1 ratings. I believe the most objective approach to identifying Ameren Missouri's debt capacity
2 is imputing the level of debt at which the Company equals its FFO to debt ratio downgrade
3 threshold at each of Moody's and S&P.

4 **Q. What was Ameren's Missouri's FFO to debt ratio for 2023 and for the**
5 **latest 12 months ended June 30, 2024 as calculated by Moody's?**

6 A. In Moody's May 13, 2024 credit opinion of Ameren Missouri, Moody's cites a
7 2023 FFO to debt ratio of 19.0%. On its website, Moody's calculates an FFO to debt ratio for
8 the latest 12 months ("LTM") ended June 30, 2024 at 18.5%. Interestingly, and in spite of the
9 Company maintaining a fairly steady regulatory equity ratio over the past decade in proximity
10 to 52%, Ameren Missouri has experienced a marked decline in its Moody's FFO to debt ratio
11 in recent years. Over the most-recent four-year period (2020-2023), the Moody's FFO to debt
12 ratio averaged 18.9% as compared to 25.5% for the previous four-year period (2016-2019).
13 Much of the decline can be traced to the new regulatory framework under PISA, and Moody's
14 specifically indicated in its September 29, 2022 credit opinion, that the Company's financial
15 metrics ** _____

16 _____ ** This
17 decline in the FFO to debt ratio metric over the past several years evidences some of the issues
18 and limiting features of the PISA framework that the rating agencies have specifically identified.

19 **Q. Based on Ameren Missouri's 2023 and LTM ended June 30, 2024 FFO to**
20 **debt ratios as calculated by Moody's, does the Company have additional debt capacity?**

21 A. By virtue of the fact that Ameren Missouri's 2023 FFO to debt ratio of 19.0%,
22 and its comparable ratio for the LTM period ended June 30, 2024, of 18.5%, were modestly
23 above Moody's new downgrade threshold of 18%, I would suggest that the Company has

1 limited to no additional debt capacity without facing significant risk of a ratings downgrade at
2 Moody's. I would also note that it is financially prudent to maintain some degree of financial
3 cushion above its FFO to debt ratio downgrade threshold so as to be able to withstand any
4 unanticipated negative impact to its financial performance without risk of an immediate
5 negative reaction by Moody's. Therefore, Ameren Missouri would not be a proponent of
6 maintaining its capital structure at its maximum calculated debt capacity (i.e., its FFO to debt
7 ratio downgrade threshold). Just as it may be true that an individual family could "afford" to
8 borrow more money to buy a bigger home if certain common metrics exist (e.g., the percentage
9 of housing costs to overall income) does not mean that borrowing the absolute highest amount
10 of money the metric suggests is possible is a sound financial decision.

11 **Q. Do you believe that Mr. Murray's proposed capital structure which**
12 **includes 57.40% long-term debt falls within your definition of Ameren Missouri's debt**
13 **capacity?**

14 A. No, the capital structure proposed by Mr. Murray contains an excessive amount
15 of debt and would place the Company at significant risk of a credit ratings downgrade,
16 particularly at Moody's. As an illustration, we have calculated what Ameren Missouri's FFO to
17 debt ratio in 2023 at Moody's would have been had the Company (including both its electric
18 and natural gas businesses) utilized Mr. Murray's proposed capital structure, including 57.40%
19 long-term debt. ** _____

20 _____ ¹² _____
21 _____** This financial weakening, along
22 with potential rating agency concerns about the supportiveness of the regulatory environment

¹² Assumes similar capital structure treatment across both electric and gas utility rate base.

1 should the Commission apply a hypothetical capital structure for ratemaking purposes (which I
2 will discuss later), would put the Company at meaningful risk of credit rating downgrades.

3 **Q. Are there any other material factors that have influenced Ameren**
4 **Missouri's credit quality over the past several years since the passage of SB 564 and the**
5 **passage of the Securitization Statute?**

6 A. Yes. I would specifically point to the negative credit quality implications of the
7 change in the federal corporate tax rate in the Tax Cuts and Jobs Act ("TCJA") that became
8 effective on January 1, 2018. The TCJA brought significant benefits to Ameren Missouri's
9 customers in the form of reductions in current taxes and excess deferred taxes that they received
10 and are continuing to receive through new base rates established in the Company's subsequent
11 ratemaking proceedings. However, realization of these benefits by customers carries with it
12 certain potentially significant adverse financial impacts to Ameren Missouri. Because of the
13 change in the federal corporate tax rate, Ameren Missouri collects a lower amount of tax from
14 its customers, resulting in reduced cash flows and, consequently, a lower prospective FFO to
15 debt ratio. The TCJA also excluded public utility property from bonus depreciation eligibility,
16 which further reduced cash flow contributions from deferred taxes. In addition, since the
17 passage of SB 564, the Company has significantly increased its annual capital expenditures to
18 support its Smart Energy Plan, a credit challenge that Moody's specifically highlighted in its
19 May 2024 credit opinion. Furthermore, I would call out the Company's revised plan to manage
20 carbon transition risk as underscored by its most recent integrated resource plan filing in the
21 state, which included accelerating the retirement date of the Company's Rush Island coal-fired
22 energy center and hastening investment in additional renewable generation as the Company
23 transitions to a cleaner energy portfolio. These corporate strategies have resulted in incremental

1 near-term operating and financial risks, though the Company views these as prudent measures
2 to address and mitigate longer-term operating and financial risks associated with climate
3 change.

4 **Q. Did Mr. Murray consider these additional factors that have influenced**
5 **Ameren Missouri's credit quality over the past several years?**

6 A. Not to my knowledge. He certainly did not reference any of these material
7 factors in his direct testimony.

8 **Q. Mr. Murray stated that, "the Missouri regulatory environment is**
9 **becoming more investor friendly; the business risk for utility investments in Missouri is**
10 **lower"**¹³ **and "before the ICC's December 2023 decision on Ameren Illinois' electric**
11 **utility rate case, Ameren Corp. had been viewed as a premium utility by investors because**
12 **of the anticipated growth in its investment and investors' confidence in the probability of**
13 **recovery or a return of and on this investment."**¹⁴ **How do you respond?**

14 A. Mr. Murray appears to be attempting to correlate Ameren Corporation's stock
15 price trading levels relative to corporate peers to its underlying equity cost of capital. Yet Mr.
16 Murray does not provide any compelling evidence to support his assertion that Ameren
17 Corporation's stock performance, and by implication, Ameren Missouri's equity cost of capital,
18 has been meaningfully impacted by the lower business risk environment in Missouri following
19 the passage of SB 564 or the Securitization Statute. How Ameren's stock trades relative to its
20 peers is based on a multitude of comparative factors, including its relative earnings-per-share
21 and dividend growth rate, the quality of its earnings and cash flow, the investor community's
22 perception of Ameren management's track record of execution, and the investor community's

¹³ File. No. ER-2024-0319, Direct Testimony of David Murray, p. 3, ll. 24-25.

¹⁴ *Id.* at p. 37, ll. 19-21

1 perception of Ameren's regulatory frameworks as supportive of the company's growth
2 objectives. To justify a "premium" trading position (i.e., a higher relative P/E multiple), the
3 investor community must view Ameren Corporation, on average across all of its business lines,
4 as better positioned with respect to these discrete factors (and others) relative to its comparable
5 peer companies. So, for Mr. Murray to claim that Ameren Missouri's regulatory frameworks
6 are supportive of premium trading multiples, he must demonstrate not that the stock trading
7 premium is due to Ameren Missouri's regulatory risk having changed after the implementation
8 of a cost recovery mechanism, but rather that the regulatory risk profile of Ameren Missouri is
9 comparably superior to the peer group against which Ameren's common stock is benchmarked.

10 **Q. Did Mr. Murray discuss the relative regulatory risk profile of Ameren**
11 **Missouri versus other comparable utilities to support his theory that the availability of the**
12 **PISA mechanism and the ability to securitize energy transition costs facilitate higher**
13 **corporate leverage and a premium stock trading multiple?**

14 A. No, he did not. The comparable return standards established in *Hope* and
15 *Bluefield* require that the overall return for the subject company be comparable to the return that
16 could be obtained on alternative investments of comparable risk. Mr. Murray's conclusion that
17 increased leverage is reasonable because Ameren Missouri has implemented PISA and has
18 utilized securitization, without consideration of the relative risk profile of proxy peer companies,
19 is inconsistent with the fundamental principle of comparability established in *Hope* and
20 *Bluefield*¹⁵, and therefore should be rejected. If Mr. Murray had considered the regulatory risk
21 profile of the Company, including rate design, capital cost recovery mechanisms, and overall

¹⁵ Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944) (“Hope”); Bluefield Waterworks & Improvement Co., v. Public Service Commission of West Virginia, 262 U.S. 679 (1923) (“Bluefield”).

