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Sponsoring Party: Public Counsel
Case No.: GR-2024-0369

DIRECT TESTIMONY
OF
DAVID MURRAY

Submitted on Behalf of the Office of the Public Counsel

UNION ELECTRIC COMPANY
D/B/A AMEREN MISSOURI

FILE NO. GR-2024-0369

** _____ **
Denotes Confidential Information that has been redacted

February 28, 2025

PUBLIC

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DIRECT TESTIMONY
OF
DAVID MURRAY
UNION ELECTRIC COMPANY d/b/a AMEREN MISSOURI
FILE NO. GR-2024-0369

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. By whom are you employed and in what capacity?**

5 A. I am employed by the Missouri Office of the Public Counsel (“OPC”) as a Utility
6 Regulatory Manager.

7 **Q. On whose behalf are you testifying?**

8 A. I am testifying on the behalf of the OPC.

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

10 A. To recommend a fair and reasonable rate of return (“ROR”) for purposes of setting Ameren
11 Missouri’s revenue requirement for its natural gas distribution utility operations.

12 **Q. What experience, knowledge and education qualify you to sponsor ROR testimony in
13 this case?**

14 A. Please see the attached Schedule DM-D-1 for my qualifications as well as a summary of
15 the cases in which I have sponsored testimony on ROR and other financial issues.

16 **Q. What aspects of ROR will you address?**

17 A. I will address a fair and reasonable allowed return on common equity (“ROE”) and a fair
18 and reasonable capital structure.

1 **Q. What is your main conclusion after analyzing Ameren Missouri’s specific financial**
2 **situation as well as the current state of capital markets?**

3 A. Ameren Missouri’s allowed ROE should be set at 9.5% for its natural gas distribution
4 operations, based on my recommended authorized ROE range of 9.00% to 9.50%. My
5 recommended range reflects the following considerations:

- 6 • The local natural gas distribution (“LDC”) industry’s stock valuation levels
7 are currently similar to the electric utility industry’s valuation levels;
- 8 • The electric utility industries’ current price-to-earnings (“P/E”) ratios are
9 trading similar to 2015 levels, when the Commission deemed 9.5%
10 authorized ROEs as fair and reasonable for Ameren Missouri and Evergy
11 Metro;
- 12 • The LDC industry’s cost of common equity (“COE”) is in the range of 7.8%
13 to 8.5%;
- 14 • Ameren Corp’s COE is in the range of 7.7% to 7.9%;
- 15 • My COE estimates for the LDC industry are very similar to my COE
16 estimates for the electric utility industry in Ameren Missouri’s concurrent
17 electric utility rate case, Case No. ER-2024-0319;
- 18 • My COE estimates are lower than average authorized ROEs of 9.72% for
19 the LDC industry during 2024;¹
- 20 • Under the Commission’s typical zone of reasonableness (“ZOR”) standard,
21 a recommended ROE of 8.72% to 10.72% is generally considered
22 reasonable.

23 My recommended ROE should be applied to a common equity ratio of 42%, which is the
24 mid-point of Ameren Corp’s recent actual consolidated common equity ratios of
25 approximately 41% to 43%, after excluding short-term debt. A 42% common equity ratio
26 is also generally consistent with Ameren Corp’s typical targeted common equity ratio.

¹ Major Energy Rate Case Decisions in the US January-December 2024, S&P Global – RRA Regulatory Focus, February 4, 2025.

1 **Q. Before you discuss the details supporting your analysis, would you summarize the**
2 **rationales for your conclusions?**

3 A. Yes. Although capital structure and the allowed ROE are interrelated as to the ultimate
4 impact on Ameren Missouri’s revenue requirement, I will first briefly explain my rationale
5 for each component, separately.

6 I recommend the Commission set Ameren Missouri’s allowed ROE for its natural gas
7 distribution utility operations at 9.5% based on a range of 9.0% to 9.5%. During most of
8 2020 to 2022, utility stocks had not traded consistent with their typical negative correlation
9 to changes in long-term bond yields. Since the end of 2022, utility stock valuation levels
10 resumed their typical negative correlation to interest rates with utilities significantly
11 underperforming the S&P 500 through mid-2024. However, since July 2024, LDC stocks,
12 electric utility stocks, and Ameren Corp’s stock, have increased significantly,
13 outperforming the S&P 500 by 14.69 percentage points, 9.18 percentage points, and 25.69
14 percentage points, respectively. These events explain my lower COE estimates in this case
15 and Ameren Missouri’s electric utility rate case as compared to my estimates in the recent
16 Liberty Utilities (Midstates Natural Gas) Corp. (“Liberty Midstates”)² and Evergy
17 Missouri West (“EMW”) rate cases.³ My COE estimates in those cases were based on
18 stock prices during the first half of 2024.

19 Based on my application of several COE methods, and corroborating information from
20 investors, I estimate the COE for regulated LDCs to be in the range of 7.8% to 8.5%, which
21 is lower than the 8.0% to 8.7% range I estimated in the Liberty Midstates rate case, but
22 higher than the 6.5% to 7.0% I estimated in Ameren Missouri’s last natural gas distribution
23 rate case.⁴

24 I further recommend that the Commission set Ameren Missouri’s authorized ratemaking
25 common equity ratio at 42% rather than the approximate 52% ratio Ameren Corp targets
26 for Ameren Missouri. Since Ameren Missouri’s 2019 rate case, Ameren Corp has
27 consistently increased the amount and proportion of holding company debt compared to its

² Case No. GR-2024-0106

³ Case No. ER-2024-0189

⁴ Case No. GR-2021-0241

1 consolidated debt levels. Ameren Corp’s utilization of more holding company debt allows
2 it to minimize the dilution of earnings to individual common equity shares from anticipated
3 increased aggregate earnings due to its investment in its subsidiaries, including Ameren
4 Missouri. This strategy will be more costly to ratepayers if they are required to pay for a
5 higher-cost capital structure than Ameren Corp deems optimal for its consolidated capital
6 structure.

