Exhibit No.:	_______________
Issue(s):	Rate of Return/Capital Structure
Witness/Type of Exhibit:	Murray/SurrebuttalTU Direct
Sponsoring Party:	Public Counsel
Case No.:	ER-2024-0319

SURREBUTTAL/

TRUE-UP DIRECT TESTIMONY

OF

DAVID MURRAY

Submitted on Behalf of the Office of the Public Counsel

UNION ELECTRIC COMPANY D/B/A AMEREN MISSOURI

CASE NO. ER-2024-0319

** ____ **

Denotes Confidential Information that has been redacted.

February 14, 2025

PUBLIC

TABLE OF CONTENTS

Testimony	Page
True-Up Recommendation	2
Capital Structure	3
Increased Debt Capacity from Lower Business Risk	4
Fiduciary/Conflicts of Interest	6
Other Missouri Utility Companies' Financial Risk Profiles	11
Comparison to Ameren Illinois' Capital Structure Arguments before the Illinois Commerce Commission	17
Pro Forma Impact of Capital Structure on Credit Profile	20
Parent/Subsidiary Financing Relationship	23
Investor Expectations on Ratemaking Capital Structure	33
Four Criteria – Subsidiary vs. Parent Capital Structure	34
Other Capital Structure Issues Addressed by Dr. Won	38
Capital Structure Summary	42
Ann E. Bulkley's Rebuttal Testimony	43
Return on Equity	43
Summary and Conclusions	56

SURREBUTTAL/TRUE-UP DIRECT TESTIMONY

OF

DAVID MURRAY

UNION ELECTRIC COMPANY d/b/a AMEREN MISSOURI

FILE NO. ER-2024-0319

1 **Q. Please state your name and business address.**

2 A. My name is David Murray and my business address is P.O. Box 2230, Jefferson City,
3 Missouri 65102.

4 **Q. Are you the same David Murray who previously filed Direct and Rebuttal Testimony**
5 **in this case?**

6 A. Yes.

7 **Q. What is the purpose of your testimony?**

8 A. To respond to Ameren Missouri witnesses Darryl T. Sagel's and Ann E. Bulkley's rebuttal
9 testimonies as they relate to rate of return ("ROR") and capital structure. I also address the
10 rebuttal testimony of Staff witness Seoung Joun Won, PhD.

11 I will also update my ROR recommendation to consider Ameren Corp's and Ameren
12 Missouri's financial activities through the ordered true-up date in this case, December 31,
13 2024.

14 **Q. In what order will you address these issues/witnesses?**

15 A. First, I will update my ROR recommendation based on financial data through the true-up
16 date. Second, I will address capital structure, which was the sole ROR issue addressed by
17 Mr. Sagel. Dr. Won also disagrees with the premise of using Ameren Corp as a proxy for
18 a fair and reasonable ratemaking capital structure for Ameren Missouri. Finally, I will
19 address Ms. Bulkley's response to my recommended allowed ROE of 9.50% for Ameren
20 Missouri's integrated electric utility operations.

P

1 **TRUE-UP RECOMMENDATION**

2 **Q. Are you able to provide an updated recommended ROR as of the December 31, 2024,**
3 **true-up date?**

4 A. Only as it relates to Ameren Missouri's embedded cost of long-term debt as of the true-up
5 period. Ameren Missouri's cost of long-term debt increased to 4.296% from 4.12%. The
6 increase in Ameren Missouri's embedded cost of long-term debt was caused by Ameren
7 Missouri's two long-term debt issuances between the test year and true-up period. Ameren
8 Missouri issued $500 million of long-term debt on April 4, 2024, at a 5.2% coupon rate
9 and $450 million of long-term debt on October 7, 2024, at a 5.125% coupon rate.

10 **Q. Did you have sufficient information to determine whether you should adjust your**
11 **recommended capital structure through the true-up date in this case?**

12 A. No. Ameren Missouri indicated it could not provide Ameren Corp's and Ameren
13 Missouri's year-end financial statements until after this testimony is due. Therefore, after
14 I review Ameren Corp's and Ameren Missouri's financial statements through December
15 31, 2024, I may need to file supplemental testimony addressing financial information
16 through the true-up date.

17 **Q. Assuming you do not adjust your recommended capital structure, what is your**
18 **recommended ROR as of the true-up date?**

19 A. 6.48%. Please see Schedule DM-S-1 for the details related to my recommended ROR as
20 of the true-up date.

P

1 **CAPITAL STRUCTURE**

2 **Q. Summarily, what are the main points of disagreement between you and the other**
3 **witnesses over an appropriate ratemaking capital structure to set Ameren Missouri's**
4 **authorized ROR?**

5 A. The other witnesses support the use of Ameren Missouri's per books capital structure.[1]
6 They maintain this is the appropriate ratemaking capital structure because, in their view, it
7 is independently managed for its own benefit, and presumably for the benefit of Ameren
8 Missouri's ratepayers. While I agree that Ameren Missouri's capital structure is carefully
9 managed, it is managed for one primary purpose—achieving a constant 52% authorized
10 equity ratio regardless of changes in business and economic conditions. The fact that
11 Ameren Missouri's common equity ratio has been maintained, despite declining business
12 risk since 2018, while Ameren Corp's common equity ratio has consistently declined
13 during the same period, deserves scrutiny. Despite Ameren Missouri's reduced business
14 risk due to the passage of utility-favorable legislation in Missouri, such as the initial
15 passage of legislation allowing Ameren Missouri's election of plant in service accounting
16 ("PISA") through 2023, its amendment to allow for automatic extension through 2028, and
17 the ability to securitize both undepreciated balances of fossil-fuel plants retired early and
18 extraordinary costs such as those incurred during extraordinary weather events, Ameren
19 Missouri's equity ratio hasn't budged from the 52% target over the last twelve years. It
20 would be less egregious for ratepayers to pay the costs associated with a 52% equity ratio
21 if Ameren Corp targeted this more conservative level for itself as well, but instead, Ameren
22 Corp's common equity ratio has been in the 41% to 43% range in recent years.

23 I will show that Ameren Missouri's capital structure has not been managed for its own best
24 interests or for the best interests of its ratepayers. Ameren Missouri's ratepayers are paying
25 for the costs of more shareholder friendly ratemaking mechanisms, but not receiving the

[1] Mr. Sagel's and Dr. Won's preferred stock and long-term debt balances are adjusted slightly for premiums, discounts and issuance expenses to arrive at a carrying value/net proceeds balance, but their capital structure recommendations are premised on Ameren Missouri's balance sheet ratios, not Ameren Corp's balance sheet ratios.

1 benefit of the lower-cost capital structure these mechanisms allow (*i.e.* higher debt
2 capacity).

3 INCREASED DEBT CAPACITY FROM LOWER BUSINESS RISK

4 **Q. Does Mr. Sagel recognize that since Ameren Missouri was allowed to elect PISA**
5 **subsequent to the passage of Senate Bill ("SB") 564, Ameren Corp's debt capacity has**
6 **increased?**

7 A. Yes, but it is his position that this is only one factor Moody's considered when it lowered
8 Ameren Corp's funds-from-operations-to-debt ("FFO/debt")[2] downgrade threshold to 17%
9 from 19%. Mr. Sagel indicates Ameren Corp's increased debt capacity was also due to "a
10 strong track record of strategy execution within the then-supportive regulatory frameworks
11 of Ameren Corporation's Ameren Illinois Corporation ("AIC") and Ameren Transmission
12 Company of Illinois ("ATXI") subsidiaries."[3]

13 **Q. Did Moody's lower its FFO/debt downgrade threshold for AIC or ATXI?**

14 A. Not to my knowledge.

15 **Q. Is it logical for the operating subsidiaries, which directly own the assets, not to have**
16 **increased debt capacity due to supportive regulatory frameworks?**

17 A. No.

18 **Q. Then why would Moody's lower its downgrade threshold for Ameren Corp rather**
19 **than its downgrade thresholds for Ameren Missouri, AIC, and ATXI?**

20 A. Because, as I will explain in more detail later in my testimony, the officers who represent
21 Ameren Corp, Ameren Missouri, AIC, and ATXI when interacting with the rating agencies
22 are acting as fiduciaries for Ameren Corp rather than each of Ameren Corp's subsidiaries,
23 including Ameren Missouri.

---

[2] Although there are subtle differences between Moody's cash flow from operations before working capital divided by debt ("CFO Pre-WC/Debt") ratio and an FFO/debt ratio, I will generally refer to Moody's CFO Pre-WC/Debt ratio as "FFO/debt," which is similar to Mr. Sagel's reference to such in his rebuttal testimony.
[3] Sagel Rebuttal, p. 23, lns. 1-3.

P

1 **Q. Mr. Sagel testifies that Moody's rejected Ameren Corp's management's argument to**
2 **** ____**
3 **____ **[4] Is he correct?**

4 A. No. ** ____
5 ____
6 ____
7 ____
8 __ _
9 ____
10 ____
11 ____
12 ____
13 ____
14 ________________________ **

15 **Q. Has Ameren Corp taken advantage of this lower downgrade threshold in its financing**
16 **strategies?**

17 A. Yes. Since 2019, Ameren Corp has approximately tripled the percentage of holding
18 company debt it uses to finance its subsidiaries (8.39% at June 30, 2019 compared to
19 23.39% at March 31, 2024).[5]

20 **Q. Has Ameren Missouri lowered its requested ratemaking common equity ratio over**
21 **this period to recognize the additional debt capacity it supports?**

22 A. No.

---

[4] *Id.,* p. 23, lns. 4-10.
[5] Murray Direct, p. 35, lns. 5-26.

P

1 *FIDUCIARY/CONFLICTS OF INTEREST*

2 **Q. Why would those managing Ameren Corp and its subsidiaries only lobby to relax**
3 **Ameren Corp's credit metrics rather than those used for its subsidiaries?**

4 A. Because, lowering Ameren Corp's cost of capital while maintaining its subsidiaries' higher
5 common equity ratios for ratemaking increases Ameren Corp's shareholders' wealth.

6 **Q. Do officers and directors of Ameren Corp's family of companies serve in multiple and**
7 **revolving functions/positions?**

8 A. Yes.

9 **Q. What is Mr. Sagel's position with Ameren Missouri?**

10 A. He is Vice President and Treasurer.

11 **Q. What are Mr. Sagel's positions at Ameren Corp, AIC, and ATXI?**

12 A. He is Vice President and Treasurer at each of them.

13 **Q. Does Mr. Sagel's same financial management positions at each of these affiliates raise**
14 **concerns?**

15 A. Yes. It raises concerns as to his willingness to bargain for the best financial interests of
16 each of these entities at the same time. The fact that Mr. Sagel seems to simply accept that
17 Ameren Missouri had not received any credit for its reduced business risk profile is
18 disturbing. It certainly illustrates that to the extent Ameren Missouri does have its own
19 board of directors ("BOD") and officers, they are not bargaining for Ameren Missouri's
20 financial interests and the interests of its customers. If Ameren Missouri's interests, and
21 the interests of its ratepayers, were being protected, then Ameren Missouri's officers would
22 have bargained for Ameren Missouri's rightful debt capacity. As I will demonstrate later,
23 this is even more concerning given that Ameren Missouri's cash flows have supported
24 Ameren Corp's ability to finance its investments in its other subsidiaries as well as paying
25 dividends to Ameren Corp's shareholders over the last several years.

P

1 **Q. What evidence do you have that Ameren Missouri's officers have not bargained for**
2 **its own independent interests?**

3 A. Ameren Corp's December 17, 2018, presentation to Moody's (Schedule DM-S-2) clearly
4 shows that ** ____
5 ____
6 ____
7 ____
8 ____ **

9 **Q. How do you know it is Ameren Missouri's reduced business risk that caused Moody's**
10 **to lower its FFO/debt threshold for Ameren Corp?**

11 A. Because Ameren Corp's management relied on Ameren Missouri's reduced business risk
12 in attempting to convince Moody's that Ameren Corp's FFO/debt threshold should be
13 reduced. Ameren Corp management stated the following during Ameren Corp's Finance
14 Committee Meeting on February 7, 2019:

15 ** ____
16 ____
17 ____
18 ________________________________ **[6]

19 Ameren Corp management also stated the following during Ameren Corp's Financing
20 Committee Meeting on May 2, 2019:

21 **____
22 ____
23 ____
24 ____
25 ____
26 ________ **[7]

[6] Ameren Corp's Finance Committee Meeting, February 7, 2019, p. 24.
[7] Ameren Corp's Finance Committee Meeting, May 2, 2019, p. 87

P

1 **Q. Did Ameren Missouri lobby Moody's for a lower FFO/debt threshold for purposes of**
2 **the credit rating Moody's assigns to Ameren Missouri's debt?**
3 A. No. I found no evidence of Ameren Corp performing an analysis on Ameren Missouri's
4 behalf, or Ameren Missouri performing this analysis on its own behalf, to compare Ameren
5 Missouri's FFO/debt metrics to those of its peers in attempt to persuade Moody's to reduce
6 Ameren Missouri's FFO/debt threshold.

7 **Q. Who presented information to the rating agencies on behalf of Ameren Corp, Ameren**
8 **Missouri, and AIC?**
9 A. According to a December 2018 rating agency presentation, Marty Lyons, Bruce Steinke
10 and Darryl Sagel made the presentation.

11 **Q. Were they officers of Ameren Corp at the time?**
12 A. Yes. Marty Lyons was Executive Vice President and Chief Financial Officer; Bruce
13 Steinke was Senior Vice President, Finance and Chief Accounting Officer; and Darryl
14 Sagel was Vice President and Treasurer.