1 regulatory supportiveness, he would be hard pressed to conclude that Ameren Missouri
2 possesses a lower regulatory risk profile than comparable utility companies.

3 **Q. Can you share how Ameren's stock price and P/E multiple have performed**
4 **since the passage of SB 564 and the implementation of the PISA mechanism?**

5 In Schedule DTS-R1, I compare Ameren Corporation's stock price performance versus
6 a group of identified corporate peers from May 31, 2018 (the day before SB 564 was signed
7 into law) to December 31, 2024. Over the designated period, Ameren Corporation's stock price
8 did outperform the peer group average by 19.2%. I would not necessarily characterize such
9 outperformance over a 79-month timeframe as statistically significant as compared to the peer
10 regulated utility market performance and would further highlight that Ameren Corporation's
11 outperformance really occurred in 2020 and 2021, well after the point at which SB 564 was
12 passed and presumably factored into Ameren Corporation's stock price, as well as in late 2024,
13 recovering some of the stock price underperformance in late 2023 / early 2024 traceable to the
14 outcome of Ameren Illinois' electric and gas regulatory orders in December 2023. This suggests
15 that factors other than the PISA framework have contributed to the stock price outperformance
16 over the identified period.

17 In Schedule DTS-R2, I compare Ameren Corporation's forward year P/E multiple
18 versus the same corporate peer group from May 31, 2018 to December 31, 2024. Ameren
19 Corporation's common stock has recently traded at a next-12-months ("NTM") P/E multiple
20 that is in line with the average of the identified peer regulated companies (18.0x vs. 17.8x as of
21 December 31, 2024). However, prior to the December 2023 Ameren Illinois orders in its
22 electric and gas rate proceedings, Ameren Corporation's common stock consistently traded at a
23 P/E multiple premium to the peer group, including at the time of (19.0x for Ameren Corporation

1 versus 17.9x for peers as of May 31, 2018), and in the months prior to, the passage of SB 564.
2 As we cannot trace any direct cause and effect on Ameren Corporation's stock price and relative
3 trading multiples from the passage of SB 564, it is not reasonable to suggest that investors have
4 placed more premium value on Ameren Corporation's common stock due specifically to the
5 passage of SB 564 and its impact on business risk.

6 **Q. Mr. Murray references Ameren Corporation's "reallocated intended**
7 **capital spend for its Illinois electric utility systems to its Missouri electric utility systems**
8 **and ATXI"¹⁶ as a consequence of the December 2023 ICC order in Ameren Illinois' multi-**
9 **year rate proceeding. Did this occur?**

10 A. In December 2023, the ICC issued an order in Ameren Illinois' multi-year rate
11 proceeding (the "ICC Order"), which rejected Ameren Illinois' proposed four-year grid plan and
12 rate plan and imposed one of the nation's lowest authorized returns on equity (ROE) at 8.72%.
13 Ameren Illinois viewed the ICC Order as disappointing given its significant deviation from the
14 input of key stakeholders regarding central issues of the case. As a result, Ameren Illinois took
15 action in early 2024 to reduce its projected capital expenditures within its Illinois electric
16 distribution business by approximately \$500 million¹⁷ over the 2024-2028 timeframe to be more
17 in line with a revised grid plan that it ultimately expected the ICC to authorize through a refiling
18 process. With the reduced capital outlay in Illinois electric distribution, Ameren Corporation
19 then theoretically had some additional flexibility within its overall capital-constrained business
20 to accelerate capital spending at Ameren Missouri and ATXI over the balance of its five-year
21 (2024-2028) plan to achieve earlier customer benefits. However, the five-year plan eventually

¹⁶ File. No. ER-2024-0319, Direct Testimony of David Murray, p. 37, ll. 23-24, and p. 38, l. 1.

¹⁷ Reflects the change to the capital plan approved by Ameren Corporation's board of directors in February 2024 versus the original capital plan proposed by Ameren Corporation in December 2024.

1 communicated to the financial community in February 2024 only contained about \$40 million
2 of incremental capital spending at each of Ameren Missouri and ATXI relative to the formulated
3 capital plan prior to the ICC Order. In the future, given the relatively poor regulatory return on
4 investment in its Illinois electric distribution business, Ameren Corporation may appropriately
5 choose to allocate comparatively more of its discretionary capital to its Ameren Missouri and
6 ATXI business units. Yet, any such decision would be a function of Ameren Corporation's
7 perceived relative investment return opportunities across its business segments and a view that
8 the financial community (i.e., equity analysts, investors, and the rating agencies) would be more
9 supportive of this capital allocation approach.

10 **Q. In summary, do you believe that the lower business risk environment in**
11 **Missouri following passage of SB 564, and the Securitization Statute supports reducing**
12 **Ameren Missouri's regulatory common equity ratio below its actual equity ratio?**

13 A. No. The change in Ameren Missouri's business risk following passage of SB
14 564 and the Securitization Statute has had no demonstrable positive impact on the Company's
15 financial position, its credit profile and its access to, and cost of, debt and equity capital.
16 Furthermore, as I mentioned before, there have been other market and operational factors that
17 have negatively influenced Ameren Missouri's credit profile in recent years. As a result, a
18 reduction of Ameren Missouri's regulatory equity ratio below its actual level is certainly not
19 justified on this basis. In addition, any action to reduce Ameren Missouri's common equity ratio
20 in this proceeding, in combination with the recent degradation of credit metrics due to the
21 customer rate reductions culminating from the TCJA and the regulatory lag associated with
22 Ameren Missouri's PISA framework, would serve to significantly reduce Ameren Missouri's

1 credit quality, potentially negatively impacting its credit ratings and increasing the cost of
2 serving Missouri customers. I discuss this concept further in the next section of my testimony.

3 **VII. THE USE OF A PARENT COMPANY OR HYPOTHETICAL CAPITAL**
4 **STRUCTURE FOR AMEREN MISSOURI IN THIS PROCEEDING IS**
5 **NOT JUSTIFIED**
6

7 **Q. Mr. Murray proposes using a parent company/hypothetical capital**
8 **structure with common equity ratios that are lower than Ameren Missouri's actual**
9 **common equity ratio. Is using a parent company/hypothetical capital structure in this**
10 **proceeding appropriate?**

11 A. No.

12 **Q. Are there ever situations when it would be appropriate to use a parent**
13 **company/hypothetical capital structure to set rates for a regulated subsidiary?**

14 A. There may be situations under which it would be more appropriate to use a
15 parent/hypothetical capital structure, but this case is not one of those situations.

16 **Q. What factors should typically be considered when determining whether**
17 **to use a regulated subsidiary's or parent company's hypothetical capital structure for**
18 **ratemaking purposes for the regulated subsidiary?**

19 A. The factors typically considered in determining whether the use of a
20 regulated subsidiary's actual capital structure or a parent company's capital structure for
21 ratemaking are provided by David C. Parcell in *The Cost of Capital – A Practitioner's*
22 *Guide* ("CRRA Guide") prepared for the Society of Utility and Regulatory Financial
23 Analysts ("SURFA") and provided as the study guide to candidates for SURFA's Certified

1 Rate of Return Certification Examination. The CRRA Guide notes that these factors will
2 "help determine whether the utility vs. parent capital structure is appropriate."¹⁸ They are:

- 3 1) Whether the subsidiary utility obtains all of its capital from its parent, or
4 issues its own debt and preferred stock;
- 5 2) Whether the parent guarantees any of the securities issued by the subsidiary;
- 6 3) Whether the subsidiary's capital structure is independent of its parent (i.e.,
7 existence of double leverage, absence of proper relationship between risk
8 and leverage of utility and non-utility subsidiaries); and
- 9 4) Whether the parent (or consolidated enterprise) is diversified into non-
10 utility operations.

11 Mr. Murray specifically recommends using Ameren Corporation's approximate
12 capital structure for purposes of this proceeding. Consequently, the CRRA Guide factors
13 are relevant for consideration of Mr. Murray's recommendations.

14 **Q. Does the application of these factors to Ameren Missouri support the**
15 **use of Ameren Missouri's actual capital structure for ratemaking purposes?**

16 A. Yes. Application of each of the factors highlighted in the CRRA Guide
17 listed above to Ameren Missouri supports the use of Ameren Missouri's actual capital
18 structure for ratemaking purposes. As previously discussed, Ameren Missouri does not
19 obtain any long-term debt or preferred stock from Ameren Corporation, but rather issues
20 its own long-term debt and preferred stock to outside investors. In addition, Ameren
21 Missouri's long-term debt is secured by its own assets and not the assets of Ameren
22 Corporation. Ameren Missouri and its issued debt securities and preferred stock securities

¹⁸ David C. Parcell, *The Cost of Capital – A Practitioner's Guide*. Prepared for the Society of Utility and Regulatory Financial Analysts, 2010 Edition.