7 Ameren Missouri’s targeted 52% equity ratio for ratemaking purposes is similar to
8 ratemaking targets for Missouri’s other large electric utilities, such as EMW, Evergy Metro
9 (“Metro”), and The Empire District Electric Company d/b/a Liberty Utilities (“Empire”).
10 Considering investors’ sentiments that the Missouri regulatory and legislative environment
11 is becoming more investor friendly, the business risk for utility investments in Missouri is
12 lower. As it relates specifically to Ameren Missouri’s natural gas distribution operations,
13 it was allowed a weather normalization adjustment rider (“WNAR”) in Case No. GR-2021-
14 0241. This rate adjustment mechanism specifically reduces the business-risk profile for
15 Ameren Missouri’s natural gas distribution operations. Ameren Missouri’s reduced
16 business risk allows for greater debt capacity (*i.e.* financial risk), but instead of Ameren
17 Corp allowing Ameren Missouri to use more debt in its capital structure, it is issuing more
18 holding company debt, benefitting Ameren Corp’s shareholders at the expense of Ameren
19 Missouri’s ratepayers. The Commission can rectify this unfair transfer of debt capacity by
20 authorizing Ameren Missouri a common equity ratio consistent with Ameren Corp’s on a
21 consolidated basis.

1 **FAIR RETURN ON COMMON EQUITY**

2 **Q. What is the most often cited basis for determining a fair and reasonable ROE for**
3 **purposes of setting utility rates?**

4 A. The following principles of the *Hope*⁵ and *Bluefield*⁶ Supreme Court of the United States
5 cases are often cited as criteria in setting a fair and reasonable ROE for purposes of utility
6 ratemaking:

- 7 1. Comparable returns for similar risk;
- 8 2. Financial integrity/maintain credit; and
- 9 3. Capital attraction.

10 The *Hope* (1943) and *Bluefield* (1923) principles were established well before the advent
11 of modern cost of equity methods, such as the discounted cash flow (“DCF”) method and
12 the Capital Asset Pricing Model (“CAPM”). Therefore, while setting ROEs based on the
13 COE has generally been considered consistent with the *Hope* and *Bluefield* principles, other
14 factors, such as other jurisdictions’ authorized ROEs have been cited by this Commission
15 as a relevant factor it should consider. The authorized ROE is a regulatory ratemaking
16 concept that quantifies the amount of net income allowed in the revenue requirement. The
17 COE is a market-based concept that quantifies an investors’ required return on their
18 common equity investment. I differentiate between allowed ROEs and the COE in my
19 analysis and recommendation because ROEs have generally been set in the 9% range,
20 despite an overwhelming amount of evidence that demonstrates that investors’ required
21 returns (i.e. COE) on utility equity investments have typically been much lower.

22 **Q. How did you determine the approach you would take to estimate a fair and reasonable**
23 **allowed ROE for purposes of this case?**

24 A. I reconciled the principles established in *Hope* and *Bluefield* with modern financial models
25 used to estimate the COE.

⁵ *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1943).

⁶ *Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923).

1 Considering these principles, I first estimate Ameren Missouri's current COE and then
2 compare my current COE estimates to those I estimated in recent rate cases to determine if
3 there has been a fundamental change in the cost of capital. My analysis also includes
4 consideration of other recently authorized ROEs with specific consideration given to
5 Ameren Illinois' 9.44% authorized ROE in December 2023 for its natural gas distribution
6 utility operations.⁷

7 **Q. Based on your analysis, what is your estimate of the COE for Ameren Missouri's**
8 **natural gas utility operations?**

9 A. Ameren Missouri's COE for its natural gas utility operations is in the range of 7.8% to
10 8.5%.

11 **Q. Based on your analysis and awareness of capital market conditions, investor**
12 **expectations and recent average allowed ROEs for natural gas distribution utilities,**
13 **what do you consider to be a fair and reasonable allowed ROE for Ameren Missouri's**
14 **natural gas distribution utility operations?**

15 A. I consider 9.00% to 9.50% to be a reasonable range with my point recommendation at
16 9.50%. My recommended allowed ROE is within the range of the Commission's typically
17 defined ZOR range of 100 basis points above and below recent average authorized ROEs,
18 which were approximately 9.72% (*i.e.* 8.72% to 10.72%) for natural gas distribution utility
19 rate cases decided in 2024.⁸ After considering my COE estimates, the Commission's
20 authorized ROE of approximately 9.5% for Missouri's electric utilities for rate cases
21 decided in 2015, the Commission's authorized ROE of 9.37% for Spire Missouri in Case
22 No. GR-2021-0108, and the 9.44% ROE authorized for Ameren Corp's Illinois natural gas
23 distribution utility operations, I recommend the Commission authorize Ameren Missouri a
24 9.5% ROE for purposes of setting the authorized ROR for its natural gas operations.