15 **Q. Did they have the same positions at Ameren Missouri and AIC at that time?**
16 A. Yes.

17 **Q. Were they employees of Ameren Corp, Ameren Missouri, or AIC at the time?**
18 A. No. Ameren Services Corporation employed each of these individuals. It still does.

19 **Q. Were any officers solely representing Ameren Missouri for purposes of the rating**
20 **agency presentation?**
21 A. No.

22 **Q. With regard to Ameren Missouri's capital structure in this case, what do you**
23 **conclude based on the foregoing?**
24 A. The only way to ensure Ameren Missouri's ratepayers are given due consideration for
25 providing the Company more certain cost recovery from PISA, which allows for higher

P

debt capacity, is to adjust Ameren Missouri's common equity ratio to be consistent with that of Ameren Corp's on a consolidated basis. This is the level at which Ameren Corp is balancing its business risk and financial risk to achieve a lower cost of capital and still maintain a reasonably stable investment grade credit rating. Adopting a capital structure consistent with Ameren Corp's consolidated capital structure ensures Ameren Missouri's ratepayers receive the benefit of the additional debt capacity made possible through utility-friendly legislation passed in Missouri. Although Mr. Sagel acknowledges that Ameren Missouri's ability to elect PISA was at least the tipping point for Ameren Corp being allowed a more leveraged profile, he has stood firm in Ameren Missouri's last several rate cases in not giving any consideration to Ameren Missouri's customers in the form of a more leveraged and cost-efficient capital structure. In my opinion, this is one of the clearest examples of the need for the Commission to assert its authority to ensure a fair and reasonable outcome for ratepayers. Otherwise, Ameren Corp's shareholders are unfairly enriched through the use of Ameren Missouri's ratepayer-supported debt capacity.

Q. What Stand-Alone Credit Profile ("SACP") had S&P assigned to Ameren Missouri in the past?

A. Until September 2019, S&P assigned Ameren Missouri a SACP of an 'A-', but it was ultimately assigned a 'BBB+' due to its affiliation with Ameren Corp.

Q. Why did S&P assign Ameren Missouri a stronger SACP?

A. Primarily because of Ameren Missouri's healthier financial risk profile, e.g. higher FFO/debt ratios. However, because Ameren Corp did not have as strong of a financial risk profile ("FRP"), Ameren Missouri's S&P credit rating was limited to a 'BBB+'.

Q. Did Ameren Missouri's stronger FRP provide credit support to Ameren Corp when Ameren Corp provided financial support for investments in ATXI and AIC during much of the past decade?

A. Yes. From 2014 to 2017, Ameren Corp directly supported investment in ATXI by issuing debt to fund equity capital contributions and loans to ATXI. Ameren Corp indirectly supported investment in AIC for much of the past decade by allowing it to retain up to

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1 100% of its net income, rather than paying dividends to Ameren Corp. From the period
2 2011 until 2018 (Ameren Missouri elected PISA in 2018), Ameren Missouri paid annual
3 dividends (net of capital contributions) to Ameren Corp in the range of 87.22% in 2016 to
4 148.28% in 2011, with an average of 105.22% over this period.

5 Additionally, during this time frame, Ameren Missouri's FFO/debt ratios were typically in
6 the range of 24% to 27%—significantly higher than the 19% FFO/debt threshold required
7 to maintain a 'Baa1' credit rating. Ameren Missouri could have issued more debt during
8 this period and still had a comfortable FFO/debt margin above 19%. However, if Ameren
9 Missouri had done so, it would have caused Ameren Corp's consolidated FFO/debt ratio
10 to be lower. Maintaining a higher FFO/debt ratio at Ameren Corp over this period was
11 important for Ameren Corp because it was regularly accessing the capital markets, such as
12 issuing commercial paper, to fund investment in ATXI, which required significant amounts
13 of capital. After accumulating a significant amount of short-term debt at Ameren Corp due
14 to its investment in ATXI and its refinancing of a $425 million long-term bond, Ameren
15 Corp issued $700 million of bonds in 2015, which was a year in which Ameren Missouri
16 had an FFO/debt ratio of 26.7%[8]. This compared to Ameren Corp's consolidated FFO/debt
17 ratio of 24.4% during the same year.[9]

18 **Q. Have Ameren Corp's business and financial risks impaired Ameren Missouri's**
19 **financing flexibility in the past?**

20 A. Yes. Ameren Missouri was foreclosed access to commercial paper markets in August 2008
21 due to the downgrade of its Moody's short-term credit rating to P-3. Ameren Missouri's
22 short-term rating was downgraded due to Moody's downgrading Ameren Corp's long-term
23 rating to 'Baa3'. This downgrade was primarily caused by financial difficulties at Ameren
24 Missouri's affiliates.

25 S&P had already rated Ameren Corp's credit at a 'BBB-', which meant Ameren Missouri
26 was also rated 'BBB-'. Ameren Missouri, therefore, had an A-3 short-term rating.

[8] Moody's Credit Opinion, Union Electric Company, March 29, 2019, Exhibit 2, p. 2.
[9] Moody's Credit Opinion, Ameren Corporation, March 29, 2019, Exhibit 2, p. 2.

P

1 These Tier-3 short-term ratings foreclosed Ameren Missouri's access to short-term credit
2 markets, which proved to be quite costly to Ameren Missouri's ratepayers because of
3 liquidity concerns. Ameren Missouri's ratepayers were charged for carrying costs due to
4 the delay in installing scrubbers at Ameren Missouri's Sioux Energy Center.

5 **Q. Why do you conclude that these downgrades foreclosed Ameren Missouri's ability to**
6 **access commercial paper?**

7 A. Because Evergy Metro (f/k/a Kansas City Power & Light Company) had at least one Tier-
8 2 rating, which allowed it to continue to issue commercial paper to fund its Iatan 2 plant
9 construction during the period of the financial crisis in 2008 to 2009.

10 **Q. Exactly what point are you making by discussing circumstances from fifteen years**
11 **ago?**

12 A. I am illustrating the hypocrisy of Mr. Sagel's expressed concerns about Ameren Missouri's
13 ratepayers paying a higher ROR to provide financial stability for a parent company that
14 hasn't always reciprocated. If Ameren Corp desires Ameren Missouri's ratemaking equity
15 ratio to be set at 52%, then Ameren Corp should issue more equity and less debt to achieve
16 an equity ratio more consistent with the 52% it apparently considers important for financial
17 flexibility.

18 *OTHER MISSOURI UTILITY COMPANIES' FINANCIAL RISK PROFILES*

19 **Q. Are you aware of other Missouri utilities the Commission should consider when**
20 **evaluating Ameren Corp's arguments that Ameren Missouri's assets cannot support**
21 **more debt and lower FFO/debt ratios and still maintain its credit rating?**

22 A. Yes. The Commission should consider the ratings treatment afforded to Missouri's other
23 major electric utility companies, Evergy Metro and Evergy Missouri West.

24 **Q. What is Evergy Metro's current Moody's rating?**

25 A 'Baa1,' which is the same as Ameren Missouri's.

P

Q. Mr. Sagel testifies that in its May 13, 2024, credit opinion on Ameren Missouri, Moody's lowered the FFO/debt downgrade threshold to 18% from the 19% it had consistently identified in credit opinions published on Ameren Missouri since at least 2019. Did Mr. Sagel explain Moody's rationale for lowering Ameren Missouri's FFO/debt downgrade threshold?

A. No. Mr. Sagel testified that the May 13, 2024, Moody's credit opinion did not provide a specific discussion regarding Moody's rationale for lowering the FFO/debt downgrade threshold. Mr. Sagel explained that Ameren Missouri's FFO/debt ratios had been at or below the previous 19% threshold for three of the four years between 2020 to 2023 so "it appears that Moody's is now willing to give the Company a bit more flexibility on this metric prospectively…"[10]

Q. Are you surprised Mr. Sagel is speculating as to why Moody's lowered Ameren Missouri's FFO/debt downgrade threshold to 18% from 19%?

A. Yes. Considering Mr. Sagel is part of Ameren Corp's team which interacts with and makes presentations to the credit rating agencies, I would expect him to be able to provide more than a speculative explanation for Moody's decision to loosen the FFO/debt threshold for Ameren Missouri. Of course, as I testified earlier in this testimony, Ameren Corp's officers' priority for their interaction with credit rating agencies has been primarily to lobby for less restrictive credit metric thresholds for Ameren Corp rather than Ameren Missouri.

Q. What is your view of the potential reason for Moody's decision to lower its FFO/debt downgrade threshold for Ameren Missouri?

A. Moody's recognized it was inconsistent in requiring a higher FFO/debt threshold for Ameren Missouri as compared to Evergy Metro. I have testified in Ameren Missouri rate cases since at least 2021 about Moody's inconsistent lower threshold of 18% for Evergy Metro as compared to 19% for Ameren Missouri.

Considering Mr. Sagel does not have first-hand knowledge as to what caused Moody's to eventually lower the FFO/debt threshold for Ameren Missouri, this further demonstrates

[10] Sagel Rebuttal, p. 22, lns. 11-19.

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1 that Mr. Sagel nor any other Ameren Missouri officers have bargained for Ameren
2 Missouri's interests. It appears that Missouri utility regulators, through critical analysis of
3 Moody's practices, are the primary stakeholder attempting to ensure Ameren Missouri's
4 ratepayers are given due consideration for Ameren Missouri's lower business risk.

5 **Q. When Ameren Corp's officers lobbied Moody's to lower its FFO/debt thresholds for**
6 **Ameren Corp, did they perform a comparative analysis of Ameren Corp's FFO/debt**
7 **ratios to that of other companies?**

8 A. Yes. As shown on pages 18 and 19 of Schedule DM-S-2, when Ameren Corp's officers
9 lobbied Moody's to lower its FFO/debt threshold, it compared Moody's downgrade
10 threshold of its peer utility holding companies to itself.

11 **Q. Has Ameren Corp ever provided a similar analysis for Ameren Missouri highlighting**
12 **Moody's inconsistent FFO/debt thresholds for Evergy Metro and Ameren Missouri?**

13 A. Not that I am aware of. I have reviewed all of Ameren Corp's rating agency presentations
14 since 2019. I did not find evidence of a similar presentation performed on behalf of
15 Ameren Missouri. If Ameren Corp had done so on behalf of Ameren Missouri, Mr. Sagel
16 would be able to testify first-hand that this was the rationale for Moody's lowering Ameren
17 Missouri's FFO/debt threshold to 18%.

18 **Q. What was Evergy Metro's last authorized capital structure for purposes of setting its**
19 **allowed ROR?**

20 A. In Evergy Metro's (f/k/a Kansas City Power & Light Company) last fully litigated rate
21 case, Case No. ER-2016-0285, the Commission authorized Evergy Metro a ratemaking
22 capital structure consisting of 49.2% common equity and 50.8% long-term debt.

23 **Q. Did any rating agencies place Evergy Metro on a "negative watch" or "negative**
24 **outlook" after the Commission authorized that capital structure?**

25 A. No.

P

1 **Q. Did Evergy Metro recommend an equity ratio similar to that which the Commission**
2 **authorized?**

3 A. Yes. Evergy Metro recommended a common equity ratio of 49.72%.

4 **Q. What ratemaking capital structure did Evergy Missouri West request in its recent**
5 **rate case, Case No. ER-2024-0189?**

6 A. Evergy Missouri West ("EMW") initially requested its authorized ROR be premised on a
7 capital structure expected to consist of 52.04% common equity as of the true-up date, June
8 30, 2024[11]

9 **Q. Did Evergy Inc. manage its inter-company capital flows to achieve its initial requested**
10 **common equity ratio of approximately 52%?**

11 A. No. Instead of managing its inter-company capital flows to achieve a 52% common equity
12 ratio, Evergy Inc. managed EMW's capital flows to achieve a 49.88% common equity ratio
13 as of the true-up date.

14 **Q. Could Evergy Inc. easily have achieved its initial requested ratemaking common**
15 **equity ratio of 52% for EMW?**

16 A. Yes.

17 **Q. How did Evergy Inc. initially plan to achieve a 52% projected ratemaking common**
18 **equity ratio for EMW?**

19 A. EMW's witness Kirkland B. Andrews testified that EMW planned to issue $200 million of
20 long-term debt before June 30, 2024, and retain a projected amount of income classified as
21 confidential in the case. While EMW fell slightly short on the projected amount of retained
22 earnings from income, the major driver causing EMW's common equity ratio to be
23 approximately 50% was its decision to issue $300 million of long-term debt rather than
24 $200 million.

[11] Case No. ER-2024-0189, Direct Testimony of Kirkland B. Andrews, p. 4, lns. 2-6.