1 have separate and distinct credit ratings from Ameren Corporation, as provided by both
2 Moody's and S&P. Double leverage does not exist since no proceeds of Ameren
3 Corporation long-term debt issuances have been used as an equity infusion into Ameren
4 Missouri. Finally, Ameren Corporation is not meaningfully diversified into non-utility
5 operations.

6 In view of the foregoing, Ameren Missouri has an independently determined capital
7 structure. Therefore, the only conclusion to be drawn is that Ameren Missouri's stand-alone
8 capital structure is appropriate for ratemaking purposes.

9 **VIII. AMEREN MISSOURI'S PROPOSED COMMON EQUITY RATIO IS**
10 **CONSISTENT WITH UTILITY PEERS AND SUPPORTS STRONG AND**
11 **STABLE CREDIT RATINGS**
12

13 **O. How does Ameren Missouri's projected common equity ratio of**
14 **** _____ **, as of December 31, 2024, compare to the common equity ratios recently**
15 **authorized by comparable utilities?**

16 A. Ameren Missouri has gathered information on fully integrated electric
17 utility companies' authorized common equity ratios effective between 2015 and 2024.
18 Ameren Missouri's projected December 31, 2024 common equity ratio is consistent with
19 those authorized, on balance, by the regulated, fully integrated electric operating
20 subsidiaries of publicly-traded utilities in that identified peer group. As highlighted in
21 Schedule DTS-R3, the median authorized effective common equity ratio¹⁹ for the
22 Company's identified peer set in 2024 was 52.00%, within a range between 42.25% and

¹⁹ The authorized effective common equity ratio is the authorized regulatory common equity ratio in place for an operating utility for a particular year, even if the underlying party did not have a rate proceeding outcome in that year. For instance, if a peer utility was authorized a 50.0% equity ratio in 2015 and later authorized a 52.0% equity ratio in 2018, our analysis assumes that utility has an equity ratio of 50.0% in 2016 and 2017.

1 60.70%. Expanding the data set to include 2020-2023 provides similar results, as does the
2 data dating back to 2015. The median authorized effective common equity ratio, rather
3 than the mean (51.39% in 2024), is, despite being very similar, the appropriate comparison
4 measure because the median has the effect of muting certain proceedings (e.g., in
5 Kentucky, Tennessee and Texas) in which authorized equity ratios were aberrantly low.
6 Ameren Missouri's projected common equity ratio of ** _____ ** as of December 31,
7 2024, is right at the median (52.00%) derived by the data set.

8 **Q. Does this consistency support the reasonableness of Ameren Missouri's**
9 **proposed capital structure for purposes of setting rates in this proceeding?**

10 A. Yes. I'd call specific attention to a citation from Charles Phillip's *The*
11 *Regulation of Public Utilities – Theory and Practice*²⁰, which suggests "a hypothetical
12 capital structure is used only where a utility's actual capitalization is clearly out of line with
13 those of other utilities in its industry or where a utility is diversified." Ameren Missouri
14 meets neither of these criteria: the Company's capital structure is in line with those of its
15 peers, and the Company (as well as its parent company, Ameren Corporation) is not
16 meaningfully diversified into non-regulated activities or businesses.

17 **Q. Mr. Walters states that "Ameren Missouri's proposed equity ratio of**
18 **** _____ ** significantly exceeds the equity ratio for the proxy group used to estimate the**
19 **cost of equity for Ameren Missouri."**²¹ **What is your response?**

20 A. Mr. Walters proxy group as delineated on Schedule CCW-2 is flawed in that it
21 includes the capital structures of parent companies rather than utility operating companies. That

²⁰ Charles F. Phillips, Jr., *The Regulation of Public Utilities – Theory and Practice*, 1993, Public Utility Reports, Inc., Arlington VA, at 391.

²¹ File. No. ER-2024-0319, Direct Testimony of Christopher Walters, p. 25, ll. 3-5.

1 is, comparing Ameren Missouri's capital structure to the consolidated capital structures of peer
2 parent companies is wholly inappropriate. Rather, Mr. Walters should compare Ameren
3 Missouri's proposed equity ratio to those of comparable electric utility operating companies as
4 I do in Schedule DTS-R3. Interestingly, though really not pertinent to these proceedings, as
5 highlighted in Schedule DTS-R4, Ameren Corporation's common equity ratio as of September
6 30, 2024 (39.2%, including short-term debt in the capital structure) was actually in line with the
7 average and median ratios of peer utility parent companies.

8 **Q. Mr. Murray highlights the fact that Ameren Corporation has incurred**
9 **additional parent company debt over the past several years resulting in an increase of**
10 **Ameren Corporation parent debt as a proportion of consolidated debt. For what**
11 **purposes were the proceeds of recent Ameren Corporation parent debt issuances used?**

12 A. Proceeds from recent parent company debt issuance were used for a number of
13 purposes, including:

14 • Paying dividends to its common shareholders over the past several years at
15 levels that are well in excess of dividend distributions received from regulated
16 subsidiaries, including Ameren Missouri. This is a function of the regulated
17 subsidiaries reinvesting significant operating cash flow and retained earnings
18 into their long-term regulated assets. In particular, and as I covered earlier in my
19 testimony, Ameren Missouri has significantly reduced its cash distributions to
20 Ameren Corporation since 2019, requiring Ameren Corporation to replace such
21 cash sources in part through parent company debt issuance.

- 1 • Paying increasing amounts of debt service on Ameren parent long-term debt,
2 which has been issued with more frequency in recent years given the lower
3 distributions derived from Ameren Missouri.
- 4 • Ameren Corporation funding investment to support AIC equity needs and
5 ATXI equity needs, though such contributions have slowed significantly in
6 recent years.

7 While Ameren Corporation has raised debt capital in recent years to support the
8 initiatives highlighted above, the parent company has also raised significant equity capital in
9 order to support these same initiatives while retaining a strong consolidated financial profile and
10 balance sheet. I would note here, as I did previously, that no proceeds from the issuance of
11 Ameren Corporation parent long-term debt were used to infuse capital into Ameren Missouri.

12 **Q. Earlier, you discussed Ameren Missouri's debt capacity. Has Ameren**
13 **Corporation's debt capacity increased in recent years?**

14 A. Previously, I suggested a concept that the debt capacity is the maximum amount
15 of debt that a business could carry without adversely impacting its current credit ratings, with
16 an objective approach to identifying the debt capacity as being the level of debt at which the
17 company equals its FFO to debt ratio downgrade threshold at each of Moody's and S&P. With
18 this concept in mind, I would suggest Ameren Corporation's debt capacity did increase in early
19 2019 when Moody's (in its March 29, 2019, credit opinion) reduced the FFO to debt ratio
20 downgrade threshold of Ameren Corporation from 19% to 17%.²² This change has permitted
21 Ameren Corporation more flexibility to take on additional leverage or better absorb negative

²² S&P's FFO to debt ratio downgrade threshold is at a lower 13% level, so Ameren Corporation's debt capacity did not increase with respect to the S&P credit rating when Moody's took its action in March 2019.

1 changes to the operating cash flow profile of its utility subsidiaries without negatively impacting
2 its credit rating at Moody's.

3 **Q Has the implied increase in debt capacity at Ameren Corporation impacted**
4 **Ameren Missouri's debt capacity?**

5 A. No. As previously referenced, Ameren Missouri's FFO to debt downgrade
6 threshold at Moody's had remained at 19% for quite some time before Moody's reduced it in
7 2024 to 18%, so the additional financial flexibility afforded to Ameren Corporation by virtue of
8 its lower FFO to debt ratio downgrade threshold at Moody's as of March 2019 really has not
9 translated into direct additional financial flexibility for Ameren Missouri.

10 **Q Has Ameren Missouri's financial health or access to debt and equity capital**
11 **been adversely impacted by Ameren Corporation's recent incurrence of parent long-term**
12 **debt?**

13 A. No. Ameren Missouri's financial health, as evidenced by its credit ratings,
14 which have been maintained at strong levels in recent years, provides timely access to both debt
15 and equity capital at reasonable costs.

16 **Q. Is Ameren Corporation's parent debt as a percentage of consolidated debt**
17 **out of line with identified peer holding companies?**

18 A. Per the table below, Ameren Corporation's parent debt as a percentage of
19 consolidated debt based on September 30, 2024 reported figures actually are in line with the
20 adjusted mean and median of the identified peer group.