⁷ Docket No. D-23-0067.

⁸ RRA Major Rate Case Decisions Quarterly Updates, January 16, 2025.

1 **Q. Was an ROE and capital structure specified in Ameren Missouri’s last natural gas**
2 **distribution utility rate case, Case No. GR-2021-0241?**

3 A. No.

4 **Q. How did you determine the best methods and approaches to use to estimate the COE**
5 **for Ameren Missouri’s natural gas distribution operations?**

6 A. For purposes of this case, I reviewed Ameren Corp’s Board of Directors (“BOD”) strategic
7 financing and investment considerations, as well as equity investment research reports
8 covering Ameren Corp and the utility industry since at least January 1, 2023. Additionally,
9 I generally considered the information I had reviewed in past Ameren Missouri rate cases.
10 This information provided me insight as to the types of methods/models typically used by
11 investors to determine fair prices to pay for utility stocks. Consequently, I decided the best
12 approach to estimate the COE for Ameren Missouri’s natural gas distribution operations
13 was to perform a COE analysis on its parent company, Ameren Corp, in conjunction with
14 a COE analysis on a proxy group of local natural gas distribution utility companies
15 (“LDCs”).

16 **Q. What models did you use to estimate Ameren Missouri’s COE?**

17 A. I used a multi-stage DCF method, with specific emphasis on consensus analysts’ estimated
18 dividends and the modeled growth of dividends. A DCF method that focuses on dividends
19 as the proxy for cash flow is more precisely defined as the dividend discount model
20 (“DDM”). I also applied the CAPM to both Ameren Corp and the proxy groups. Finally,
21 I performed simple and logical reasonableness checks of my COE estimates. These
22 reasonableness checks recognize the basic characteristics of utility stocks, mainly that the
23 investment community perceives them as yield/income investments, which implies the
24 COE should not be much higher than their own bond yields. One such reasonableness
25 check is a straight-forward bond-yield-plus-risk-premium (“BYPRP”) method included in
26 the Chartered Financial Analyst (“CFA”) Program curriculum.⁹

⁹ 2021 CFA Program – Level II Refresher Reading, Equity Valuation, p. 35.

1 **Q. Does Ameren Missouri also have a rate case pending for its electric utility operations?**

2 A. Yes. Ameren Missouri filed a rate case for its electric utility operations on June 28, 2024,
3 which was assigned File No. ER-2024-0319.

4 **Q. Did you file ROR testimony in that rate case?**

5 A. Yes.

6 **Q. What was your recommended ROE and common equity ratio in that case?**

7 A. 9.5% applied to a 42% common equity ratio.

8 **Q. Are Ameren Missouri's electric and gas distribution utility operations owned and
9 financed separately?**

10 A. No. Ameren Missouri directly owns the natural gas and electric utility systems. Ameren
11 Missouri provides direct, long-term debt financing and receives other financing from
12 Ameren Corp either directly (*i.e.* equity infusions) or indirectly (*i.e.* Ameren Missouri
13 retains most of its earnings while Ameren Corp raises capital to fund dividends to third-
14 party shareholders). The utility systems are only segregated as divisions for regulatory and
15 performance evaluation purposes.

16 **Q. Which system dominates how Ameren Corp chooses to capitalize Ameren Missouri?**

17 A. Its electric utility system, which makes up approximately 97% of Ameren Missouri's total
18 rate base.

19 **Q. Considering Ameren Missouri is predominately an electric utility, should the ROR
20 authorized for Ameren Missouri's natural gas distribution operations be different
21 than its electric utility operations?**

22 A. Maybe. If investors perceive local natural gas distribution utility operations as having a
23 different business risk profile than vertically-integrated electric utility operations, then
24 unless the authorized capital structure is adjusted accordingly, the authorized ROE should
25 be adjusted to consider the perceived difference in business risk.

1 **Q. Are there any other nuances to natural gas distribution operations that may require**
2 **different parameters for an authorized ROR?**

3 A. Yes. If the natural gas utility's natural gas inventories are included in general rate base
4 rather than recovered through the purchased gas adjustment ("PGA") and actual cost
5 adjustment ("ACA") mechanisms, then an allocation of short-term debt should be
6 considered in the authorized ROR since this is the customary funding used to support these
7 assets.

8 **Q. What percentage of Ameren Missouri's requested rate base of \$530,575,453 is**
9 **comprised of natural gas inventories?**

10 A. Approximately 1.1% based on Ameren Missouri's average natural gas storage inventories
11 of \$6,038,527.¹⁰

12 **Q. Are Ameren Missouri's gas inventories as a percentage of rate base similar to those**
13 **in Ameren Missouri's 2021 gas rate case?**

14 A. Yes.

15 **Q. Do you recommend a discrete adjustment to capture the custom of financing natural**
16 **gas fuel inventories with short-term debt?**

17 A. No. However, as I will discuss in the capital structure section of my testimony, the fact
18 that natural gas inventories are typically supported by debt financing should be considered
19 in determining the appropriate ratemaking capital structure for this case.

20 **Q. How do you plan to approach your recommended ROE for Ameren Missouri's**
21 **natural gas distribution operations?**

22 A. I will analyze a proxy group of publicly-traded companies whose primary business segment
23 is that of a natural gas distribution utility. However, to provide context, I will compare and
24 contrast capital market information for the natural gas utility industry to the electric utility
25 industry. This information should assist the Commission with determining whether

¹⁰ Ameren Missouri's Gas Revenue Requirement Model.