P

1 **Q. Did EMW recommend the use of the 49.88% common equity ratio to set is authorized**
2 **ROR?**

3 A. Yes. EMW agreed that its authorized ROR should be set based on this common equity
4 ratio.[12]

5 **Q. Are you aware of a negative reaction from the investment community because EMW**
6 **decided to adjust its ratemaking capital structure to an approximate 50% common**
7 **equity ratio?**

8 A. No.

9 **Q. What were EMW's FFO/debt ratios in 2022 and 2023, respectively?**

10 A. 15.4% and 9.8%.[13]

11 **Q. What did Moody's project them to be over the next two-to-three years?**

12 A. 12% to 14%.[14]

13 **Q. If Ameren Missouri had managed its internal capital flows to achieve a common**
14 **equity ratio of no higher than 50% at the true-up date in this case, would you expect**
15 **a negative reaction from rating agencies?**

16 A. No. It is common for utility regulatory jurisdictions to set authorized common equity ratios
17 at approximately 50%. Unfortunately, when utility companies communicate to investors
18 that they expect a higher authorized common equity ratio consistent with their
19 recommendations, this causes investors to value the stock based on the company's
20 optimistic guidance to investors. If a utility company's publicly-traded parent company's
21 stock price declines after a commission authorizes a more reasonable common equity ratio,
22 this does not necessarily imply investors expect more risk going forward, it just reflects a
23 reset in the level of expected earnings.

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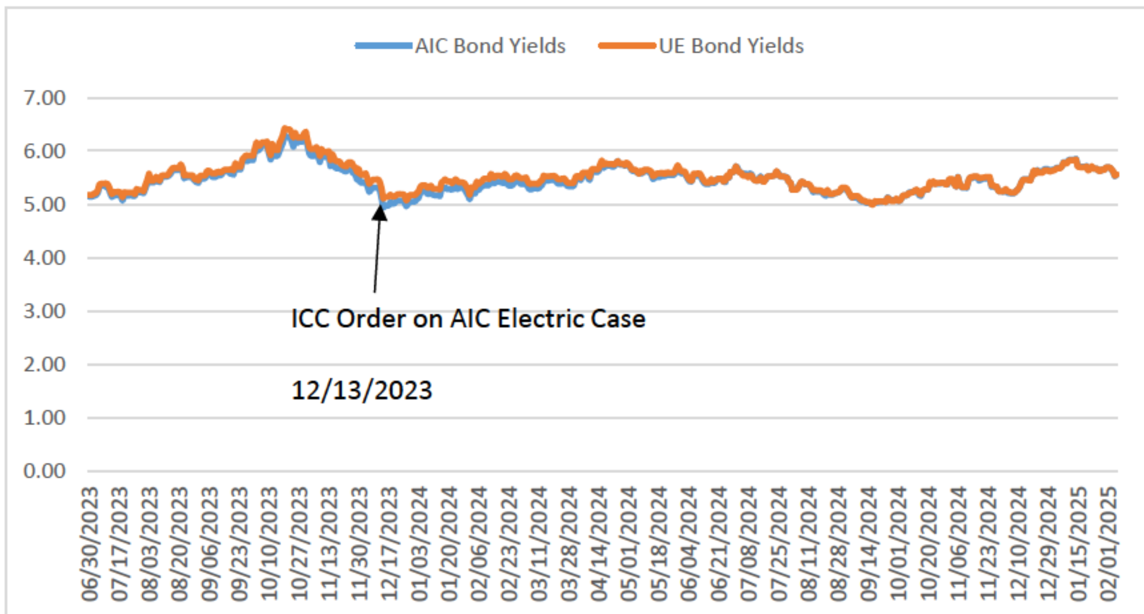
[12] *Id.,* Ronald A. Klote True-up Rebuttal Testimony, p. 7, lns. 5-14.
[13] Moody's Credit Opinion, Evergy Missouri West, May 9, 2024, p. 2.
[14] *Id.,* p. 1.

P

1 **Q. Can you provide an example?**

2 A. Yes. Ameren Corp is the perfect example because of the recent decision by the Illinois
3 Commerce Commission ("ICC") that authorized a lower ROE than investors expected,
4 which was applied to a 50% authorized common equity ratio. Although Ameren Corp's
5 stock price declined after the ICC's decision, going forward investors recognized that the
6 recovery of the lower adjusted level of capital expenditures is still highly probable.

7 This has also been recognized by debt investors in AIC's outstanding debt. The yield-to-
8 maturity ("YTM") on AIC's debt has not been more costly than the YTM on Ameren
9 Missouri's debt. In fact, the YTM on AIC's debt has even been slightly lower than similar
10 maturities for Ameren Missouri debt. The following chart comparing AIC and Ameren
11 Missouri debt issuances with similar terms[15] shows how closely they have traded since
12 before and after the ICC's decision on AIC's multi-year rate case on December 13, 2023:



13

[15] AIC yields are based on bonds with the following CUSIP identifiers: 02361DAT7, 02361DAU4, 02361DAX8, and 02361DAZ3. Ameren Missouri yields are based on bonds with the following CUSIP identifiers: 906548CQ3, 906548CS9, 906548CU4 and 906548CW0.

P

1 *COMPARISON TO AMEREN ILLINOIS' CAPITAL STRUCTURE*
2 *ARGUMENTS BEFORE THE ILLINOIS COMMERCE COMMISSION*

3 **Q. Mr. Sagel warns of potential negative credit and cost of capital ramifications if the**
4 **Commission were to authorize Ameren Missouri a lower common equity ratio than**
5 **that shown on Ameren Missouri's books.[16] Did AIC witnesses raise the same warning**
6 **to argue for a higher authorized common equity ratio for purposes of implementing**
7 **its electric utility rates after it was allowed to use formula rates starting in 2012?**

8 A. Yes. After Illinois' passage of the Energy Infrastructure Modernization Act ("EIMA") in
9 2011, AIC began filing annual rate cases for its electric utility in Illinois. Over the course
10 of approximately three years, AIC and ICC Staff vigorously debated a fair and reasonable
11 ratemaking common equity ratio in which to apply the formula ROE of 580 basis points
12 plus a 12-month average 30-year United States Treasury yield. The arguments in the AIC
13 rate cases were quite similar to those Ameren Missouri has made in its last few rate cases
14 in Missouri. AIC's witnesses asserted AIC had to maintain a higher common equity ratio
15 to offset higher business risks associated with the Illinois regulatory environment.[17]

16 **Q. What ratemaking common equity ratio did AIC recommend in the inaugural case**
17 **(2012) pursuant to Illinois' Energy Infrastructure Modernization Act?**

18 A. 54.297% in Docket No. 12-0001.[18]

19 **Q. What equity ratio did the ICC Staff witness recommend in that case?**

20 A. 51.49%.

21 **Q. What common equity ratio did the ICC authorize?**

22 A. 51.49%.

[16] Sagel Rebuttal, p. 25, l. 11 – p. 26, l. 2.
[17] Illinois Docket No. 12-001, Ryan J. Martin Rebuttal Testimony, p. 5, l. 97 through p. 6, l. 116.
[18] Illinois Docket No. 12-0001, Schedule D-1 Sponsored by Ryan J. Martin

P

1 **Q. What common equity ratio did AIC recommend for its electric utilities in its 2013 rate**
2 **case, Docket No. 13-0301?**

3 A. 54.62%.

4 **Q. What common equity ratio did the ICC Staff recommend?**

5 A. 51%.

6 **Q. What was the premise for ICC Staff's recommended common equity ratio in AIC's**
7 **2013 rate case?**

8 A. Ameren Corp's average consolidated common equity ratio for 2011.

9 **Q. What common equity ratio did the ICC authorize in that case?**

10 A. 51%.

11 **Q. What common equity ratio did AIC recommend for its electric utilities in its 2014 rate**
12 **case, Docket No. 14-0317?**

13 A. 51%.

14 **Q. What about the ICC Staff?**

15 A. 51%.

16 **Q. Why did the ICC Staff recommend the same common equity ratio in AIC's 2014 rate**
17 **case?**

18 A. Because the ICC Staff and AIC had agreed to use a 51% common equity ratio for purposes
19 of that case.

20 **Q. Did the ICC adopt the 51% common equity ratio recommended by AIC and ICC**
21 **Staff?**

22 A. Yes.

1 **Q. Did they agree to use that same equity ratio in subsequent cases?**

2 A. No. They agreed to use a 50% common equity ratio, which was later codified as an
3 amendment to the EIMA.

4 **Q. Over the period of these cases in which AIC's fair and reasonable ratemaking capital**
5 **structure was debated and decided by the ICC, were AIC's credit ratings put on a**
6 **negative outlook or watch?**

7 A. No.

8 **Q. Can you briefly discuss the differing capital structure positions in AIC's recent multi-**
9 **year rate plan case at the ICC?**

10 A. Yes. AIC witness Daryl Sagel recommended the ICC authorize common equity ratios
11 between 53.973% and 54.031% for the four years of the multi-year plan (2024 to 2027).[19]
12 ICC Staff witness Janis Freetly, recommended the ICC authorize a ratemaking common
13 equity ratio of 50% based on the statutory guidance that a 50% common equity ratio would
14 be deemed reasonable unless AIC provided compelling evidence that a higher common
15 equity ratio is needed for ratemaking.[20] Christopher Walters, witness for the Illinois
16 Industrial Energy Consumers, the Federal Executive Agencies, the Citizens Utility Board,
17 the United Congregations of Metro-East and Prairie Rivers Network, recommended the
18 ICC authorize AIC a ratemaking common equity ratio of 50%. Mr. Walters' recommended
19 common equity ratio was also premised on the fact that AIC's authorized ROR had been
20 premised on the statutory guidance that a 50% common equity ratio had been deemed
21 reasonable in AIC's formula rate plan cases.[21]

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[19] ICC Docket Nos. 22-0487 and 23-0082, Darryl T. Sagel Direct Testimony, p. 3. Table 1.
[20] *Id.,* Janis Freetly Direct Testimony, p. 6, lns. 104-115.
[21] *Id.,* Christopher C. Walters Direct Testimony, p. 33, ln. 477 – p. 34, ln. 516.

1 **Q. Did Mr. Sagel warn the ICC that if it did not authorize a common equity ratio**
2 **consistent with his recommendation that this may impair AIC's credit rating and**
3 **increase its cost of debt?**

4 A. Yes. Mr. Sagel specifically testified that "To the extent Ameren Illinois' credit ratings
5 were downgraded, the Company's access to required debt capital to finance its operations
6 could become more challenging and likely more expensive, which would be harmful to the
7 Company's customers."[22]

8 **Q. Was AIC's credit rating downgraded due to the ICC authorizing a lower common**
9 **equity ratio?**

10 A. No.

11 **Q. Did AIC's cost of debt increase after the ICC issued its order authorizing a lower**
12 **common equity ratio and a lower authorized ROE?**

13 A. No. This is evident from my previous chart showing the yields on AIC's and Ameren
14 Missouri's debt for the period June 30, 2023 through February 6, 2025.

15 *PRO FORMA IMPACT OF CAPITAL STRUCTURE ON CREDIT PROFILE*

16 **Q. Did Mr. Sagel quantify the potential impact the Commission's adoption of your**
17 **capital structure recommendation may have on Ameren Missouri's FFO/debt ratios?**

18 A. Yes. Mr. Sagel estimates that if Ameren Missouri's revenue requirement in 2023 had been
19 premised on my recommended capital structure containing a 42% common equity ratio,
20 this would cause Moody's FFO/debt ratio to be approximately ** ____ **.[23] This
21 compares to the 19.0% actual FFO/debt achieved by Ameren Missouri in 2023.[24]

[22] ICC Docket Nos. 22-0487 and 23-0082, Darryl T. Sagel Rebuttal Testimony, p. 15, lns. 307-309.
[23] Sagel Rebuttal, p. 25, lns. 19-21.
[24] Moody's Credit Opinion, Union Electric Company, May 13, 2024, Exhibit 1, p. 2.

P

1 **Q. Do you agree with his *pro forma* estimates?**

2 A. No.

3 **Q. What about his methodology?**

4 A. His methodology is reasonable.

5 **Q. Why do you disagree with his estimates?**

6 A. Mr. Sagel calculated his *pro forma* adjustments based on Ameren Missouri's estimated
7 total capital and rate base as of December 31, 2024, which would impact subsequent cash
8 flows. Because Ameren Missouri's 2023 FFO/debt ratios are premised on rates in effect
9 for 2023, the *pro forma* adjustments should be calculated based on parameters used to
10 determine the rates in effect in 2023. These parameters were determined in Ameren
11 Missouri's 2022 rate case, Case No. ER-2022-0337 and Ameren Missouri's 2021 natural
12 gas distribution rate case, Case No. GR-2021-0241. Ameren Missouri's total long-term
13 capital was about $2.961 billion less as of the true-up date, December 31, 2022 as compared
14 to December 31, 2024. Ameren Missouri's electric utility rate base was approximately
15 $2.759 billion lower.

16 Because the parties did not specify an underlying capital structure or ROR in their black
17 box stipulation and agreement in the 2022 rate case, the capital structure supporting 2023
18 rates is ambiguous. Staff and Ameren Missouri recommended a 51.91% common equity
19 ratio and OPC recommended a 43% common equity ratio. For sake of estimating the
20 potential largest *pro forma* impact on Ameren Missouri's 2023 FFO, I estimated the *pro*
21 *forma* impact on Ameren Missouri's 2023 FFO by applying the full difference of Ameren
22 Missouri's recommended 51.91% equity ratio to a 43% equity ratio. I estimate that
23 Ameren Missouri's FFO/debt ratios would have been 14.6% compared to the actual of
24 19.0%, or a difference of 4.4%.

P

1 **Q. What FFO/debt ratios does Moody's expect for Ameren Missouri on a going forward**
2 **basis?**

3 A. Approximately 19% to 21%.[25]

4 **Q. If the Commission sets Ameren Missouri's ROR based on your recommended capital**
5 **structure, what impact would the approximate 4.4% reduction to Ameren Missouri's**
6 **FFO/debt ratio have on Ameren Missouri's projected FFO/debt ratios?**

7 A. It would be approximately 14.6% to 16.6%, which is below the 17% threshold Ameren
8 Corp bargained for itself from Moody's.