1

**Electric Utilities Peer Group
Holding Company Leverage Analysis**

	Holding Company Debt as a % of Consolidated Debt¹
Alliant Energy	20.2%
American Electric Power	21.0%
Avista	96.8%
CMS Energy	21.2%
DTE Energy	25.8%
Duke Energy	30.5%
Entergy	22.0%
Evergy	20.7%
IDACORP	0.0%
NextEra	49.4%
Northwestern Energy	64.9%
OGE Energy	11.9%
Pinnacle West	12.4%
Portland General Electric	100.0%
PPL Energy	23.0%
Southern Company	30.0%
Xcel Energy	23.7%
Ameren	23.9%
Peer Mean²	21.9%
Peer Median²	21.6%

¹Data as of September 30, 2024.

Debt includes short-term debt.

²Mean and median excludes NextEra, since unregulated operations are financed at the holding company, as well as Avista, Northwestern and Portland General, which fund all or essentially all operations at the holding company. Also excludes IDACORP, which finances all operations at the subsidiary level.

2

3

Q. What would be the consequence to Ameren Missouri's credit profile and

4

credit ratings of approving common equity content that is consistent with Ameren

1 **Corporation's consolidated equity ratio for ratemaking purposes and below Ameren**
2 **Missouri's actual equity ratio, as suggested by Mr. Murray?**

3 A. Applying a common equity ratio that is consistent with Ameren
4 Corporation's consolidated common equity ratio to establish rates in this proceeding would
5 significantly weaken Ameren Missouri's credit metrics, including key metrics evaluated by
6 the rating agencies for purposes of assigning credit ratings. While it is difficult to predict
7 the ultimate impact of weaker credit metrics on the Company's credit ratings, as such
8 ratings are a function of a number of qualitative and quantitative factors, it is without a
9 doubt that weaker credit metrics would contribute to increased financial risk and higher
10 likelihood of a ratings downgrade. Additionally, rejection by the Commission of Ameren
11 Missouri's actual capital structure, absent compelling evidence that the actual capital
12 structure is inappropriate or unreasonable, could deepen rating agency concerns regarding
13 the supportiveness of the Missouri regulatory environment, which would pressure Ameren
14 Missouri's credit ratings. To the extent that Ameren Missouri's credit ratings were
15 downgraded, Ameren Missouri's access to required debt capital to finance its operations
16 could become more challenging and likely more expensive, which would be harmful to
17 Ameren Missouri customers.

18 **Q. What would be the impact on Ameren Missouri's FFO to debt ratio at**
19 **Moody's if Mr. Murray's recommended equity ratio of 42% were adopted?**

20 A. Mr. Murray claims that Ameren Missouri's capital structure does not reflect
21 its true debt capacity. Yet, as previously discussed, Ameren Missouri's FFO to debt ratios
22 have trended down in recent years, diminishing its credit quality and curtailing incremental
23 debt capacity at its current credit ratings. For instance, Moody's has calculated Ameren

1 Missouri's 2023 FFO to debt ratio at 19.0%, which places the Company's performance just
2 above its newly-established 18% downgrade threshold. ** _____

3 _____
4 _____
5 _____
6 _____
7 _____
8 _____
9 _____
10 _____

11 _____** Consequently, I have serious concerns that using the parent
12 company equity ratio proposed by Mr. Murray, with or without an associated reduction in
13 the allowed ROE, would place Ameren Missouri at significant risk of a rating downgrade
14 at Moody's.

15 **Q. Do you have any evidence that the rating agencies would view the**
16 **Commission acceptance and approval of a capital structure consistent with the parent**
17 **company for ratemaking purposes as a credit negative outcome?**

18 A. Yes. I would specifically highlight a credit opinion written by Moody's on
19 February 5, 2018, shortly after the Commission conducted an initial Agenda discussion in
20 the Laclede Gas and Missouri Gas Energy (collectively, "Spire Missouri") rate proceedings
21 (File Nos. GR-2017-0215 and GR-2017-0216) suggesting that parent company Spire Inc.'s
22 ("Spire") equity ratio should be used for ratemaking purposes rather than the actual equity

²³ Assumes similar capital structure treatment across both electric and gas utility rate base.

1 ratio of Spire Missouri. In the report, Moody's stated that the Commission's use of Spire's
2 capital structure in the rate cases would be ** _____
3 _____
4 _____ **

5 Moody's further added that ** _____
6 _____
7 _____
8 _____
9 _____
10 _____ **

11 Furthermore, following the February 21, 2018 order in the Spire Missouri rate
12 cases, in which the Commission ultimately approved the use of Spire Missouri's actual
13 capital structure rather than Spire's (the parent's) capital structure, Moody's, in a March 1,
14 2018 credit opinion, stated that ** _____

15 _____
16 _____
17 _____ ** Moody's negative reaction to both the initial
18 discussion and the positive reaction to the final Commission order in Spire Missouri's rate
19 cases demonstrates that the rating agencies would likely view Commission approval of a
20 hypothetical equity ratio below Ameren Missouri's actual equity ratio as a credit negative
21 outcome.

22 **Q. What would be the consequence on Ameren Corporation's stock price**
23 **and inherent cost of equity of using an equity ratio consistent with Ameren**

1 **Corporation's consolidated equity ratio for ratemaking purposes that is below**
2 **Ameren Missouri's actual equity ratio, as suggested by Mr. Murray?**

3 A. Using the approximate parent company common equity ratio that is below
4 Ameren Missouri's actual common equity ratio to establish rates in this proceeding would
5 likely place pressure on Ameren Corporation's share price. A lower relative share price
6 makes it more challenging and expensive for Ameren Corporation to deploy equity capital
7 to fund operations at Ameren Missouri, with such higher cost of equity capital ultimately
8 passed along to Ameren Missouri customers in the form of higher rates.

9 **Q. Do you have any evidence that Ameren Corporation's stock price**
10 **would face pressure if the Commission approved the targeted parent company equity**
11 **ratio below Ameren Missouri's actual equity ratio?**

12 A. Yes. On January 31, 2018, the date that the Commission initially discussed
13 the Spire Missouri rate cases, suggesting that parent company Spire's equity ratio should
14 be used for ratemaking purposes rather than the actual equity ratios of Spire Missouri,
15 Spire's share price declined 3.3% as compared to a 1.0% increase in the PHLX Utility
16 Sector Index (the "UTY"). On the following day, February 1, 2018, Spire's stock price
17 declined an additional 5.0% as compared to a 1.6% decline in the UTY.

18 The stock price decline during that period was in part a response to commentary
19 published by several prominent Wall Street equity analysts that was negative in tone. For
20 instance, Wells Fargo analysts Sarah Akers and Neil Kalton stated in a report published on
21 February 1, 2018, that "we view this stance by the Commission as somewhat punitive
22 considering customers are benefitting from deal-related cost savings, which may not have
23 been possible absent Spire's ability to use leverage to make the acquisitions economically

1 viable." Another equity analyst from Guggenheim Securities, Shahriar Pourreza, wrote on
2 February 1, 2018 that "MoPSC's deliberations on the pending rate case sent a concerning
3 message. Investors likely expected management to send a stronger message to MoPSC
4 that they would not hesitate to direct capital elsewhere if they are not afforded the
5 mechanisms to necessitate adequate recovery of that capital."

6 The negative share price reaction to the initial Commission discussion in Spire
7 Missouri's rate cases demonstrates that Ameren Corporation's stock price could face similar
8 pressure if the Commission approves the parent company equity ratio below Ameren
9 Missouri's actual equity ratio. The effect of a lower relative share price is a more
10 challenging and expensive outlook for Ameren Corporation to deploy equity capital to fund
11 operations at Ameren Missouri.

12 **Q. In recommending that the Commission utilize the parent company**
13 **capital structure for ratemaking purposes, Mr. Murray alludes to Ameren Missouri's**
14 **"commitment to investing significant amounts of capital"²⁴ and posits that his**
15 **recommended hypothetical capital structure is the more efficient capital structure for**
16 **Ameren Missouri. How does Mr. Murray's position line up with your discussion**
17 **regarding potential negative credit ratings and stock price consequences in the event**
18 **the Commission approved an equity ratio below Ameren Missouri's actual equity**
19 **ratio?**

20 A. Mr. Murray ignores the fact that arbitrarily utilizing the parent company
21 capital structure, and the potential for negative rating agency reactions and stock price
22 pressure, could actually result in an increase to the Company's cost of capital, and by

²⁴ File. No. ER-2024-0319, Direct Testimony of David Murray, p. 36, ll. 27-28.