1 Ameren Missouri's natural gas utility system should be authorized a different ROR than
2 its electric utility system.

3 **Q. Is your approach substantially the same as you employed in Ameren Missouri's 2021**
4 **natural gas distribution rate case, as well as other recent cases involving Missouri's**
5 **electric and gas utility companies?**

6 A. Yes.

7 **Q. Before explaining your approach for estimating the COE, can you describe current**
8 **capital market conditions as it relates to the utility industry, in general, and Ameren**
9 **Corp, specifically?**

10 A. Yes. This information should help provide some context as to the current state of utility
11 capital markets. It is important to understand the context of authorized ROEs versus the
12 COE over a longer period than just a few years due to the rapid and steep increase in interest
13 rates from 2022 to 2023, which caused utility debt costs to increase dramatically since 2020
14 to 2021. It is for this reason that I will analyze and compare utility stock valuations and
15 interest rates for most of the period since the financial crises and recession around
16 2008/2009.

17 **Q. What ROE did you recommend the Commission authorize Ameren Missouri for its**
18 **natural gas distribution operations in its 2021 rate case?**

19 A. 9.25%.

20 **Q. What was your recommended authorized ROE for the most recent natural gas**
21 **distribution utility rate case filed in Missouri?**

22 A. I recommended the Commission authorize Liberty Midstates a 9.5% authorized ROE based
23 on a range of 9.25% to 9.75%.¹¹

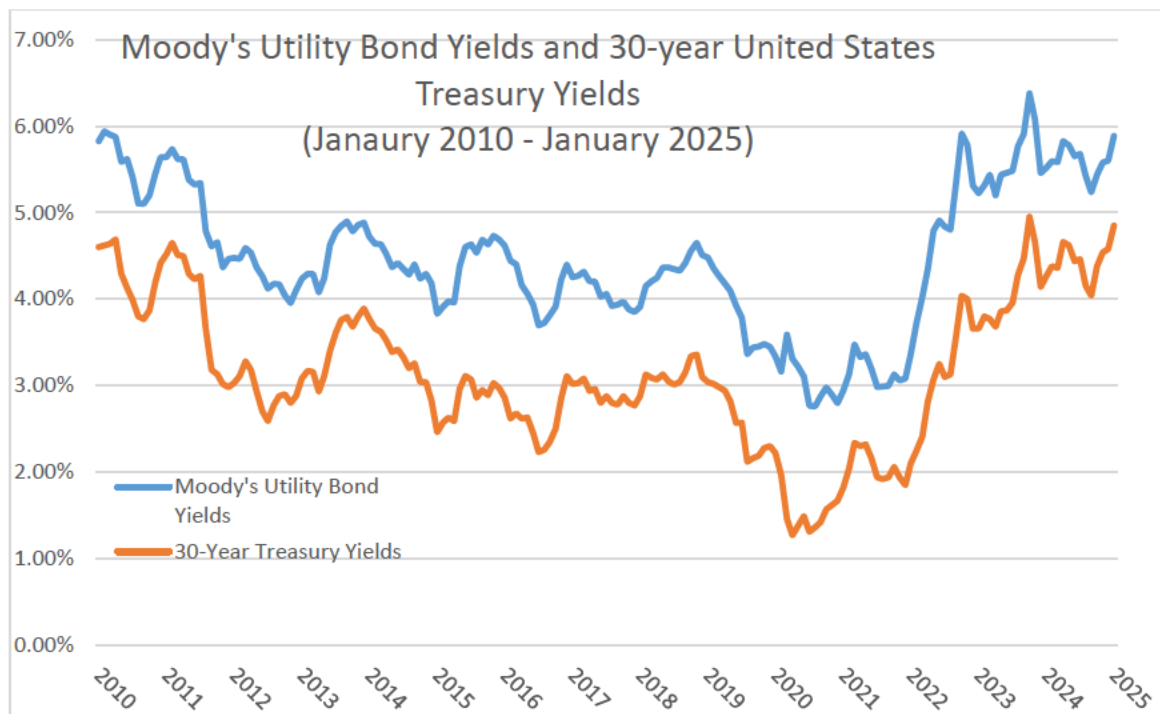
¹¹ Case No. GR-2024-0106, Murray Direct Testimony, p. 2, lns. 26-27.

1 **Q. Can you describe and illustrate recent and long-term changes in long-term bond**
2 **yields?**

3 A. Yes, long-term bond yields have increased dramatically over the last couple of years after
4 declining to historically low levels during the Covid-19 pandemic (2020 – 2021). In fact,
5 during the Fall of 2023, investment grade utility bond yields and long-term United States
6 Treasury (“UST”) bond yields increased to their highest levels since 2010.

7 Some considered the early stages of lower long-term interest rates in the first half of the
8 past decade to be anomalous because of the Federal Reserve Bank’s (“Fed”) quantitative
9 easing (“QE”) programs¹² through October 2014. For the last half of the past decade, long-
10 term interest rates continued an overall declining trend, until they reached all-time lows in
11 2020 and 2021. However, as I previously described, long-term rates have since increased
12 dramatically, peaking in October 2023.

13 The below graph shows long-term bond yields since January 1, 2010.



14

¹² QE involved three rounds of the Fed’s direct intervention in bond markets beyond just lowering the Fed Funds rate. The Fed’s QE programs had the express intent of reducing long-term interest rates.