9 **Q. Would this not cause Ameren Corp's FFO/debt ratios to be lower than Ameren**
10 **Missouri's FFO/debt ratios?**

11 A. Only if Ameren Corp maintains the current proportion of holding company debt in its
12 consolidated capital structure.

13 **Q. If the Commission adopted your recommended capital structure, is it possible that**
14 **Ameren Missouri's Moody's credit rating could be downgraded by a notch?**

15 A. Yes. However, Moody's assigns Evergy Missouri West a 'Baa2' rating despite Moody's
16 expectation that EMW will have an FFO/debt ratio of 12% to 14% over the next 2-3 years.
17 Ameren Missouri's FFO/debt ratios would be in between this range and its current
18 projected range of 19% to 21%.

19 **Q. If the Commission were to adopt your recommended capital structure in this case,**
20 **what could be done to improve Ameren Missouri's credit profile?**

21 A. Ameren Corp could issue more common equity and less holding company debt to reduce
22 the amount of financial risk in its consolidated capital structure. If Ameren Corp adjusted
23 its capital structure to include a higher proportion of common equity, I would likely
24 recommend this higher common equity ratio in Ameren Missouri's next rate case, which
25 would improve its credit metrics.

[25] *Id., p. 2.*

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1 *PARENT/SUBSIDIARY FINANCING RELATIONSHIP*

2 **Q. Does an increasing amount and percentage of holding company debt cause financial**
3 **instability for the entire Ameren Corp enterprise?**

4 A. Yes. S&P Global Ratings clearly states that Ameren Missouri does not have sufficient
5 insulation mechanisms in place to allow it to have a separate and distinct credit rating from
6 Ameren Corp. Therefore, Ameren Corp's financial and business risks impact the rating
7 S&P Global Ratings assigns to Ameren Missouri.

8 **Q. Have other jurisdictions denied proposed acquisitions due in part to the financial**
9 **instability that would be caused by issuing too much holding company debt to fund**
10 **the acquisition?**

11 A. Yes. This was one of the factors the Kansas Corporation Commission's ("KCC") cited in
12 its disapproval of Great Plains Energy's proposed acquisition of Westar Energy.

13 **Q. Did Great Plains Energy and Westar Energy eventually merge?**

14 A. Yes, but only after they restructured the transaction to be a merger of equals ("MOE"),
15 which is essentially a transaction in which each company's shareholders swap their shares
16 for a pro-rated ownership interest in the combined company. Unlike the initial proposed
17 transaction, this type of transaction did not involve use of leverage at the holding company.

18 **Q. Did the KCC impose any conditions on the merger to control the potential of Evergy**
19 **issuing a disproportionate share of holding company debt to leverage its returns after**
20 **the merger closed?**

21 A. Yes. A condition of the KCC's approval of the merger was to institute an Earnings Review
22 and Sharing Plan ("ERSP"). The KCC understood that the newly formed entity, Evergy,
23 could attempt to retain more earnings for its shareholders by using more debt leverage at
24 the holding company level as compared to its subsidiaries. Consequently, to the extent
25 Evergy's consolidated common equity ratio was lower than its subsidiaries' common
26 equity ratios by 2.5% to 3.5%, the percentage of equity allowed to be counted for the ERSP
27 would be reduced by a proportionate amount.

1 **Q. How much lower is Ameren Corp's equity ratio than Ameren Missouri's common**
2 **equity ratio?**

3 A. As of September 30, 2024, the difference between Ameren Cop's common equity ratio and
4 Ameren Missouri's common equity ratio reached an all-time high of 11.76 percentage
5 points. Ameren Corp has steadily increased the amount and proportion of holding
6 company debt as compared to Ameren Missouri since it began investing significant
7 amounts of capital in Missouri after the passage of PISA.

8 **Q. What common equity ratio did the KCC allow Evergy's subsidiaries for purposes of**
9 **the ERSP?**

10 A. 51% in 2019, 50.5% in 2020 and 50% in 2021 through 2022.

11 **Q. What was Evergy's common equity ratio over this period?**

12 A. It was in the 47% to 49% range.

13 **Q. When did the ERSP expire?**

14 A. At the time Evergy's Kansas' new rates took effect, which was at the end of 2023.[26]

15 **Q. What have Evergy's common equity ratios been since the ERSP expired?**

16 A. Evergy's common equity ratios have been in the range of 44% to 46%.

17 **Q. What is Ameren Corp's consolidated common equity ratio?**

18 A. Around 40% to 41% without short-term debt, and around 39% to 40% with short-term debt.
19 Ameren Corp's common equity ratio has gradually declined from approximately 48% in
20 2018 to its current level, as documented in my rebuttal testimony.

[26] Docket Number D-23-EKCE-775-RTS

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1 **Q. Had investors historically believed that the potential of the Commission's**
2 **consideration of Ameren Corp's use of holding company debt in setting Ameren**
3 **Missouri's ROR restrained Ameren Corp from being overly aggressive in its use of**
4 **holding company debt?**

5 A. Yes. Wells Fargo stated the following in a report published on Ameren Corp in 2023:

6 AEE's '23-27 new equity needs total $2.8B, consisting of $2.3B of external
7 equity and $100M annually under DRPlus [dividend reinvestment plan] and
8 internal programs. AEE continues to target a parent equity ratio of ~45%.
9 The equity guidance is consistent with our assumption and '23 needs of
10 $0.4B represent ~1.5% of market cap. **AEE employs a relatively**
11 **conservative financing strategy vs. peers, likely reflecting regulatory-**
12 **related look-through considerations in MO.** (emphasis added)[27]

13 **Q. Mr. Sagel testifies that the common equity Ameren Corp invested in Ameren**
14 **Missouri's capital structure was raised through Ameren Corp's external equity**
15 **issuances, and therefore because this is the capital that supports Ameren Missouri's**
16 **rate base, this is the capital structure that should be used for the authorized ROR.[28]**
17 **First, do you agree that tracing the capital to external issuances should be the**
18 **determining factor for assessing a fair and reasonable capital structure?**

19 A. No. Ameren Corp's equity issuances benefit the entire enterprise's credit profile, not just
20 Ameren Missouri's credit profile. A recognized principle of finance is that it is the risk of
21 the investment that determines the cost of capital, not the source of funds. Based on Mr.
22 Sagel's logic, if Ameren Corp only sourced third-party equity for equity infusions into
23 Ameren Missouri, but issued holding company debt to infuse equity into its other
24 subsidiaries, only Ameren Missouri's capital structure would be legitimate. It is this logic
25 that supports S&P's family ratings approach to assigning credit ratings based on the parent
26 company's consolidated credit profile.

[27] Neil Kalton, et. al., "AEE: Quick Take on Q4 Updates – All Looks Just Fine," Wells Fargo, February 15, 2023.
[28] Sagle Rebuttal, p. 8, ln. 4 – p. 10, ln. 11.

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1 **Q.** **Second, do you agree with Mr. Sagel that Ameren Corp's equity contributions into**
2 **Ameren Missouri are traceable to Ameren Corp's external common equity issuances?**

3 A. No. I addressed this issue in my rebuttal testimony when responding to Dr. Won's direct
4 testimony. Mr. Sagel testifies that Ameren Corp's $350 million common equity
5 contribution to Ameren Missouri during the second quarter of 2024 was funded by Ameren
6 Corp's issuance of external common equity in 2023. Mr. Sagel's testimony can only be
7 accurate if for some reason Ameren Corp issued common equity in 2023 and deposited the
8 funds in a cash account for later investment in Ameren Missouri. Of course, doing so is
9 neither efficient nor practical. Ameren Corp's cash balance as of December 31, 2023, was
10 $25 million, which was much lower than the $318 million in proceeds from Ameren Corp's
11 issuance of common equity during the fourth quarter of 2023.

12 **Q.** **How did Ameren Corp use the $318 million of funds it raised from its issuance of**
13 **common equity during the fourth quarter of 2023?**

14 A. It is difficult to pinpoint exactly how Ameren Corp used the $318 million of common
15 equity proceeds because it also issued $1.3 billion in holding company debt during the
16 same quarter. However, because Ameren Corp did not make equity contributions to
17 Ameren Missouri during the same quarter, investment in Ameren Missouri can be ruled
18 out. At September 30, 2023, Ameren Corp had $1.124 billion in short-term debt
19 outstanding. Additionally, Ameren Corp paid $166 million in dividends during the fourth
20 quarter of 2023. Therefore, it appears the funds from Ameren Corp's holding company
21 securities issuances were primarily used to refinance short-term debt and to fund Ameren
22 Corp's dividend to third-party shareholders.

P

1 **Q. Mr. Sagel asserts that you suggest in your direct testimony that Ameren Missouri's**
2 **dividend payout ratio should be similar to Ameren Corp's.[29] Is he correct?**

3 A. No. I asserted in my testimony that if Ameren Missouri were managed as if it were a stand-
4 alone entity, it would have a carefully managed dividend payment policy, similar to
5 Ameren Corp's targeted dividend payout ratio in the range of 55% to 65%.

6 **Q. What did you intend to convey?**

7 A. That if Ameren Missouri were a stand-alone entity, as it was prior to the formation of
8 Ameren Corp in 1997 as the holding/parent company of Ameren Missouri and its affiliates,
9 it would be expected to fund a consistent quarterly dividend to third-party shareholders.
10 As a stand-alone entity accountable to third-party shareholders, it would be obligated to
11 fund the dividend regardless of its cash flow position (*i.e.* free cash flow negative due to
12 increased investment needs or free cash flow positive due to reduced investment needs).

13 **Q. Mr. Sagel testifies that the fact that Ameren Corp "had to lean more on parent**
14 **company debt" to fund dividends during Ameren Missouri's current capital-intensive**
15 **spending cycle shows Ameren Missouri's financial independence as it relates to**
16 **managing its capital structure in a responsible and prudent manner as its cash flow**
17 **position has changed.[30] Do you agree?**

18 A. No. First, I take issue with Mr. Sagel's characterization that Ameren Corp had to "lean
19 more on parent company debt" to fund dividends. Ameren Corp did not have to "lean more
20 on parent company debt" to fund dividends, it chose to. Ameren Corp's ability to issue
21 debt is a function of its ownership of its regulated utility subsidiaries. Ameren Corp has
22 no assets other than its regulated utility subsidiaries. Its balance sheet capacity is dependent
23 on its low-risk regulated utilities, not independent of such. Again, as I described in my
24 direct testimony, Ameren Corp's shared credit facilities with Ameren Missouri and AIC
25 allow it access to commercial paper markets. Ameren Corp's officers and Board Director's

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[29] Sagel Rebuttal, p. 11, l. 8 – p. 12, l. 22.
[30] Sagel Rebuttal, p. 12, lines 12-22.

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1 decision to issue commercial paper at the holding company rather than at Ameren Missouri
2 to fund third-party dividends is a matter of choice, not need.

3 Second, if Ameren Corp were a third-party shareholder of Ameren Missouri, similar to
4 shareholders of Union Electric prior to 1997, it would expect a consistent quarterly
5 dividend from Ameren Missouri despite Ameren Missouri's cash flow position. For
6 example, while Union Electric was expending significant amounts of capital in the late
7 1970s and early 1980s while it was building the Callaway Nuclear Plant, it not only
8 maintained the dividends paid to third-party shareholders, but its dividends increased at a
9 compound annual growth rate ("CAGR") of approximately 3.2%. Because Union Electric
10 was truly an independent entity responsible to third-party shareholders, it issued its own
11 short-term debt to finance its construction needs while still maintaining investors' expected
12 dividends.

13 **Q. Dr. Won testifies that Ameren Missouri "has neither internally identified nor**
14 **externally communicated a targeted capital structure." What is Dr. Won's basis for**
15 **his testimony?**

16 A. Ameren Missouri's response to Staff Data Request No. 0112 (Schedule DM-S-3 attached).

17 **Q. Is Ameren Missouri's response to Staff's data request consistent with its actions and**
18 **testimony?**

19 A. No. As I testified in my direct testimony, Ameren Missouri's requested common equity
20 ratio for its general rate cases since at least 2012 has been in the range of 51.75% to
21 52.30%.[31] Although Ameren Missouri's almost constant approximate 52% common equity
22 ratio speaks for itself, Mr. Sagel's direct testimony also affirms its deliberate targeting of
23 an approximate 52% common equity ratio since at least 2016.[32]

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[31] Murray Direct, p. 41, lns. 3-6.
[32] Sagel Direct, p. 13, lns. 1-9.

P

1 **Q. Do the capital flows between Ameren Corp and Ameren Missouri establish that**
2 **Ameren Missouri's capital structure is not the result of arms-length transactions?**

3 A. Yes. I agree with Mr. Sagel's testimony about the basic financial principle that the "use of
4 funds invested gives rise to the risk of the investment."[33] The purest insight as to Ameren
5 Corp's view about the business risk associated with investing in its regulated utility
6 subsidiaries is the capital structure it maintains at the consolidated level. It is this capital
7 structure that has the competing interests of achieving the lowest reasonable cost of capital,
8 while at the same time maintaining an equity layer that ensures financial stability of the
9 entire enterprise. If Ameren Corp wants its utilities' ratepayers to pay for a higher-cost,
10 equity-rich capital structure, it should issue more common equity at the holding company
11 level which would provide ratepayers the benefit of a financially stronger parent rather than
12 the current situation in which Ameren Corp's higher leverage is a credit constraint.