1 consequence, higher relative customer rates. Furthermore, taking such action to arbitrarily
2 alter the Company's capital structure as it executes a significant capital expenditure
3 program, creates risk around the financing costs of the capital program to enhance customer
4 service and reliability, with Ameren Missouri's customers ultimately bearing those risks.

5 **IX. SPECIFIC RESPONSE TO CCM WITNESS CAROLINE PALMER'S**
6 **TESTIMONY RECOMMENDATION**

7
8 **Q. What are Ms. Palmer's recommendations in respect of Ameren**
9 **Missouri's pursuit of potential funding under the EIR Program?**

10 A. Ms. Palmer recommends four specific actions that the Company take based
11 on a Commission order in this proceeding:

- 12 1) Promptly follow up with the Loan Programs Office ("LPO") regarding the
13 status of Ameren Missouri's EIR Program application to ensure the viability
14 of proposed investments, availability of funding, and planned use of
15 funding.
- 16 2) Continue to pursue the LPO's consent to disclose the status of its application
17 and report that status to parties in this proceeding.
- 18 3) Submit a thoughtfully designed Part II application as soon as possible.
- 19 4) Evaluate how to maximize ratepayer savings from any EIR Program
20 funding by investigating the applicability of a "capital recycling" approach
21 with the Commission and the DOE.

22 **Q. Can you explain how the EIR Program works?**

23 A. Under Title 17 of the Energy Policy Act of 2005, the LPO may provide loan
24 guarantees for projects that support clean energy deployment and energy infrastructure
25 reinvestment in the U.S. Flexible financing is available for projects qualifying under four

1 identified program categories; however, Ameren Missouri (and Ms. Palmer) is focused
2 specifically on opportunities under the EIR Program, or what is known as "Section 1706
3 authority", that was created under the Inflation Reduction Act ("IRA") in 2022, which
4 amended the 2005 Act. EIR Program projects support reinvestment in communities
5 throughout the U.S. where existing energy infrastructure has been challenged by market
6 forces, resource depletion, age, technology advancements, or the broader energy transition.
7 In order to qualify for EIR Program financing, projects must fall into one or more of the
8 following types:

- 9 i. Projects that retool, repower, repurpose, or replace Energy Infrastructure that
10 has ceased operations; provided that if the project involves electricity
11 generation through the use of fossil fuels, it is required to have controls or
12 technologies to avoid, reduce, utilize, or sequester air pollutants and
13 anthropogenic emissions of greenhouse gases; or
14 ii. Projects that enable operating Energy Infrastructure to avoid, utilize, or
15 sequester air pollutants or anthropogenic emissions of greenhouse gases.²⁵

16 **Q. How does the LPO define Energy Infrastructure?**

17 A. For purposes of EIR Program eligibility, the LPO defines Energy
18 Infrastructure as a facility, and associated equipment, used for (1) the generation or
19 transmission of electric energy; or (2) the production, processing, and delivery of fossil
20 fuels, fuels derived from petroleum, or petrochemical feedstocks.²⁶

21 **Q. What are the LPO's eligibility criteria for projects to potentially qualify**
22 **for an EIR Program loan?**

²⁵ Program Guidance for Title 17 Clean Energy Financing Program, page 25.

²⁶ Program Guidance for Title 17 Clean Energy Financing Program, page 26.

1 A. According to LPO documentation,²⁷ projects must demonstrate satisfactory
2 fulfillment of the following criteria in order to receive an EIR Program loan:

3 1. The project must be located in the U.S.

4 2. The project must be an energy-related project, concerning the production,
5 consumption, transportation, or storage of energy, or related manufacturing
6 activities.

7 3. The project must achieve significant and credible greenhouse gas or air
8 pollution avoidance, reduction, utilization or sequestration.

9 4. The loan must have a reasonable prospect of repayment.

10 5. The project must involve technically viable and commercially ready
11 technology.

12 6. The project must be supported by an analysis of how the proposed project
13 will engage with and affect associated communities as part of a Community
14 Benefits Plan.

15 7. The project cannot benefit from prohibited federal support.

16 In addition, federal law requires that certain review and project provisions must be
17 met in order for a specific project to receive LPO support under Title 17, including
18 compliance with the National Energy Policy Act ("NEPA"), prevailing wage requirements
19 (the "Davis-Bacon Act"), and the Cargo-Preference Act.²⁸

20 **Q. Does Ameren Missouri have any future projects that potentially meet**
21 **the aforementioned eligibility criteria?**

²⁷ Program Guidance for Title 17 Clean Energy Financing Program, pages 11-12.

²⁸ Program Guidance for Title 17 Clean Energy Financing Program, page 47.

1 A. With the Commission's future approval, yes. Ameren Missouri plans to add
2 approximately 2,800 MW of renewable energy capacity and 400 MW of battery storage
3 projects by 2030 according to the Integrated Resource Plan ("IRP") filed with the
4 Commission in September 2023. The Company believes that a portion of this renewable
5 energy and battery storage capacity, should it receive requisite Commission approvals and
6 is developed and constructed according to current plans, would meet the LPO eligibility
7 criteria and thus could qualify for EIR Program loans. However, neither of the renewable
8 energy projects that recently achieved commercial operation – the 200 MW Huck Finn
9 solar project and the 150 MW Boomtown solar projects – nor any of the renewable projects
10 that have been recently approved by the Commission in a Certificate of Convenience and
11 Necessity ("CCN") case – namely the 50 MW Bowling Green solar project, the 50 MW
12 Vandalia solar project, the 150 MW Cass County solar project, and the 300 MW Split Rail
13 solar project – can meet the LPO's NEPA, Davis-Bacon Act or Cargo Preference Act
14 requirements, and therefore they cannot qualify as eligible projects. There are,
15 nevertheless, several, yet-to-be-publicly-identified renewable energy and battery storage
16 projects that the Company is developing for which the Company is evaluating against the
17 EIR program criteria. But these projects are subject to eventual Commission approval
18 through the formal CCN process and are not expected to be in operation for several years.

19 **Q. Is Ameren Missouri pursuing funding for future renewable energy**
20 **projects under the EIR Program?**

21 A. Yes.

22 **Q. What is the status of Ameren Missouri's application under the EIR**
23 **Program?**

1 A. Ameren filed Part I of the EIR Program application in January 2024. The
2 LPO approved Part 1 of the application in April 2024 and invited the Company to submit
3 a Part II application. The intent of Part II is to determine a project's (or portfolio of
4 projects', as the case may be) readiness to proceed into due diligence based on
5 programmatic, technical and financial characteristics. While Ameren Missouri is
6 ultimately seeking EIR program funding for a portfolio of renewable energy projects that
7 the Company is developing, or expects to develop in the future, the Company is in the
8 process of completing Part II of the application and is evaluating the Company's current
9 portfolio of development projects to determine which project could best meet the
10 compliance requirements and serve as the initial (or "anchor") project. While the timing
11 around submission of the final Part II application is subject to reaching key development
12 milestones of the anchor project, the Company is hopeful to be in a position to submit Part
13 II for the anchor project over the next several months. As the Company is navigating the
14 application process as quickly as practical, it is important to note that there is no certainty
15 that the LPO will ultimately approve the Company's application as filed and there also is
16 some meaningful prospective risk that the new Presidential administration could lead to
17 the eventual rescission of some or all policies incorporated in the IRA, including the EIR
18 Program funding under Section 1706. In addition, the cost of the EIR Program compliance
19 with NEPA, the Davis-Bacon Act, and the Cargo Preference Act may, for certain projects
20 under consideration, prove to be uneconomically justifiable. My understanding is that once
21 the LPO approves Part II of the application for an anchor project, all future previously-
22 identified portfolio projects become eligible under the application, subject to future LPO

1 due diligence and compliance requirements, but not subject to future risk of administrative
2 EIR Program withdrawal.

3 **Q. Is Ameren Missouri in constant contact with the LPO regarding the**
4 **status of its application?**

5 A. Yes. Given the complexity of the application process and the technical
6 requirements for approval, members of Ameren Missouri have frequent conversations with
7 individuals at the LPO regarding the application.