1 As the graph shows, average utility long-term bond yields had dropped to modern all-time
2 lows in the latter half of 2020 - levels not experienced since the late 1940s and early 1950s.
3 Between early 2022 and October 2023, the average yield on the Moody's Public Utility
4 Bond index had approximately doubled, before declining to around 5.25% to 5.5% around
5 the Fall of 2024. As of January 2025, UST and utility bond yields had increased to slightly
6 below the higher levels experienced in the Fall of 2023.

7 Although more simplistic COE methods may imply that the COE for utilities whipsawed
8 along with bond yields, utility valuation levels over this period did not support this notion.
9 As I will explain in more detail later in my testimony, the post Covid-19 economic and
10 capital market conditions have been atypical, which is likely a consequence of both the
11 Fed's and U.S. Congress's massive interventions through monetary and fiscal policies
12 during the Covid-19 pandemic.

13 **Q. Why is it typically important to evaluate trends in long-term interest rates when**
14 **evaluating the utility industry's COE?**

15 A. The investment community typically regards utility stocks as bond proxies/pseudo bonds,
16 meaning that if long-term bond yields decline, then this typically causes regulated utility
17 stock prices to increase. ** _____
18 _____**¹³ Although investors' total returns in
19 utility stock investments do include some capital gains, because of the slow, steady growth
20 in earnings, utility companies have typically distributed approximately 2/3 of their earnings
21 as dividends to shareholders, causing utility stocks to be characterized as yield investments.
22 Therefore, changes in utility stock valuation levels have historically had a strong inverse
23 correlation to changes in bond yields, *i.e.* as bond yields decline, utility stock prices
24 increase.

¹³ Ameren Corp Dividend Policy Considerations, Finance Committee, February 2021, pp. 3-21.

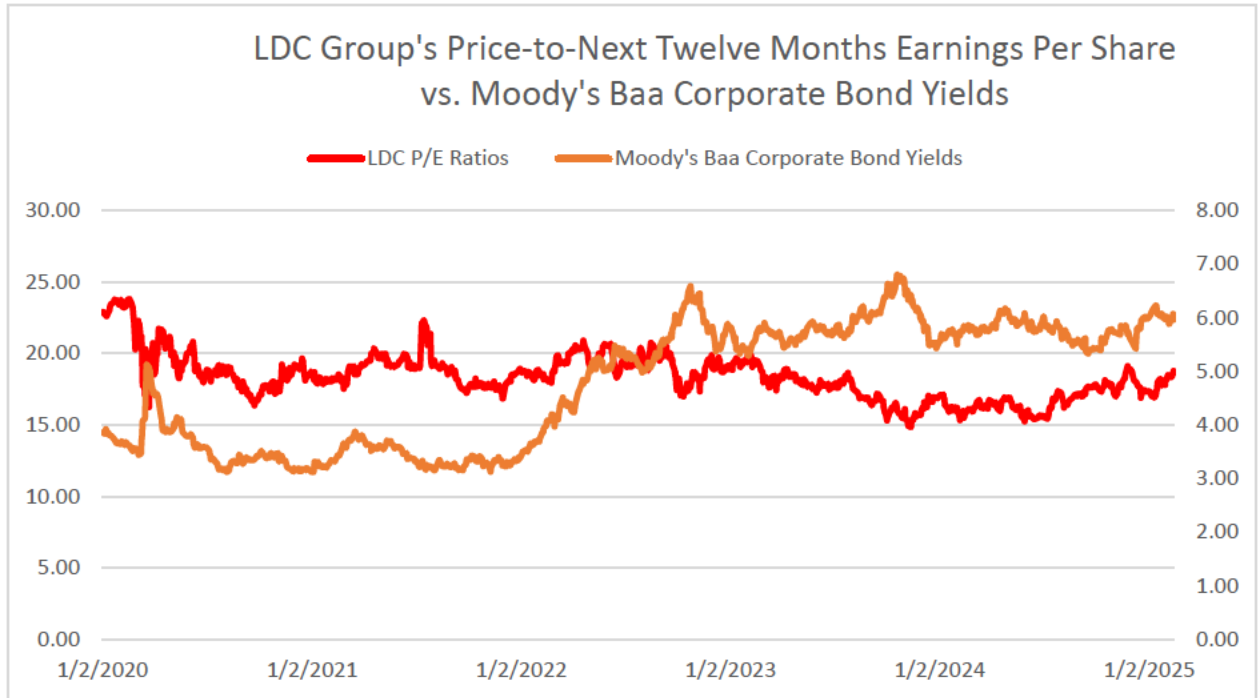
1 **Q. From April 2020 through August 2022, did utility stock valuations and bond yields**
2 **provide traditional and consistent signals about utilities' cost of capital?**

3 A. No. Following drastic and significant intervention by the Fed in monetary policy and the
4 UST in fiscal policy, in reaction to Covid-19 and its associated mitigation measures, the
5 yield-to-maturity ("YTM") on utility and corporate bonds traded at 70-to-80-year lows.
6 However, at the same time, broader utility stocks (mainly LDCs and electric utility stocks)
7 underperformed the S&P 500. The same atypical trading pattern occurred as long-term
8 bond yields began a dramatic increase in 2022. Utility stocks significantly outperformed
9 the S&P 500 on a relative basis, despite long-term yields increasing through much of 2022.
10 The increase in yields caused the S&P 500 to contract significantly, while causing only a
11 slight decline in utility stock prices, allowing them to maintain similar P/E ratios as before
12 the rapid increase in long-term interest rates.