13 **Q. Does the basic financial principle that the required return is related to the use of the**
14 **funds and not the source of the funds also contradict Mr. Sagel's opinion that Ameren**
15 **Missouri's capital structure is legitimate if Ameren Corp's equity contributions to**
16 **Ameren Missouri are sourced from Ameren Corp's issuance of common equity?**

17 A. Yes. Mr. Sagel's attempt to claim that Ameren Missouri's per books capital structure is
18 legitimate if the source of Ameren Missouri's equity infusion was third-party common
19 equity issued by Ameren Corp, contradicts his own position that it is the use of the funds
20 and not the source of the funds that influences the cost of capital. I agree that it is the risk
21 of the underlying investment that drives the cost of capital and determines the amount of
22 debt leverage that can reasonably be used. Ameren Corp's more leveraged capital structure
23 captures managements' sincere view of the debt capacity of its low-risk regulated utility
24 assets.

[33] Sagel Rebuttal, p. 8, ll. 13-14.

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Q. Has Mr. Sagel testified in the past that Ameren Missouri needed more common equity than AIC because it is an integrated-electric utility while AIC is a distribution-only utility?

A. Yes. As recently as Ameren Missouri's 2019 rate case, Mr. Sagel testified as follows in his rebuttal testimony:

> Given the higher-risk nature of Ameren Missouri's vertically-integrated business, (with numerous energy centers including one nuclear center) relative to the risk of Ameren Corporation's other primary subsidiaries (Ameren Illinois operates electric transmission and distribution facilities and natural gas delivery facilities), it stands to reason that Ameren Missouri would support and maintain a common equity ratio that is higher than Ameren Corporation's consolidated equity ratio.[34]

and

> The lower overall risk profile of Ameren Illinois relative to Ameren Missouri is also evident in Ameren Illinois' stronger issuer rating at Moody's, which rates Ameren Illinois A3 and Ameren Missouri Baa1. Moody's ratings for each of Ameren Illinois and Ameren Missouri are independently developed based on their discrete credit profiles.[35]

Q. What are AIC's and Ameren Missouri's current Moody's credit ratings?

A. Moody's still rates AIC one notch higher at 'A3' as compared to Ameren Missouri's 'Baa1' rating.[36]

Q. What was AIC's ratemaking common equity ratio at the time Mr. Sagel argued AIC's capital structure should be managed to a lower common equity ratio due to the lower risk profile of its operations?

A. 50%.

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[34] Case No. ER-2019-0335, Darryl T. Sagel Rebuttal, p. 14, lines 3-8.
[35] *Id.,* p. 31, lines 5-8.
[36] Moody's Ratings Credit Opinion on Union Electric Company, May 13, 2024.

P

1 **Q. What common equity ratio did Mr. Sagel suggest should be used for purposes of**
2 **setting AIC's rate of return in its recent multi-year rate plan application before the**
3 **ICC?**

4 A. Mr. Sagel sponsored capital structure testimony on January 20, 2023, before the ICC where
5 he requested that AIC's electric utility rates be set based on an approximate 54% common
6 equity ratio over the four-year period of the multi-year rate plan.[37]

7 **Q. What common equity ratio did the ICC authorize AIC for purposes of the multi-year**
8 **rate plan for its electric utility operations?**

9 A. 50%.

10 **Q. What is ATXI's per books common equity ratio?**

11 A. Approximately 60%.

12 **Q. Is ATXI's common equity ratio consistent with Mr. Sagel's testimony that Ameren**
13 **Missouri's affiliates can incur a higher percentage of debt because of lower business**
14 **risk?**

15 A. No. Despite the fact Ameren Corp's ATXI subsidiary has the lowest business risk of its
16 three primary operating subsidiaries, its balance sheet implies it requires the highest
17 common equity ratio. The fact that this is clearly not true provides further evidence that
18 Mr. Sagel's testimony is not credible.

19 **Q. Can you provide corroborating evidence which demonstrates that ATXI is considered**
20 **Ameren Corp's lowest-risk subsidiary?**

21 A. Yes. Both Moody's and S&P consider transmission-only companies subject to FERC rate
22 regulation to have the least amount of business risk of most utility subsectors, with the only
23 exception being water utility companies. S&P assesses the financial risk of transmission-
24 only companies, such as ATXI, against low-volatility benchmarks as compared to medial
25 volatility benchmarks for vertically-integrated electric utility companies. In Moody's most

[37] Ameren Illinois Company Petition for Approval of a Multi-Year Rate Plan pursuant to 20 ILCS 5/16-108.18, Docket No. 23-0082, Darryl T. Sagel Direct, January 20, 2023 - Document for 23-0082 (illinois.gov)

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1 recent report assessing the risk profiles of Ameren Corp's subsidiaries, it ranked ATXI,
2 AIC and Ameren Missouri as follows (from least business risk to most business risk): (1)
3 ATXI, (2) AIC, and (3) Ameren Missouri.[38]

4 Additionally, Wall Street equity analysts typically assign the highest price-to-earnings
5 ("P/E") multiples to FERC-regulated transmission earnings because of the low-risk nature
6 of these assets.

7 **Q. Considering the general rank-order of Ameren Corp's subsidiaries' business-risk**
8 **profiles, why are the targeted common equity ratios the opposite of Mr. Sagel's**
9 **explanation of basic risk and return principles?**

10 A. Because the subsidiaries' capital structures are primarily managed for ratemaking
11 purposes, not achieving the lowest reasonable cost of capital consistent with the underlying
12 business risk. As I have testified, Ameren Corp achieves the lowest reasonable cost of
13 capital at the consolidated level.

14 **Q. How can this Commission ensure Ameren Missouri's ratepayers are charged for a**
15 **market-driven capital structure rather than a ratemaking-driven capital structure?**

16 A. Consider Ameren Corp's consolidated capital structure strategies. This is the only capital
17 structure that has the competing interest of being managed to achieve a lower cost of capital
18 for the benefit of its shareholders while also minimizing the issuance of additional third-
19 party common equity to reduce dilution of earnings to existing shareholders. If Ameren
20 Corp desires to be awarded a ROR consistent with Ameren Missouri's higher-cost capital
21 structure, then it should issue additional common equity to third-party equity investors.

[38] Moody's Credit Opinion on Ameren Corporation, May 15, 2024.

P

1 *INVESTOR EXPECTATIONS ON RATEMAKING CAPITAL STRUCTURE*

2 **Q. Mr. Sagel discusses market responses to the Commission's deliberations in the Spire**
3 **Missouri gas rate cases, Case Nos. GR-2017-0215 and GR-2017-0216, to justify why**
4 **the Commission should accept Ameren Missouri's proposed capital structure.[39] Do**
5 **you think market responses like these should be the Commission's primary focus**
6 **when setting rates?**

7 A. No. Even as a consumer advocate witness, I consider the potential impact on a company's
8 investors when making my recommendations; but a negative stock price reaction is not
9 proof of a "bad" Commission decision. Investors' expectations are impacted by many
10 different factors, with anticipated Commission decisions being one of the primary factors.
11 Investors price in the probability of expected outcomes in rate cases. If a particular
12 commission has consistently awarded higher ROEs with equity-rich capital structures,
13 investors price in these investor-friendly outcomes in their projections. Additionally,
14 companies' guidance regarding discrete earnings per share ("EPS") expectations as well as
15 company guidance on long-term CAGR in EPS greatly influences investors' expectations.
16 Ameren Corp has consistently guided investors to an expected 6% to 8% long-term CAGR
17 in EPS. However, this earnings guidance has many assumptions underlying it. The key
18 factors typically influencing the earnings guidance of a pure-play regulated utility such as
19 Ameren Corp are anticipated rate base growth, the probability of recovery of this increased
20 investment, and the parameters applied to the rate base for purposes of allowed returns
21 (which include an assumed capital structure and potential allowed ROEs). If Ameren Corp
22 guides investors on earnings expectations based on the premise that Ameren Missouri's
23 authorized ROR will be based on a 52% ratemaking common equity ratio and if the
24 Commission authorizes a lower common equity ratio with the same projected authorized
25 ROE, then after the Commission's decision, Ameren Corp's stock price will adjust for
26 revised expectations. Again, a stock price decline due to a more reasonable authorized
27 capital structure is simply a reset of investors' expectations rather than an indication of a
28 punitive decision.

[39] Sagel Rebuttal, p. 41, l. 15 – p. 45, l. 4.

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As I explained in Spire Missouri's 2022 rate case, Case No. GR-2022-0179, because Spire Inc. guided investors to expect Spire Missouri's rates to be set at a 54% common equity ratio, it was no surprise that Spire Inc.'s stock price declined when the Commission ordered a lower ROR based on a capital structure with a lower common equity ratio. A stock price decline is not proof of an unfair outcome to investors, but rather an outcome that is different from investors' expectations.

FOUR CRITERIA – SUBSIDIARY VS. PARENT CAPITAL STRUCTURE

Q. Do Dr. Won and Mr. Sagel cite similar criteria to support their view that Ameren Missouri's per books capital structure is appropriate for setting Ameren Missouri's ROR in this case?

A. Yes. Both Dr. Won and Mr. Sagel believe the following criteria support their argument to use Ameren Missouri's per books capital structure to set its authorized ROR:

1. Whether the subsidiary utility obtains all of its capital from its parent, or issues its own debt and preferred stock;
2. Whether the parent guarantees any of the securities issued by the subsidiary;
3. Whether the subsidiary's capital structure is independent of its parent (i.e. existence of double leverage, absence of proper relationship between risk and leverage of utility and non-utility subsidiaries);
4. Whether the parent (or consolidated enterprise) is diversified into non-utility operations.[40]

Mr. Sagel and Dr. Won appear to agree on why they believe the first three criteria support the use of Ameren Missouri's per books capital structure to set its authorized ROR. However, while both witnesses believe the fourth criterion supports the use of Ameren Missouri's capital structure, they have opposite rationales for that belief.

Q. Did you address any aspects of these criteria in your rebuttal testimony?

A. Yes. While Dr. Won did not specifically cite the above-criteria in his direct testimony, he testified about several factors similar to these criteria that he believes supports using

[40] David Parcell, "The Cost of Capital – A Practitioner's Guide," 2010 Edition, p. 46.

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1 Ameren Missouri's capital structure.[41] The factors Dr. Won discussed in his direct
2 testimony closely follow Mr. Sagel's response to Dr. Won's Data Request No. 0125
3 attached as Schedule DM-S-4.

4 **Q. How do Mr. Sagel's responses to Dr. Won's data request address the four criteria?**

5 A. As it relates to the first factor, Dr. Won requested Ameren Missouri to either affirm or deny
6 whether it has executed affiliate notes (short-term or long-term) with Ameren Corp (item
7 numbers 1 and 2 in Dr. Won's data request). Other than money pool borrowings, Mr. Sagel
8 denies that Ameren Missouri has executed affiliate notes with Ameren Corp. Therefore,
9 based on Mr. Sagel's response and the fact that Ameren Missouri issues its own long-term
10 and short-term debt, Dr. Won and Mr. Sagel agree that the first factor supports use of
11 Ameren Missouri's capital structure.

12 Although it is a fact that Ameren Missouri issues its own short-term debt and long-term
13 debt, the fact that Ameren Corp shares a credit facility with Ameren Missouri should also
14 be considered. Ameren Missouri's credit quality allows both Ameren Corp and Ameren
15 Missouri to access short-term debt capital markets. As I have testified, it is Ameren Corp's
16 choice to issue short-term debt at the holding company level to fund dividends rather than
17 doing so at Ameren Missouri. Ameren Missouri was able to fund and grow its dividends
18 to third-party investors before Ameren Corp became its holding company.

19 Item numbers 5 and 6 of Dr. Won's DR No. 0125 address the second criterion as to whether
20 Ameren Corp guarantees any of Ameren Missouri's debt issuances. I agree with Mr. Sagel
21 and Dr. Won that Ameren Corp does not guarantee Ameren Missouri's debt. However,
22 Ameren Corp derives its creditworthiness from its regulated utilities, which includes
23 Ameren Missouri. As proven by Ameren Corp's startup investment in ATXI, it used cash
24 flows from its regulated utility subsidiaries to subsidize affiliate capital investment needs.
25 Ameren Corp's ability to issue holding company debt is a function of its ownership of its
26 regulated utilities, including Ameren Missouri. Ameren Corp does so at the expense of
27 Ameren Missouri's credit quality and a higher ROR charged to ratepayers.

[41] Won Direct, p. 34, l. 9 – p. 36, l. 5.

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1 Dr. Won's Data Request No. 0128 to Ameren Missouri relates to the third criterion. As
2 can be seen in Schedule DM-S-5, Dr. Won first provided his definition of "double
3 leverage." He then asked if Ameren Corp employs double leverage in its financing
4 strategies. Ameren Missouri denies that its parent company employs double leverage, at
5 least based on Dr. Won's definition. I disagree with Ameren Missouri's response.
6 Although it is true that it does not appear that Ameren Corp has directly used proceeds
7 from long-term debt to contribute common equity capital to Ameren Missouri, double
8 leverage should not be limited to these constraints. Double leverage is simply the issuance
9 of debt at a holding company and at the operating subsidiaries. However, even with this
10 in mind, as I testified in my rebuttal testimony, Ameren Corp's financing source for its
11 equity contribution to Ameren Missouri during the second quarter of 2024 was short-term
12 debt. Ameren Corp's short-term debt balance of over $1 billion at September 30, 2023,
13 was refinanced with Ameren Corp long-term debt and common equity in the fourth quarter
14 of 2023. It is difficult to reconcile the specific purposes for which Ameren Corp issued
15 short-term debt, but as Mr. Sagel testifies, Ameren Corp often issues holding company
16 financing to fund dividends it has chosen not to receive from its subsidiaries.[42] Therefore,
17 Ameren Corp's regular and more significant holding company financing activities are
18 trending to more financial integration rather than less.