8 **Q. Is the anchor project or any other renewable generation assets**
9 **contemplated by Ameren Missouri's EIR Program application reflected in the**
10 **revenue requirement or rate base in this current proceeding?**

11 A. No.

12 **Q. Do Commission approvals of CCNs for renewable energy projects**
13 **require the Company to pursue non-traditional sources of financing of these projects,**
14 **if such sources provide attractive funding terms and prospective benefits to the**
15 **Company's customers?**

16 A. This is not an explicit requirement in CCN cases, but when utilities seek
17 cost recovery, whether least-cost financing options were pursued is reviewed. The
18 Company must act prudently, including in its financing decisions. Prudent actions
19 certainly include seeking sources of funds with attractive funding terms, as that lowers the
20 cost included in the Company's revenue requirement. If Ameren Missouri funded a
21 renewable energy project imprudently, the Commission has the authority to not allow the
22 Company to recover the imprudently incurred costs.

1 **Q. Is Ameren Missouri currently restricted from sharing information**
2 **related to its EIR Program application?**

3 A. Yes. Pursuant to a letter from the LPO dated April 12, 2024, Ameren
4 Missouri is not able to disclose the status of its application for a loan without the prior
5 written consent of the LPO.

6 **Q. If Ameren Missouri is subject to this restriction, how are you able to**
7 **provide testimony on this subject and the status of the Company's application in this**
8 **proceeding?**

9 A. Ameren Missouri received written consent from the LPO in January 2025
10 to provide testimony in this proceeding, subject to LPO's review and comment.

11 **Q. Ms. Palmer states that "if Ameren Missouri simply uses EIR loans to**
12 **displace corporate debt, overall ratepayer savings may be minimal, as most utilities**
13 **can already borrow at attractive interest rates without the added complication and**
14 **cost of participating in a federal program."²⁹ Do you agree with this statement?**

15 A. I actually believe that the savings associated with simply displacing
16 corporate debt could be quite meaningful for Ameren Missouri over time, particularly
17 given the size of potential debt funding need associated with Ameren Missouri's identified
18 future renewable energy project portfolio that may be eligible under the EIR Program. Ms.
19 Palmer may be considering the historically low corporate credit spreads that prevail for
20 investment grade companies like Ameren Missouri, but even in today's compressed
21 corporate credit spread environment, Ameren Missouri would expect to derive debt coupon
22 savings that could justify incremental compliance costs and upfront costs associated with

²⁹ File. No. ER-2024-0319, Direct Testimony (Revenue Requirement) of Caroline Palmer, p. 8, ll. 17-18, and p. 9, ll. 1-2.

1 the EIR Program. In the future, should corporate credit spreads widen, Ameren Missouri
2 would experience even greater relative savings by financing under the EIR Program
3 relative to traditional corporate debt financing.

4 **Q. Ms. Palmer further references a different approach to utilizing EIR**
5 **funding, termed "capital recycling", conceptually borrowed from a report published**
6 **by RMI.³⁰ What are your reactions to this approach?**

7 A. I believe there are a number of existing flaws to this approach, which would
8 prevent Ameren Missouri's current pursuit. To the extent these shortcomings could be
9 addressed in the future through legislative and / or regulatory channels, the Company
10 would be open to further evaluating its viability, but any potential solution would need to
11 appropriately balance Ameren Missouri customer costs and the financial imperatives of
12 Ameren Corporation as a public company (e.g., strong credit ratings, shareholder value
13 proposition).

14 RMI's proposed capital recycling approach references using incremental leverage
15 to fund EIR Program eligible investment, as EIR Program loans can be approved to finance
16 up to 80% of the total cost of the project / portfolio. However, deploying more financial
17 leverage (i.e., debt) in financing Ameren Missouri's renewable energy program would be
18 significantly detrimental to the Company's credit metrics and its credit ratings, adversely
19 impacting the financial health of the Company and its cost of capital. In response to the
20 negative credit implications, RMI (and Ms. Palmer) suggest the use of "an off-balance
21 sheet, bankruptcy-remote special purpose vehicle, to be recovered by a dedicated non-

³⁰ Christian Fong, David Posner, Uday Varadarajan. "Maximizing the Value of the Energy Infrastructure Reinvestment Program for Utilities Customers." May 24, 2024.

1 bypassable surcharge".³¹ But, such a bankruptcy-remote special purpose vehicle does not,
2 to my knowledge, exist today in Missouri within the current legislative / regulatory
3 framework. The authorization of asset securitization under the Securitization Statute is
4 certainly a corollary, but the Securitization Statute only permits recovery of eligible energy
5 transition costs (e.g., costs with respect to a retired or abandoned or to be retired or
6 abandoned electric generating facility) and other qualified extraordinary costs. Investment
7 in renewable energy projects do not currently qualify for securitization treatment. As such,
8 there is no current statutory framework to create a bankruptcy-remote vehicle to fund assets
9 the rating agencies would treat as off-balance sheet in nature.

10 Ms. Palmer also indicates that "Ameren Missouri can designate some or all of the
11 EIR proceeds to recover low-quality rate base. This can include costs not directly tied to
12 current service delivery that could be deemed imprudent or excessive, such as
13 undepreciated plant balances for uneconomic power plants."³² Yet, Ms. Palmer does not
14 specify which Ameren Missouri assets qualify as "low quality rate base" and I would
15 certainly argue that Ameren Missouri does not possess any "low quality rate base" as no
16 current rate base asset is perceived by the Company or by the financial community at large
17 as being at risk of becoming stranded investment. As such, I do not see any economic or
18 structural benefit to "refinancing" any existing Ameren Missouri rate base assets.

19 **Q. How do you respond to Ms. Palmer's four recommendations to the**
20 **Commission regarding Ameren Missouri's pursuit of potential funding under the EIR**
21 **Program?**

³¹ File. No. ER-2024-0319, Direct Testimony (Revenue Requirement) of Caroline Palmer, p. 9, ll. 9-10.

³² *Id.* at p. 9, ll. 13-16.

1 A. I do not believe a formal Commission order relating to Ms. Palmer's
2 recommendations are required in this proceeding for several reasons. First, Ameren
3 Missouri's pending application with the LPO does not entail funding of assets or revenue
4 requirements that are subject to this proceeding. And, as stated above, it is Ameren
5 Missouri with dollars at risk if it did not seek this funding and it were the prudent approach
6 to take. The Commission reviews all cost for prudence but cannot make management
7 decisions for the Company and so it would be inappropriate for the Commission to issue
8 the order suggested by Ms. Palmer. Next, a Commission order that the Company promptly
9 follow up with the LPO on the status of its application is unnecessary as the Company
10 already has frequent dialogue with the LPO on these matters. Furthermore, as previously
11 stated, Ameren Missouri did pursue, and was granted, consent from the LPO to disclose
12 application status within this proceeding, so no Commission order is necessary in this
13 regard. Finally, Ameren Missouri is certainly willing to consider the applicability of the
14 "capital recycling" approach if such a framework existed under Missouri law, but the
15 framework for use does not exist today.

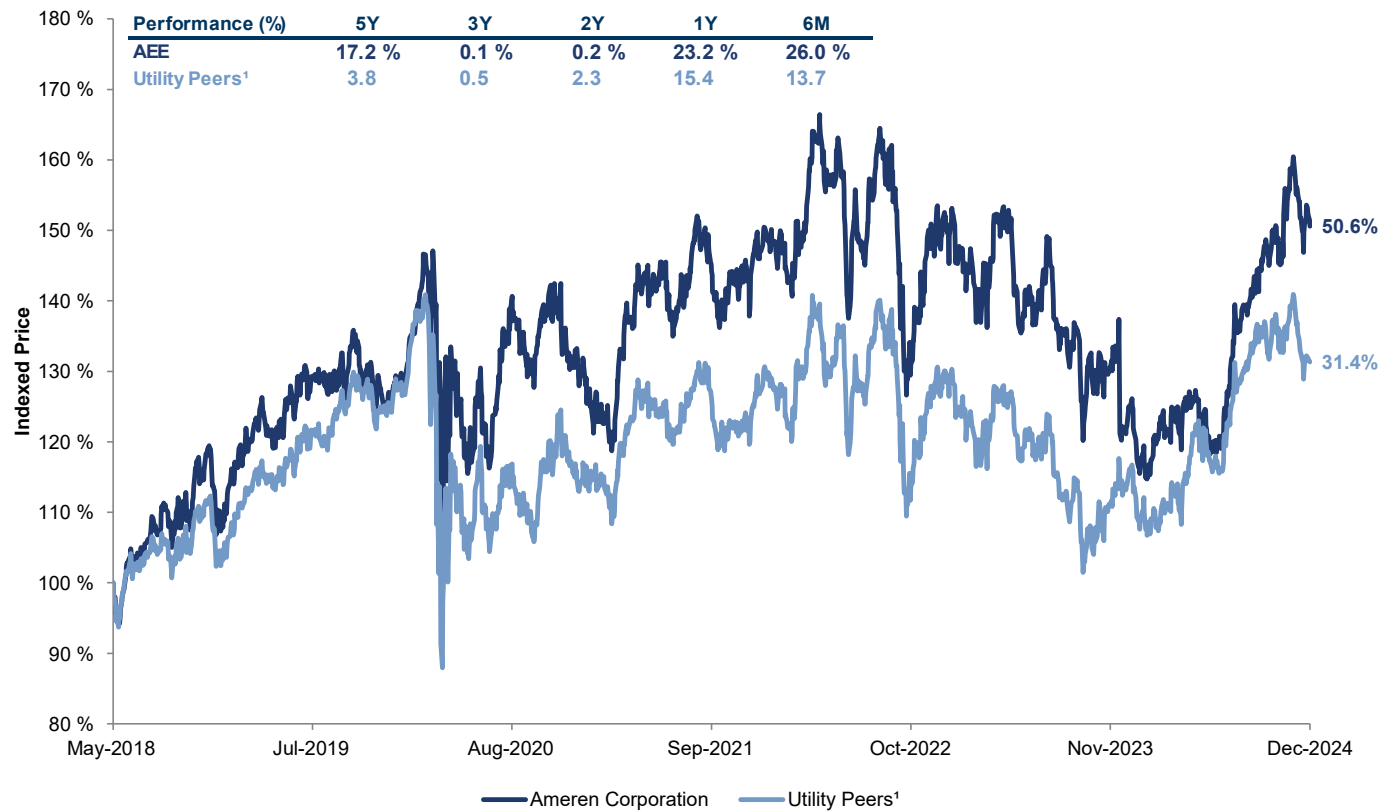
16 **Q. Does this conclude your rebuttal testimony?**