13 Consequently, while the utility industry's debt costs fluctuated along with the macro
14 changes in interest rates, the same was not true for the utility industry's cost of equity. For
15 example, as I will discuss later in my testimony, use of the CAPM with standard
16 assumptions, implied that the utility industry's COE fluctuated along with long-term bond
17 yields since 2020, but such indications were not corroborated by utility equity market
18 valuations.

19 **Q. What about since August 2022?**

20 A. Starting around mid-September 2022, LDC's P/E ratios resumed their more typical inverse
21 correlation with long-term yields, as illustrated in the following chart:



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During the all-time low bond yield environment, the utility industry was able to take advantage of these extremely low debt capital costs. For example, on October 9, 2020, Ameren Missouri issued 30-year, \$550 million bonds at an annual coupon rate of only 2.625%. However, during this period, utility equity valuation levels did not increase in response to the decline in bond yields, which implied investors did not expect extremely low interest rates to be sustained. Similarly, as bond yields increased significantly in 2022, utility equity valuation levels did not contract as typically expected – perhaps because investors understood that the extremely low cost of debt during 2020 to 2021 was not likely sustainable. To illustrate the significant increase in utility bond yields, Ameren Missouri issued 30-year, \$500 million bonds on March 13, 2023, at a coupon of 5.45%, slightly over double the cost from just two and a half years prior.

13

Q. What are recent implied yields on Ameren Missouri’s long-term debt?

14

A. As of February 17, 2025, Ameren Missouri’s 5.45%, 30-year first mortgage bond traded at a yield-to-maturity (“YTM”) of approximately 5.70% and Ameren Missouri’s 2.625%, 30-year first mortgage bond traded at a YTM of approximately 5.53%. Therefore, the cost of long-term debt capital increased by approximately 25 basis points since March 2023.

15

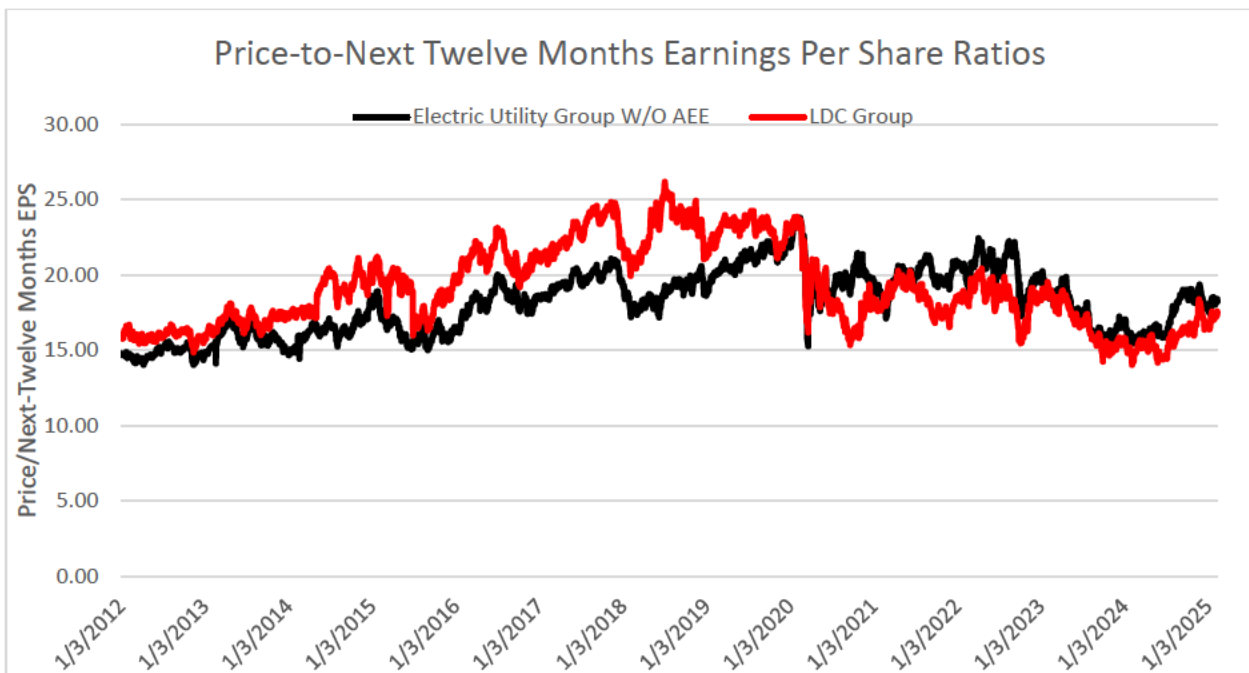
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17

1 Additionally, the 5.7% YTM compares to the lower YTM of 5.5% on the same bond at the
2 time I filed direct testimony in Ameren Missouri's electric rate case.¹⁴

3 **Q. Would you graphically illustrate a proxy group of LDC's P/E ratios to the electric
4 utility industry proxy group¹⁵ you evaluated in your testimony in Ameren Missouri's
5 electric utility rate case?**

6 **A.** Yes. See the below graph for P/E ratios since 2012:



7
8 As illustrated in the above graph, LDCs and the electric utility industry traded in line from
9 the spring of 2023 until mid-2024. This parity occurred after the electric utility industry
10 had been trading at a premium to the LDC industry since the beginning of 2020. Then,
11 around the Fall of 2024, electric utility stocks traded at a premium to LDCs. This fact can
12 largely be explained by investors' optimism for higher load growth for electric utilities
13 because of the projected build-out of data centers to handle data needs for artificial

¹⁴ Case No. ER-2024-0319, Murray Direct, p. 11, lns. 13-17.