19 **Q. What is Ameren Corp's motivation for employing double leverage?**

20 A. Ameren Corp can achieve a lower cost of capital for investments in its utilities without
21 sharing this lower cost with its subsidiaries' ratepayers. In Ameren Corp's case, the fact
22 that Ameren Corp only owns regulated utility assets and it has a much more leveraged
23 consolidated capital structure than its subsidiaries, proves that there is an absence of a
24 proper relationship between risk and return. But for Ameren Corp's ownership of low-risk
25 regulated utilities, it would not be able to raise holding company debt.

[42] Sagel Rebuttal, p. 12, lns. 12-14.

P

1 **Q. Is the comparison of Ameren Missouri's business risk to that of its holding company,**
2 **Ameren Corp, the premise of the fourth criterion listed above?**

3 A. Yes. The fourth criterion provides insight as to whether it is logical to expect the parent
4 company's consolidated capital structure to be significantly different than that of its
5 subsidiary due to the parent's consolidated business risk being different than the business
6 risk of the subsidiary. The criterion specifically identifies non-utility operations as a
7 consideration because non-utility operations typically have higher business risk than
8 monopoly utility operations. If a parent company has insignificant non-regulated and/or
9 non-utility operations, then it is not logical for the parent company to have a significantly
10 different capital structure than its subsidiaries.

11 **Q. Did Dr. Won request Ameren Missouri provide him information as it relates to the**
12 **last criterion?**

13 A. Yes. Item No. 8 of Dr. Won's Data Request No. 0125 requested Ameren Missouri to
14 identify the percentage of Ameren Corp's total assets that are considered non-utility assets.
15 In response to Dr. Won's data request, Mr. Sagel indicated that 1.03% of Ameren Corp's
16 total assets are considered "non-utility" assets.

17 **Q. Did Dr. Won consider this information supportive of using Ameren Missouri's per**
18 **books capital structure rather than considering Ameren Corp's consolidated capital**
19 **structure?**

20 A. Yes. Dr. Won considers this supportive of adopting Ameren Missouri's capital structure.
21 He testifies as follows in his direct testimony:

22 > In addition, Ameren Corp.'s non-utility assets are around 1.3% [sic]
23 > of its total assets. Hence, there are no significant concerns about the
24 > financial relationship between Ameren Missouri's regulated utility
25 > service and Ameren Corp's non-regulated business.[43]

[43] Won Direct, p. 36, lines 3-5.

P

Q. Is the fact that Ameren Corp is essentially a pure-play regulated utility supportive of accepting Ameren Missouri's per books capital structure as fair and reasonable for setting Ameren Missouri's ROR?

A. No. Dr. Won testifies that he is not concerned about the financial relationship between Ameren Missouri's regulated utility service and Ameren Corp' non-regulated business. I am not concerned about this interrelationship either. In fact, if Ameren Corp had more non-regulated operations, then it would be reasonable to expect Ameren Corp to have a higher common equity ratio than Ameren Missouri.

For example, Algonquin Power & Utilities Corp ("APUC"), which is the ultimate parent holding company of The Empire District Electric Company, had historically been comprised of approximately 20-25% of non-regulated utility operations through its wholly-owned subsidiary Algonquin Power Company. APUC had targeted a higher common equity ratio for its non-regulated subsidiary, Algonquin Power Company, versus a lower common equity ratio for its regulated utility subsidiary, Liberty Utilities Company.[44] The higher common equity ratio at Algonquin Power Company was not consistent with the lower-risk profile of Liberty Utility Company's regulated utilities, but this higher common equity is consolidated at APUC. Using APUC's consolidated capital structure in such a situation would have resulted in ratepayers paying for a higher common equity ratio than that which is consistent with the risk level of APUC's regulated utility subsidiary.

OTHER CAPITAL STRUCTURE ISSUES ADDRESSED BY DR. WON

Q. Did Dr. Won misinterpret how you arrived at your recommended ratemaking common equity ratio of 42%?

A. Yes. Dr. Won testified as follows:

> Mr. Murray concluded that the proportion of the common equity ratio would be lowered by around 10% (e.g., from 52% to 42%) if Ameren Missouri's consistent balance of short-term debt were included in its ratemaking capital structure.[45]

[44] Case No. ER-2021-0312, Todd Mooney Rebuttal, p. 13, l. 17 – p. 14, l. 7.
[45] Won Rebuttal, p. 36, lns. 3-6.

1 In his footnote 119, Dr. Won cited page 31, lines 1-2 of my direct testimony. I did not
2 discuss capital structure at the cite identified by Dr. Won. Regardless, my recommended
3 42% common equity ratio is premised on Ameren Corp's targeted consolidated common
4 equity ratio in the low 40% range. Ameren Corp clearly recognizes that the risk profile of
5 its subsidiaries can support more debt than directly issued by Ameren Missouri. Ameren
6 Corp's only assets are its regulated utility subsidiaries, which means that its consolidated
7 debt capacity is based on the low business risk profile of its subsidiaries. But for its
8 ownership of its regulated utility subsidiaries, Ameren Corp would not be able to issue
9 long-term debt and short-term debt at the holding company level.

10 **Q. What ratemaking capital structure did Dr. Won recommend be used to set Evergy**
11 **Missouri West's authorized ROR in Case No. ER-2024-0189?**

12 A. Dr. Won recommended a ratemaking capital structure consisting of 50% common equity
13 and 50% long-term debt.

14 **Q. What was the basis for Dr. Won's recommended capital structure in that case?**

15 A. Dr. Won testified that his recommended ratemaking capital structure was consistent with
16 Evergy's targeted capital structure for Evergy and EMW of just over 50% common
17 equity.[46]

18 **Q. What did EMW represent as its actual common equity ratio when it filed its direct**
19 **testimony?**

20 A. As of June 30, 2023, EMW witness Kirkland B. Andrews represented that EMW's capital
21 structure consisted of 53.52% common equity.

22 **Q. What common equity ratio did EMW target for purposes of the true-up date of June**
23 **30, 2024?**

24 A. 52.04%.

[46] Case No. ER-2024-0189, Won Direct, p. 29, lns. 17-19.

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1 **Q. According to EMW, what was its actual common equity ratio at June 30, 2024?**

2 A. Approximately 50%. As I testified earlier, EMW decided to issue $300 million of long-
3 term debt rather than the $200 million it had projected at the time it filed its direct
4 testimony.

5 **Q. Could Ameren Missouri also adjust its capital structure to a more reasonable 50%**
6 **common equity ratio as of the true-up date in this case?**

7 A. Yes. Instead of Ameren Missouri retaining all its net income, which is not customary for
8 a stand-alone utility company, Ameren Missouri could distribute a dividend to Ameren
9 Corp and issue its own short-term debt to initially finance its capital expenditures. These
10 transactions would allow Ameren Missouri to achieve a 50% common equity ratio.

11 **Q. After the ICC authorized AIC a ratemaking common equity ratio of 50% in its rate**
12 **cases during the period of its formula rates, did Ameren Corp manage AIC's capital**
13 **structure to target this common equity ratio?**

14 A. Yes. As I testified earlier, Ameren Corp targeted a 50% common equity ratio starting in
15 2016 and maintained AIC's common equity ratio at this level until 2020.[47]

16 **Q. Did EMW provide anything more specific when it indicated it was targeting a**
17 **common equity ratio of "just over 50% equity?"**

18 A. No. In my opinion, just over 50% could be anywhere between 50% to 52.5%. Based on
19 EMW's initial projection of an approximate 52% common equity ratio at the true-up date,
20 it considered this ratio to be "just over 50%".

21 **Q. Did Evergy recently file a new rate case for its Kansas utility subsidiaries, Evergy**
22 **Kansas Central, Inc. ("EKC") and Evergy Kansas South, Inc. ("EKS")?**

23 A. Yes.

[47] ICC Docket No. 22-0487 and 23-0082, Darryl T. Sagel Rebuttal Testimony, p. 3, lns. 53-56.

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1 **Q. What common equity ratio did Evergy request in those rate cases?**

2 A. 51.97%, which is its projected common equity ratio as of March 31, 2025.[48]

3 **Q. What do Ameren and Evergy have in common?**

4 A. They both have holding companies that actively issue holding company debt (both short-
5 term and long-term debt). This dynamic allows them to manage their inter-affiliate capital
6 flows to ensure an actual operating capital structure consistent with their requested
7 common equity ratio of 52%.

8 **Q. What appears to be the only difference in Dr. Won's decision to recommend a 50%**
9 **common equity ratio for EMW and a 52% common equity ratio for Ameren**
10 **Missouri?**

11 A. Differing responses to Dr. Won's data requests. In the EMW rate case, EMW's response
12 to Dr. Won's DR indicated that it targets a capital structure of "just over 50%," whereas
13 Ameren Missouri responded that it and Ameren Corp "has neither internally identified nor
14 externally communicated a targeted capital structure." Therefore, if EMW provided a DR
15 response similar to Ameren Missouri and Dr. Won followed the same logic, then he would
16 have accepted EMW's actual capital structure.

17 **Q. Was Ameren Missouri's response to Dr. Won's data request accurate?**

18 A. No. As shown on page 51 of Ameren Corp's April 2024 Rating Agency presentation,
19 Ameren Corp plans to target a consolidated common equity ratio of around **____ ** over
20 the next three years and a **____ ** common equity ratio for Ameren Missouri through
21 2028. The fact that Ameren Corp plans to keep its subsidiaries' common equity ratios
22 constant regardless of changes in regulatory, economic and business conditions
23 demonstrates Ameren Missouri's response to Staff's DR is not credible. If Ameren Corp
24 managed Ameren Missouri's capital structure to "specifically and continually maintain the
25 balance of debt and equity in its capital structure to minimize its overall cost of capital and,
26 at the same time, maintain financial strength and flexibility," it would be reasonable to

[48] Kansas Corporation Commission, Docket No. 25-EKCE-294-RTS, Direct Testimony of Geoffrey T. Ley, p. 18, Table 1.

1 expect some fluctuation based on changing business and regulatory conditions. As I
2 established earlier in my testimony, Ameren Corp's strategy is to minimize the cost of
3 capital at the consolidated holding company level rather than at the subsidiary level,
4 because this maximizes subsidiary cash flows through a higher revenue requirement, but
5 minimizes the cost of capital at a level that Ameren Corp hopes the Commission will
6 ignore.

7 **Q. Even if a company does not explicitly communicate a targeted capital structure, is it**
8 **reasonable to analyze its past capital structures to determine its target?**

9 A. Yes. It is abundantly clear that Ameren Corp targets a constant 52% common equity ratio
10 for Ameren Missouri as this has been its approximate common equity ratio for well over
11 ten years and is expected to be its common equity ratio over the next five years.

12 **Q. If the Commission authorized Ameren Missouri a common equity ratio of 50%, would**
13 **there be a negative reaction from rating agencies?**

14 A. Not if Ameren Missouri voluntarily requests a 50% common equity ratio. Although the
15 impact on the credit metrics would be the same whether Ameren Missouri voluntarily
16 requested it or the Commission imposed the lower common equity ratio, based on Evergy's
17 past decisions to recommend a 50% common equity ratio, the rating agencies have not
18 reacted negatively.

19 CAPITAL STRUCTURE SUMMARY

20 **Q. Would you summarize your main points in response to Dr. Won's and Mr. Sagel's**
21 **position to use Ameren Missouri's capital structure to set Ameren Missouri's ROR?**

22 A. Yes. Ameren Corp's actions speak louder than Ameren Missouri's words (testimony and
23 data request responses). Holding companies can provide benefits to utility subsidiaries
24 through certain economies of scale, but they can also be used to mislead as to the true
25 market cost of capital related to its subsidiaries. If Ameren Corp had its own source of
26 income other than from its regulated utilities, it might be plausible to claim that Ameren
27 Corp issues debt to assist its subsidiaries. This isn't the case. Ameren Corp is a parent

1 company that relies on the low-risk income of its subsidiaries to issue holding company
2 debt rather than holding company equity to invest in equity in its subsidiaries. If Ameren
3 Missouri issued this debt, rather than "leaning on" Ameren Corp, it would justly be
4 captured in the ROR charged to Ameren Missouri's ratepayers. Ameren Corp exists
5 because of Ameren Missouri, not *vice versa*. If Ameren Missouri was still directly
6 accountable to third-party equity investors, its capital structure would be a function of
7 market forces. Now it's a function of internal capital flows to meet ratemaking targets.

8 ANN E. BULKLEY'S REBUTTAL TESTIMONY

9 *RETURN ON EQUITY*

10 **Q. Ms. Bulkley testifies that there is no basis for your position that utility companies are**
11 **authorized ROEs higher than their COE.[49] What is your basis for your opinion?**

12 A. My own COE analysis. However, I also have consistently provided information from
13 investor sources over the last fifteen years, which corroborate my position. Additionally,
14 I have regularly discovered utility company internal valuation analyses which contradicts
15 the high COE estimates proffered in utility rate cases. Although the information I disclosed
16 in other utility rate cases is confidential, I have regularly provided this information in
17 Ameren Missouri rate cases since at least 2010.