17 A. Yes, it does.

Ameren Corp. Stock Price Performance Vs. Utility Peers

May 31, 2018 to December 31, 2024

DTS-R1



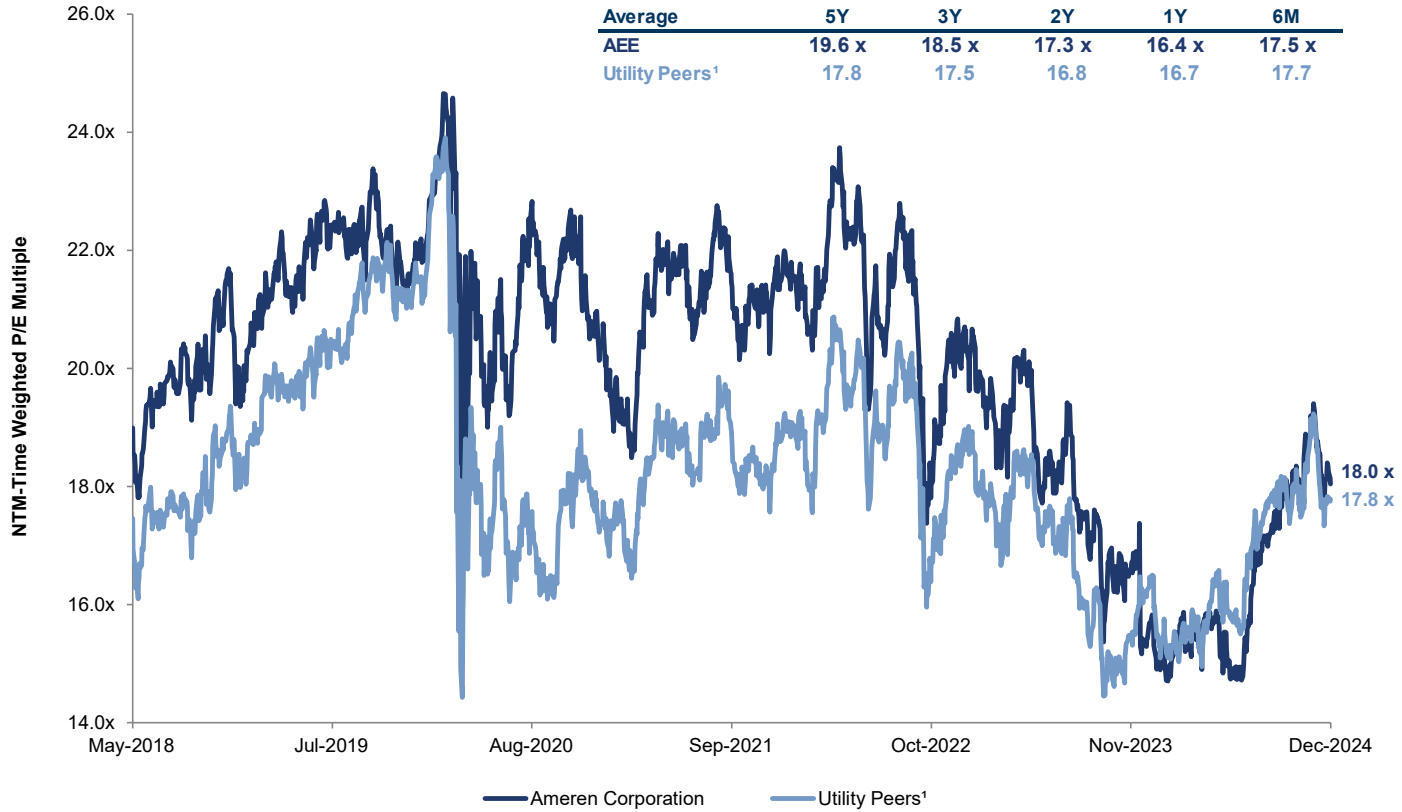
Source: Bloomberg market data as of 31-Dec-2024

¹ Represents peer average. Peers consist of Alliant Energy, American Electric Power, Avista, CMS Energy, DTE Energy, Duke Energy, Entergy, Evergy, IDACORP, NextEra Energy, NorthWestern, OGE Energy, Pinnacle West, Portland General Electric, PPL, Southern Company, and Xcel Energy.

Ameren Corp. NTM P/E Multiples Vs. Utility Peers

May 31, 2018 to December 31, 2024

DTS-R2



Source: Bloomberg market data as of 31-Dec-2024

¹ Represents peer average. Peers consist of Alliant Energy, American Electric Power, Avista, CMS Energy, DTE Energy, Duke Energy, Entergy, Evergy, IDACORP, NextEra Energy, NorthWestern, OGE Energy, Pinnacle West, Portland General Electric, PPL, Southern Company, and Xcel Energy.