¹⁵ Unless otherwise specified, the proxy group I use to represent the electric utility industry are the following companies: Alliant Energy Corporation, American Electric Power Company, CMS Energy Corporation, DTE Energy Company, IDACORP, OGE Energy Corp, Pinnacle West Capital Corporation, Portland General Electric Company, The Southern Company, WEC Energy Group, and Xcel Energy Inc. These companies met screening criteria I used in Ameren Missouri's 2012 or 2014 rate cases, Case Nos. ER-2012-0166 and ER-2014-0258, respectively.

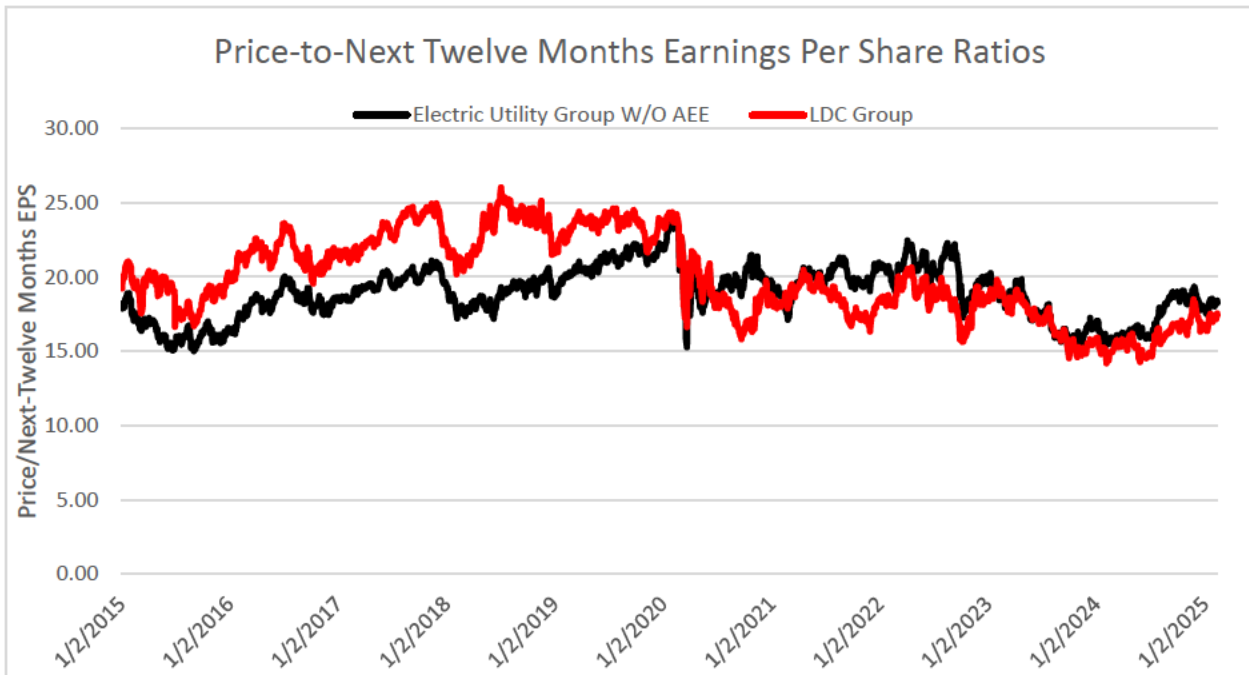
1 intelligence and cloud computing. Therefore, I would not attribute the electric utility
2 industry's higher P/E's multiples to investors' perception that electric utility companies'
3 business risk profiles decreased relative to LDCs. Both subsectors traded in-line prior to
4 optimism about load growth from data centers and after the revelation that Deep Seek had
5 achieved an artificial intelligence platform that uses much less energy than other artificial
6 intelligence platforms. Therefore, I do not believe this data signals that electric utilities'
7 COE is trending lower than that of LDCs.

8 **Q. Why is it important to be aware of the historical context of the utility industry's P/E**
9 **ratios?**

10 A. Because the Commission deemed a 9.7% to 9.8% authorized ROE as fair and reasonable
11 for Missouri's large electric utilities around 2012, whereas the Commission deemed an
12 approximate 9.5% authorized ROE as fair and reasonable for Missouri's large electric
13 utilities around 2015. Considering that both the electric and natural gas distribution utility
14 industries are trading in line with the electric utility valuation levels around 2015, this
15 supports the reasonableness of a 9.5% authorized ROE in the current capital market
16 environment.