18 **Q. Are there any financial metrics that are often evaluated to determine if a company or**
19 **portfolio of companies are earning more than their cost of capital?**

20 A. Yes. Market-to-book ratios above one generally establishes that a company is creating
21 value for its shareholders by earning more than its cost of capital.

22 **Q. Why?**

23 A. The simplest example to illustrate this dynamic is a bond valuation example. If a 30-year
24 United States Treasury ("UST") bond is issued today at a coupon consistent with the
25 current yield-to-maturity on 30-year UST bonds (4.1%), then the value of the bond is

[49] Bulkley Rebuttal, p. 62, ll. 9-11.

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exactly equal to the $1,000 principal balance of the bond. If the market cost of debt increases to 4.5% in one year, investors would only pay $935.57 for the 4.1% coupon bond in order to ensure they receive the current market yield of 4.5%. The market-to-book ratio of the 4.1% bond is 93.56%. Conversely, if the market cost of debt decreased to 3.7% in one year, investors would pay $1,070.77 for the 4.1% coupon in order for the seller to be compensated for the lower coupons on newly-issued bonds. The market-to-book ratio of the 4.1% bond is 107.08% in this scenario. These same principles apply to the book value (original issue price) of common stock.

Q. How so?

A. Justified price-to-book ratios are determined through the following formula, which is premised on using discounted cash flow analysis:[50]

$$P_0/B_0 = (ROE - g)/(r - g)$$

Where:

P_0	=	price/market value at period 0
B_0	=	book value at period 0
ROE	=	expected return on common equity
g	=	growth in earnings
r	=	cost of common equity

If expected earnings are higher than the cost of common equity, then the justified market/book ratio is greater than one and vice versa.

Q. Can you provide the market-to-book ratios of the electric utility group you analyzed in your direct testimony?

A. Yes.

[50] Refresher Reading, 2024 CFA® Program, Level 2, p. 45.

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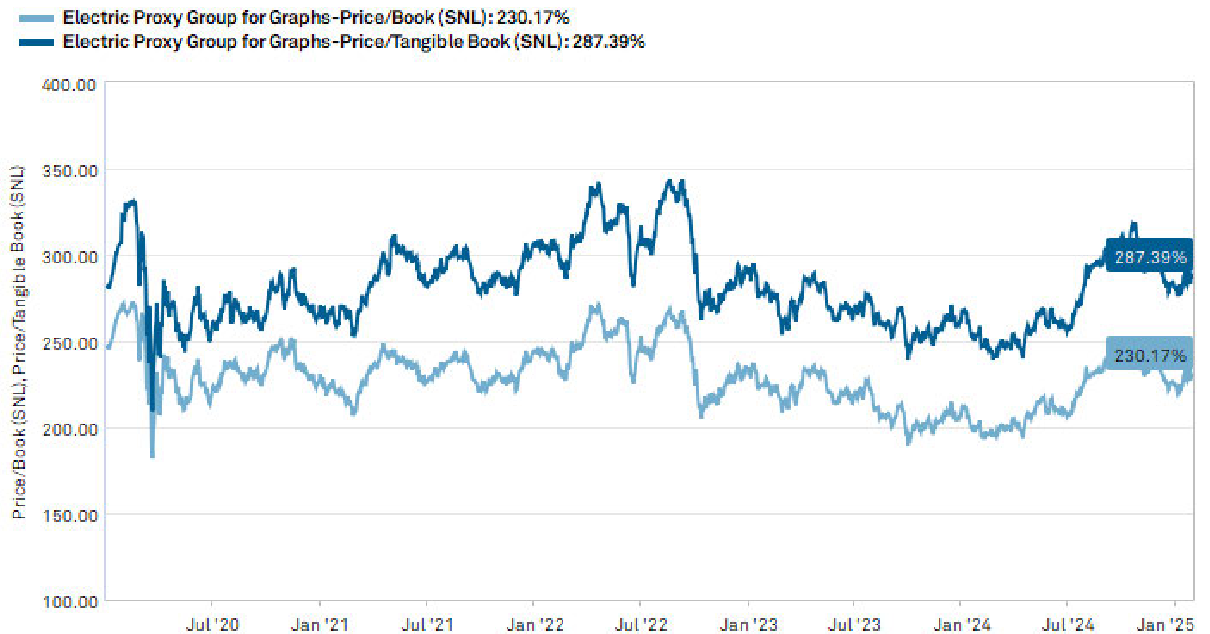

As can be seen, the market-to-book ratios are greater than 2-to-1 since January 1, 2020. Because publicly-traded utility companies typically have engaged in mergers and acquisitions, the book value of companies' common stocks may include an allowance for goodwill (purchase price over the book value of the assets). After deducting goodwill from the book value of the common stock, the market-to-book ratios have been in the 2.5x to 3x range. The electric utility industry's lofty price-to-book ratios support my position, and those of investors and financial advisors, that authorized ROEs are higher than the COE.

Q. In your direct testimony, you cited Barclay's commentary/analysis that recognized that authorized ROEs did not decline along with the cost of capital since 2010.[51] Do electric utility price-to-book ("P/B") ratios over this period support Barclay's view?

A. Yes. See the following chart showing electric utility price-to-book ratios over this period:

[51] Murray Direct, p. 14, l. 14 – p. 15, l. 2.

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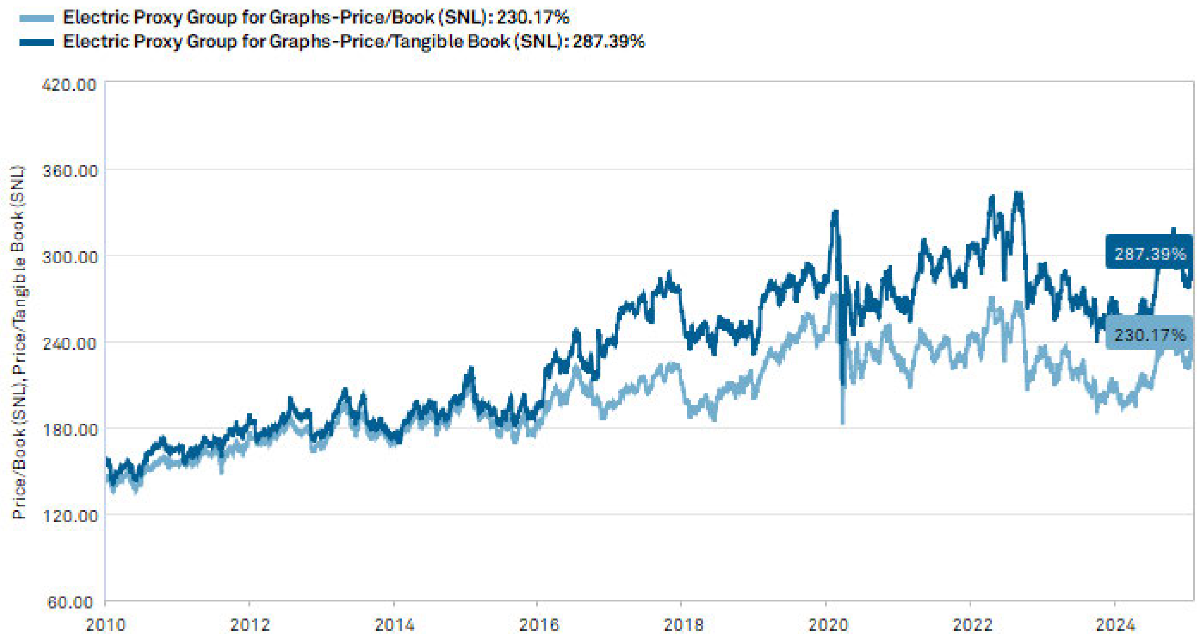

1

2 As shown, the P/B ratios for the electric utility group gradually expanded from 2010
3 through 2020 as the cost of capital declined, but authorized ROEs remained "sticky." The
4 fact that current authorized ROEs of around 9.7% still justify P/B ratios of 2.3x to 2.9x,
5 supports at least maintaining Ameren Missouri's authorized ROE at approximately 9.5%.

6 **Q. Does Ms. Bulkley accurately describe your multi-stage DCF analysis in her rebuttal**
7 **testimony?**[52]

8 A. No. Ms. Bulkley testifies that the first stage of my multi-stage DCF analysis estimates
9 projected dividends per share ("DPS") through 2028 based on equity analysts' projected
10 earnings per share ("EPS") growth rates through 2028. This is incorrect. The DPS
11 estimates through 2028 are consensus equity analysts' discrete DPS estimates through
12 2028. The objective of my multi-stage DCF analysis is to discount the proper metric, DPS,
13 based on equity analysts' discrete DPS estimates for as many periods as they are available.
14 After the discrete stage, I then impute DPS estimates by starting with equity analysts'
15 estimates of 5-year CAGR in EPS and then allow for a gradual decline over the next ten
16 years until the perpetual growth stage, at which time companies would adjust their dividend

[52] Bulkley Rebuttal*,* p. 71, ln. 7 – p. 72, ln. 2.

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1 payout ratios (DPS/EPS) to ensure they do not have to access external equity markets (*i.e.*
2 the sustainable growth stage).

3 **Q. Ms. Bulkley claims that your multi-stage DCF analysis is less reliable than a constant-**
4 **growth DCF analysis using equity analysts' projected long-term growth in EPS as the**
5 **constant growth rate.**[53] **What is her basis for her position?**

6 A. She testifies that because the utility industry is a mature industry, equity analysts'
7 consensus projected long-term CAGR in EPS are likely to be consistent with an expected
8 constant growth rate in perpetuity.

9 **Q. In your experience reviewing and analyzing equity analyst research, have you ever**
10 **discovered a utility equity analysis that assumes a utility's DPS will grow in perpetuity**
11 **at the same rate as a projected 3-to-5-year CAGR in EPS?**

12 A. No.

13 **Q. In your experience reviewing and analyzing equity analyst research, what version of**
14 **the DCF is used for purposes of estimating the intrinsic value of utility stock?**

15 A. A multi-stage DCF or more specifically a multi-stage DDM (dividend discount model).

16 **Q. Is Ms. Bulkley correct that equity analysts' projected 3-to-5-year CAGRs in EPS are**
17 **stable over time?**

18 A. No. For quarterly intervals since June 30, 2018, I reviewed consensus analysts' projected
19 3-to-5-year CAGRs in EPS for the companies in Ms. Bulkley's proxy group. The average
20 low projected 3-to-5 year CAGRs in EPS for this period was 3.20% with the average high
21 projected 3-to-5 year CAGRs in EPS over twice as high at 7.56%. Simply put,
22 constant/perpetual growth rates should not change much over time.

[53] *Id.,* p. 74, ln. 1 – p. 75, ln. 3.

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1 **Q. Is a perpetual growth rate of approximately 2.5% to 3.5% consistent with utility**
2 **companies' rate base growth during periods of maintenance-level capital**
3 **expenditures?**

4 A. Yes. Before Ameren Missouri was able to elect plant in service accounting ("PISA") in
5 2018, Ameren Corp. communicated to investors that its investment in Ameren Missouri
6 was limited to maintenance-level capex. Before Ameren Missouri elected PISA, its CAGR
7 in rate base was in the range of 2.2% to 3% for the period 2010/2011 to 2019.[54]

8 Additionally, after the ICC's decision regarding AIC's multi-year rate plan for its electric
9 utility operations, Ameren Corp now plans to invest a maintenance-level of capital
10 expenditures in AIC's electric utility system. Ameren Corp now targets a 5-year CAGR in
11 rate base of 2.3% for its AIC electric utility operations.[55]

12 **Q. Ms. Bulkley suggests the perpetual growth rate in your multi-stage DCF analysis**
13 **should be similar to expected long-term growth in the U.S. economy.[56] Do you agree?**

14 A. No. The simplest way to illustrate the fallacy of Mr. Bulkley's suggestion that electric
15 utility industry growth will converge to GDP growth in the long-term is to consider the
16 impact of the appropriate application of this logic to the S&P 500 index. Because the S&P
17 500 index is considered a proxy for the U.S. stock market, it is logical that the expected
18 long-term growth of the S&P 500 would be constrained by expected growth in GDP.
19 However, because on average, the companies in the S&P 500 tend to have better growth
20 prospects than the electric utility industry, the dividend payout ratio and the dividend yield
21 is lower. This fact implies that the growth rate for electric utilities should be lower than
22 an aggregate growth rate, (*i.e.*, GDP) used for the U.S. market (*i.e.*, the S&P 500). Adding
23 Ms. Bulkley's suggested GDP growth rate of approximately 5.5% to her determination of
24 a 1.60% dividend yield for the S&P 500, results in a market COE estimate of approximately
25 7.1%. Because electric utilities have a higher dividend yield due to a higher dividend
26 payout ratio and lower growth expectations than the S&P 500, adding the same GDP
27 growth rate of 5.50% to Ms. Bulkley's determination of an average 4.08% dividend yield

[54] Case No. ER-2021-0240, David Murray Direct Testimony, p. 22, lines 13-20.
[55] "Powering a Reliable, Sustainable Tomorrow: Third Quarter 2024 Earnings," November 7, 2024, p. 13.
[56] Bulkley Rebuttal, p. 75, ln. 4 – p. 76, ln. 16.

1 in her "90-day Constant Growth DCF" analysis, results in a COE estimate of approximately
2 9.58%. These results are illogical based on the well-accepted and supported understanding
3 that the regulated utility industry is the lowest-risk sector in the S&P 500.