AUTHORIZED COMMON EQUITY RATIO - ELECTRIC PROXY GROUP UTILITY OPERATING COMPANIES
Schedule DTS - R3

Company Name	State of Operation	Docket No.	EFFECTIVE EQUITY RATIO									
			2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Kentucky Power Co.	Kentucky	C-2023-00159	NA	NA	NA	41.68%	41.68%	41.68%	42.47%	43.25%	43.25%	42.25%
Southwestern Electric Power Co	Louisiana	D-U-35441	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Columbus Southern Power Co.	Ohio	C-11-0351-EL-AIR	50.64%	50.64%	50.64%	50.64%	50.64%	50.64%	50.64%	50.64%	50.64%	50.64%
Ohio Power Co.	Ohio	C-20-0585-EL-AIR	53.79%	53.79%	53.79%	53.79%	53.79%	53.79%	54.11%	54.43%	54.43%	54.43%
Public Service Co. of OK	Oklahoma	Ca-PUD2022-000093	45.84%	44.00%	44.00%	46.26%	48.51%	NA	NA	NA	52.00%	52.00%
Kingsport Power Company	Tennessee	D-21-00107	NA	40.25%	40.25%	40.25%	40.25%	40.25%	40.25%	44.58%	48.90%	48.90%
AEP Texas Inc.	Texas	D-56165	NA	NA	NA	NA	NA	42.50%	42.50%	42.50%	42.50%	42.50%
Southwestern Electric Power Co	Texas	D-51415	49.10%	49.10%	48.78%	48.46%	48.46%	48.46%	48.92%	49.37%	49.37%	49.37%
Appalachian Power Co.	Virginia	C-PUR-2024-00024	42.89%	42.89%	42.89%	42.89%	42.89%	46.60%	50.31%	50.31%	50.31%	48.24%
Appalachian Power Co.	West Virginia	C-18-0646-E-42T	44.68%	47.16%	47.16%	47.16%	48.66%	50.16%	50.16%	50.16%	50.16%	50.16%
Alaska Electric Light Power	Alaska	D-U-22-078	53.80%	53.80%	55.99%	58.18%	58.18%	58.18%	58.18%	58.18%	59.44%	60.70%
Avista Corp.	Idaho	C-AVU-E-23-01	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
Avista Corp.	Washington	D-UE-220053	NA	NA	NA	48.50%	48.50%	48.50%	48.50%	48.50%	NA	NA
Duke Energy Kentucky Inc.	Kentucky	C-2022-00372	NA	NA	NA	49.25%	49.25%	48.74%	48.23%	48.23%	50.19%	52.15%
Duke Energy Carolinas LLC	North Carolina	D-E-7 Sub 1276	53.00%	53.00%	53.00%	52.50%	52.00%	52.00%	52.00%	52.00%	52.50%	53.00%
Duke Energy Progress LLC	North Carolina	D-E-2 Sub 1300	53.00%	53.00%	53.00%	52.50%	52.00%	52.00%	52.00%	52.00%	52.50%	53.00%
Duke Energy Ohio Inc.	Ohio	C-21-0887-EL-AIR	53.30%	53.30%	53.30%	52.03%	50.75%	50.75%	50.75%	50.63%	50.50%	50.50%
Duke Energy Carolinas LLC	South Carolina	D-2023-388-E	53.00%	53.00%	53.00%	53.00%	53.00%	53.00%	53.00%	53.00%	53.00%	52.11%
Duke Energy Progress LLC	South Carolina	D-2022-254-E	NA	53.00%	53.00%	53.00%	53.00%	53.00%	53.00%	53.00%	52.72%	52.43%
Entergy Gulf States LA LLC	Louisiana	D-U-32707	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Entergy Louisiana LLC	Louisiana	D-UD-13-01	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Entergy New Orleans LLC	Louisiana	D-UD-18-07 (elec.)	NA	NA	NA	NA	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
Entergy Mississippi LLC	Mississippi	D-2014-UN-0132	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Entergy Texas Inc.	Texas	D-53719	NA	NA	NA	NA	NA	NA	NA	NA	NA	51.21%	51.21%
Evergy Kansas Central Inc.	Kansas	D-23-EKCE-775-RTS (EKC/EKS)	52.63%	NA	NA	51.24%	51.24%	51.24%	51.24%	51.24%	51.24%	51.24%	NA
Evergy Metro Inc	Kansas	D-23-EKCE-775-RTS (EM)	50.48%	50.48%	50.48%	49.09%	49.09%	49.09%	49.09%	49.09%	49.09%	49.09%	NA
Evergy Metro Inc	Missouri	C-ER-2022-0129	51.20%	50.09%	49.65%	49.20%	NA	NA	NA	NA	NA	NA	NA
Evergy Missouri West	Missouri	C-ER-2024-0189	52.30%	52.30%	NA	NA	NA	NA	NA	NA	NA	NA	NA
Idaho Power Co.	Idaho	C-IPC-E-23-11	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Idaho Power Co.	Oregon	D-UE-426	49.90%	49.90%	49.90%	49.90%	49.90%	49.90%	49.90%	49.90%	49.90%	49.90%	49.95%
Interstate Power & Light Co.	Iowa	D-RPU-2023-0002 (electric)	44.24%	44.24%	44.24%	46.63%	49.02%	50.01%	51.00%	51.00%	51.00%	51.00%	51.00%
Interstate Power & Light Co.	Minnesota	D-E-001/GR-10-276	47.74%	47.74%	47.74%	47.74%	47.74%	47.74%	47.74%	47.74%	47.74%	47.74%	47.74%
Wisconsin Power and Light Co	Wisconsin	D-6680-UR-124 (Elec)	50.46%	51.33%	52.20%	52.10%	52.00%	52.27%	52.52%	52.50%	53.10%	53.70%	53.70%
NorthWestern Energy Group	Montana	D-2022-7-78 (elec)	48.00%	48.00%	48.00%	48.00%	48.69%	49.38%	49.38%	49.38%	48.70%	48.02%	48.02%
NorthWestern Energy Group	South Dakota	D-EL23-016	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Oklahoma Gas and Electric Co.	Oklahoma	Ca-PUD2023-000087	NA	NA	53.31%	53.31%	NA	NA	NA	53.37%	53.37%	53.44%	53.44%
Arizona Public Service Co.	Arizona	D-E-01345A-22-0144	53.94%	53.94%	54.87%	55.80%	55.80%	55.80%	55.24%	54.67%	54.67%	53.30%	53.30%
Portland General Electric Co.	Oregon	D-UE-416	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
Kentucky Utilities Co.	Kentucky	C-2020-00349	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Louisville Gas & Electric Co.	Kentucky	C-2020-00350 (elec.)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
PPL Electric Utilities Corp.	Pennsylvania	D-R-2015-2469275	50.78%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
The Narragansett Electric Co.	Rhode Island	D-4770 (electric)	49.14%	49.14%	49.14%	50.05%	50.95%	50.95%	50.95%	50.95%	50.95%	50.95%	50.95%
Kentucky Utilities Co.	Virginia	C-PUR-2021-00171	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Georgia Power Co.	Georgia	D-44280	50.84%	50.84%	50.84%	50.84%	53.42%	56.00%	56.00%	56.00%	56.00%	56.00%	56.00%
Mississippi Power Co.	Mississippi	D-2019-UN-0219	NA	NA	NA	NA	NA	53.00%	53.00%	53.00%	53.00%	53.00%	53.00%
Public Service Co. of CO	Colorado	D-22AL-0530E	56.00%	56.00%	56.00%	56.00%	NA	55.61%	55.61%	55.65%	55.69%	55.69%	55.69%
Northern States Power Co.	Minnesota	D-E-002/GR-21-630	52.53%	52.50%	52.50%	52.50%	52.50%	52.50%	52.50%	52.50%	52.50%	52.50%	52.50%
Northern States Power Co.	North Dakota	C-PU-20-441	52.56%	52.56%	52.56%	52.56%	52.56%	52.56%	52.53%	52.50%	52.50%	52.50%	52.50%
Southwestern Public Svc Co.	New Mexico	C-22-00286-UT	53.89%	NA	NA	53.97%	53.97%	54.37%	54.77%	54.75%	54.71%	54.70%	54.70%
Northern States Power Co.	South Dakota	D-EL22-017	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Southwestern Public Svc Co.	Texas	D-54634	51.00%	51.00%	51.00%	NA	NA	54.62%	54.62%	54.62%	NA	NA	NA
Northern States Power Co.	Wisconsin	D-4220-UR-126 (Elec)	52.52%	52.49%	51.45%	51.45%	51.99%	52.52%	52.51%	52.50%	52.50%	52.50%	52.50%

MEAN	50.72%	50.31%	50.41%	50.30%	50.32%	50.77%	50.93%	51.14%	51.36%	51.39%
LOW	42.89%	40.25%	40.25%	40.25%	40.25%	40.25%	40.25%	42.50%	42.50%	42.25%
HIGH	56.00%	56.00%	56.00%	58.18%	58.18%	58.18%	58.18%	58.18%	59.44%	60.70%
MEDIAN	50.92%	50.84%	50.84%	50.64%	50.64%	50.85%	50.98%	51.00%	51.21%	52.00%

Notes:

[1] Source: S&P Capital IQ Pro

[2] Includes electric operating companies in the proxy group

[3] Operating Subsidiaries with rate cases not covered by S&P Capital IQ Pro were excluded from the analysis.

[4] Analysis excludes operating companies that operate in jurisdictions that include zero cost capital items in the capital structure, including Arkansas, Florida, Indiana, and Michigan.

[5] Analysis excludes operating companies for which the company's latest rate case was decided in 2010 or prior, i.e., only companies with a rate case in 2010 or later are included.

Common Equity Ratio - Electric Proxy Group Utility Holding Companies
Schedule DTS - R4

Company	Total Consolidated Debt (\$mm)	Total Capital (\$mm)	Total Equity as % of Total Capital
Alliant Energy	10,679	17,647	39.5%
American Electric Power	43,634	70,251	37.9%
Avista	2,952	5,481	46.1%
CMS Energy	16,167	24,808	31.8%
DTE Energy	24,625	36,223	32.0%
Duke Energy	84,068	133,201	36.2%
Entergy	29,003	44,145	34.1%
Evergy	13,399	23,455	42.7%
IDACORP	3,124	6,401	51.1%
NextEra	82,767	142,305	35.2%
Northwestern Energy	2,974	5,791	48.6%
OGE Energy	5,268	9,886	46.7%
Pinnacle West	9,680	16,406	40.3%
Portland General Electric	4,739	8,369	43.4%
PPL Energy	16,500	30,592	46.1%
Southern Company	63,618	98,922	31.7%
Xcel Energy	28,670	48,022	40.3%
Ameren	18,261	30,223	39.2%

Peer Average	40.2%
Peer Median	40.3%

Data as of September 30, 2024.