4 **Q. Regardless of your disagreement with Ms. Bulkley that electric utilities' EPS and DPS**
5 **can grow in perpetuity at the same rate as GDP, are there contradictions in her**
6 **approach to estimating nominal GDP growth over the long-term?**

7 A. Yes. Ms. Bulkley cites to several sources that provide projected inflation figures over the
8 long-term.[57] However, instead of relying on the same source for projected sustainable
9 growth in GDP over the long-term, she used historical GDP growth from 1929 to 2023 as
10 a proxy for projected GDP growth.

11 **Q. Which of Ms. Bulkley's sources also provide projected nominal GDP data?**

12 A. The Energy Information Administration ("EIA"). The EIA directly estimates real GDP
13 and the GDP Chain-Type Price Index, which when combined, provides a direct estimate
14 of nominal GDP. For the period through 2050, EIA estimates a CAGR in nominal GDP
15 of 4.25%.

16 **Q. **** ____
17 ____
18 ____
19 ____
20 ____
21 ____
22 ____
23 ____

[57] Bulkley Rebuttal, Schedule AEB-R1, Attachment 9.
[58] *Id.*, p. 77, ln. 8 – p. 78, ln. 4.

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3 **Q. How do you respond to Ms. Bulkley's criticism that your CAPM COE estimates**
4 **underestimate the COE because your market risk premium estimates of 5.0% to**
5 **6.0% are less than historical earned risk premiums?**

6 A. She not only disagrees with me, but also Bank of America's ("BofA") view on a reasonable
7 COE estimate under a higher long-term interest rate environment. BofA stated the
8 following in an equity research report it published in October 2023, when long-term
9 interest rates peaked in the fall of 2023:

> 10 **On a spot basis with 9.5-9.6% after-tax authorized ROEs in 3Q23, this**
> 11 **is meaningfully higher than the cost of equity from the capital asset**
> 12 **pricing model for most utilities in the 8.5-9.0% range.** The 5% 30Yr US
> 13 Treasury has compressed returns for utilities which have back-levered but
> 14 we do not foresee a meaningful increase in allowed ROEs back above 10%.
> 15 We continue to believe that California will not increase the allowed rate of
> 16 return for the electric utilities due to the continuation of the extraordinary
> 17 event from covid and the related policy responses.[59] (bold in the original).

18 **Q. The above quote does not specify the variables such as beta and the market risk**
19 **premium. Why do you claim that this information corroborates the reasonableness**
20 **of your inputs to your CAPM analysis?**

21 A. Because the end-result of BofA's estimates corroborate my COE estimates for the electric
22 utility industry, whether it's through my use of the CAPM, multi-stage DCF, or the simple
23 bond-yield-plus-risk-premium ("BYPRP") methodology. Although my CAPM COE
24 estimates were closer to 8% rather than 8.5% to 9.0%, 30-year United States Treasury
25 yields were at 5% when BofA performed its CAPM analysis. At the time I performed my
26 analysis, they were approximately 75 basis points lower at approximately 4.25%. Since I
27 filed my testimony, they have increased to approximately 4.85%. Therefore, assuming
28 BofA applied similar assumptions (e.g. beta and market risk premium) in their CAPM

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[59] Julien Dumoulin-Smith, et. al, "Utilities in a 5% Treasury World: Who has a plan to withstand the pain? 3Q Preview," Bank of America Securities, October 20, 2023.

analysis as they did in October 2023, their COE estimates for the utility industry would still be a little less than 8.5% to 9.0%.

Q. Considering the fact that utilities' cost of equity increased since 2022, why would investors not expect authorized ROEs to increase as well?

A. As BofA's comments address, authorized ROEs are still "meaningfully" higher than the COE. As I testified in my rebuttal testimony, if authorized ROEs are higher than utilities' COE, then utilities can create shareholder value by merely investing in its rate base and achieving a return over its cost of equity.[60] If authorized ROEs are below the COE, which occurred in the early 1980s, utility investment destroys shareholder value, which causes market-to-book ratios to be less than one.

Q. Ms. Bulkley testifies that the "rule of thumb" COE estimate you provide is too simplistic and inconsistent with other risk premiums Dr. Won used in past rate cases.[61] Can you provide the full context of the Chartered Financial Analyst ("CFA") Program curriculum which explains this reasonableness check?

A. Yes. The specific language from the CFA Program curriculum is as follows:

> 4.3.2 *Bond Yield Plus Risk Premium*
>
> For companies with publicly traded debt, the **bond yield plus risk premium method** [bold in original] provides a quick estimate of the cost of equity. The estimate is
>
> BYPRP cost of equity = YTM on the company's long-term debt + Risk premium
>
> The YTM on the company's long-term debt includes
>
> - a real interest rate and a premium for expected inflation, which are also factors embodied in a government bond yield; and
> - a default risk premium.
>
> The default risk premium captures factors such as profitability, the sensitivity of profitability to the business cycle, and leverage (operating and financial) that also affect the returns to equity. The risk premium in Equation 13 [above] is the premium that compensates for the additional risk

[60] Murray Rebuttal, p. 19, line 7 – p. 21, line 3.
[61] Bulkley Rebuttal, p. 82, ln. 9 – p. 84, ln. 12.

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1 of the equity issue compared with the debt issue (recognizing that debt has
2 a prior claim on the cash flows of the company). In US markets, the typical
3 risk premium added is 3%–4%, based on experience.[62]

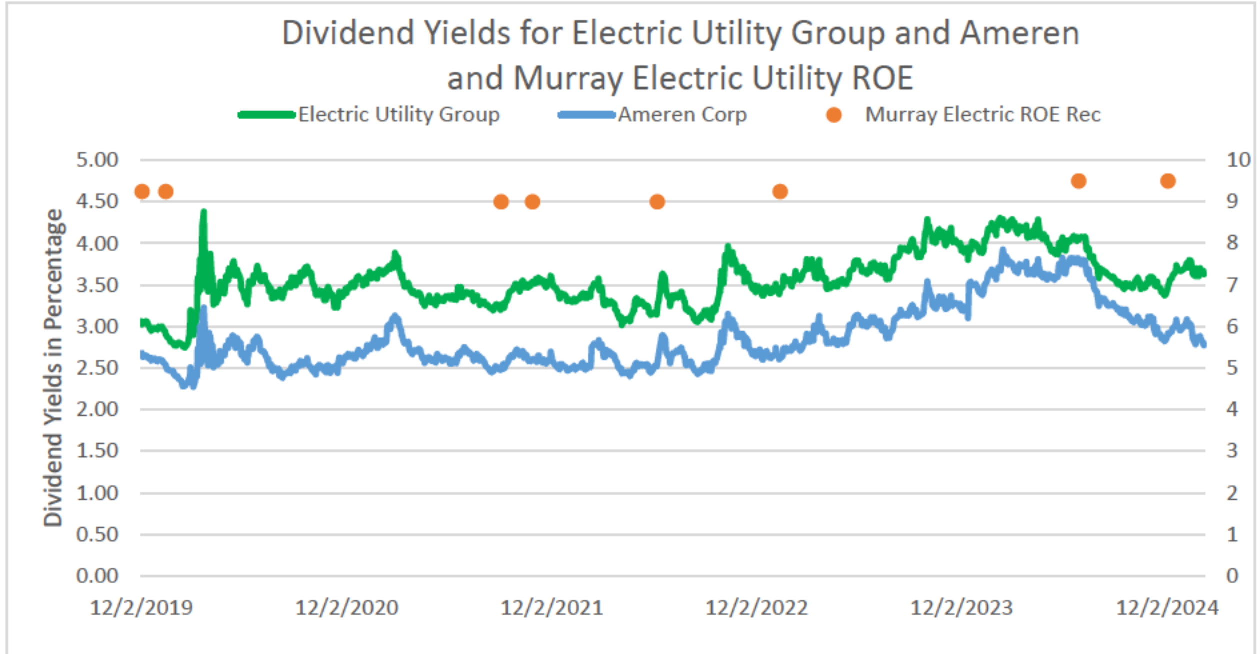
4 **Q. Ms. Bulkley testifies that in past rate cases, Staff has recommended higher equity risk**
5 **premiums to add to a company's or companies' own bond yield for purposes of this**
6 **test of reasonableness.[63] Was Staff's suggested risk premiums of 3.5% to 6.0% based**
7 **on the above-defined approach?**

8 A. No. As I testified in Missouri American Water Company's 2020 rate case, Case No. WR-
9 2020-0344, Staff added estimated market risk premiums, derived from studies comparing
10 market returns to US Treasury Bond yields.[64] Because US Treasury Bond yields are lower
11 than company-specific bond yields, mainly due to no default risk premium required on a
12 US Treasury Bond, these higher risk premiums should not be applied to corporate bond
13 yields. It is clear from the CFA Program curriculum that the 3% to 4% is based on a typical
14 equity risk premium over a company's own bond yield.

15 **Q. Ms. Bulkley provides a chart on page 69 of her rebuttal testimony where she compares**
16 **your recommended ROEs to inflation and 30-year Treasury yields. What is your**
17 **response?**

18 A. A more appropriate comparison is to plot my recommended authorized ROEs for only
19 electric utility rate cases against my electric utility industry group's dividend yields and
20 Ameren Corp's dividend yields after the onset of Covid-19. That comparison follows:

[62] Refresher Reading, 2021 CFA Program, Level II, Reading 25, p. 35.
[63] Bulkley Rebuttal, p. 83, lns. 3-16.
[64] Case No. WR-2020-0344, David Murray Rebuttal Testimony, p. 48, lns. 3-24.

1 

2 Before Covid-19, there was a clear downward trend line for the utility group's dividend
3 yields and, consequently, an upward trend line for P/E ratios. Before Covid-19, I had been
4 urging the Commission to lower authorized ROEs for Missouri's electric utilities by at
5 least 25 basis points from previous authorized levels of 9.5%. An overwhelming amount
6 of evidence (very low dividend yields and correspondingly very high P/E ratios) supported
7 that the utility industry's COE was near modern all-time lows at the end of 2019 into early
8 2020. After the initial market shock at the beginning of the Covid-19 pandemic, utility
9 dividend yields stabilized, although they were slightly higher than at the end of 2019 to
10 early 2020. Because my COE estimates were still significantly below the Commission's
11 9.25% authorized ROE for Empire in Case No. ER-2019-0374, I recommend the
12 Commission further lower Missouri's electric utility authorized ROEs to 9%. However, at
13 the end of 2022, utility stock prices began to decline as 2023 recession fears abated and
14 long-term bond yields remained high, I increased my ROE recommendation to 9.25% for
15 Ameren Missouri in its 2022 rate case, Case No. ER-2022-0337. After 2023, when utility
16 stocks had one of their worst years in the last 50 years, I increased my recommended
17 authorize ROE for Evergy Missouri West in Case No. ER-2024-0189 and for Ameren
18 Missouri in this case.

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1 **SUMMARY AND CONCLUSIONS**

2 **Q. Would you summarize your points in this surrebuttal testimony?**

3 A. Yes. This is not the first time Ameren Corp has tried to preserve a higher equity ratio at
4 its regulated subsidiary after significant legislative strategies allowed for more favorable
5 ratemaking. It is also not unique to compare the parent company's financing structure to
6 that of its subsidiaries when evaluating a fair and reasonable ratemaking capital structure.
7 The Commission need look no further than its two neighboring states, Illinois and Kansas,
8 for examples. Illinois went as far as codifying a 50% ratemaking equity ratio into law, but
9 not until after the ICC Staff stood its ground in arguing for a more reasonable common
10 equity ratio than that shown in AIC's "independently" managed capital structure. Kansas
11 required a cap on equity ratios for purposes of approving the merger of equals transaction
12 between Great Plains Energy and Westar Energy, with the cap being adjusted downward
13 if the new holding company used too much leverage. Although the ERSP that governed
14 Evergy's Kansas subsidiaries recently expired, Evergy's most recently concluded rate
15 cases in Kansas resulted in parties settling on an implied ratemaking capital structure
16 consisting of 50% common equity and 50% long-term debt. As it relates to Missouri's
17 ability to limit excessive common equity ratios, it is up to this Commission to do so in
18 context of this rate case. Doing so will not cause a decline in Ameren Missouri's credit
19 quality unless Ameren Corp refuses to offset this financial risk by reducing the amount of
20 holding company debt in its capital structure.

21 The Commission should authorize Ameren Missouri a 9.5% ROE. While the cost of capital
22 has increased since Ameren Missouri's 2022 rate case, electric utility valuation levels are
23 similar to 2015, when this Commission first deemed an approximate 9.5% ROE as
24 reasonable for its electric utility companies, including Ameren Missouri.

25 **Q. Does this conclude your testimony?**

26 A. Yes.

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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a Ameren Missouri's Tariffs to Adjust Its Revenues for Electric Service	)))	Case No. ER-2024-0319

AFFIDAVIT OF DAVID MURRAY

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

David Murray, of lawful age and being first duly sworn, deposes and states:

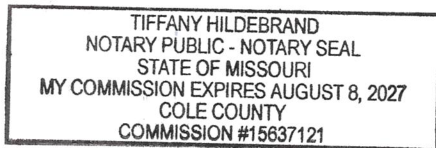
1. My name is David Murray. I am a Utility Regulatory Manager for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

David Murray
Utility Regulatory Manager

Subscribed and sworn to me this 13th day of February 2025.



Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2027.