17 **Q. Would you similarly illustrate a comparison of the LDC industry's P/E ratios to those**
18 **of the electric utility industry's since 2015, when the Commission first deemed a 9.5%**
19 **ROE fair and reasonable for Missouri's electric utility companies?**

20 A. Yes. I should also note that the LDC's P/E ratio data is more robust with this shorter time
21 frame because my proxy group now includes One Gas Inc., a pure-play LDC, which did
22 not become a stand-alone, publicly-traded company until February 2014. The chart
23 follows:



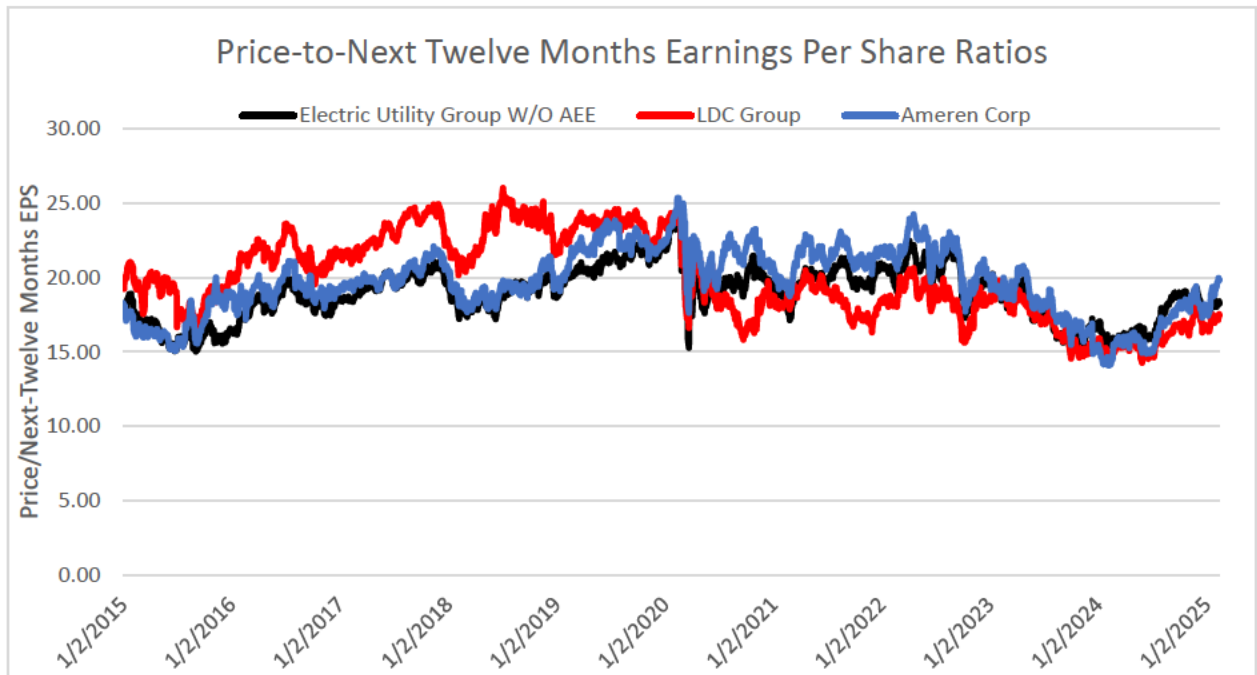
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2 As is evident from the above chart, during 2015, the electric utility industry generally
3 traded at a P/E ratio in the 15x to 17x range with a brief period at the beginning of 2015 at
4 close to 19x. LDC P/E ratios were a few turns higher than electric utility P/E ratios for the
5 same period. Prior to the market disruptions coinciding with the onset of the Covid-19
6 pandemic, the P/E ratios of both the LDC and the electric utility industries hit all-time highs
7 of ~24.5x and ~23.5x, respectively. Around this period,¹⁶ I estimated Ameren Missouri's
8 COE to be as low as in the 5.5% to 6.5% range, which is logically consistent with all-time
9 high valuation ratios of that time.

10 Subsequent to the acute capital market instability at the onset of Covid-19, which was
11 quickly addressed by the Fed and the UST, the P/E ratios of the LDC and the electric utility
12 industries stabilized during the remainder of 2020. Although long-term interest rates (as
13 measured by long-term corporate bond yields and UST bonds) plummeted from the spring
14 of 2020 through the end of 2021, the P/E ratios of both the LDC and the electric utility
15 industries did not expand as is typical when long-term bond yields decline.

¹⁶ Which coincided with Ameren Missouri's 2019 rate case, Case No. ER-2019-0355.

1 **Q. Can you provide an overlay of Ameren Corp’s P/E ratios for the period since January**
2 **1, 2015?**

3 A. Yes. Please see the below chart:



4
5 As is obvious from the chart, Ameren Corp’s P/E ratios are more similar to the electric
6 utility proxy group. Although Ameren Corp has significant natural gas distribution
7 operations in Illinois, Ameren Corp’s natural gas distribution business segment (inclusive
8 of IL and MO) accounted for approximately \$3.33 billion (AIC - \$2.8 billion and Ameren
9 Missouri \$0.53 billion) of \$27 billion of total rate base in 2024 (*i.e.* 12.33%).¹⁷
10 Consequently, Ameren Corp’s risk profile is primarily influenced by its electric utility
11 systems, with its Ameren Missouri electric utility rate base accounting for over 50% of
12 Ameren Corp’s rate base.

13 Relative to the electric utility proxy group, Ameren Corp consistently traded at premium
14 from 2019 through 2022; in-line for most of 2023; at a discount at the end of 2023 through
15 most of 2024;¹⁸ and, most recently, at a premium again.

¹⁷ “Powering Growth,” Fourth Quarter 2024 Earnings Call Presentation, February 14, 2025 and Ameren Missouri’s Revenue Requirement Workpapers in Case No. GR-2024-0369.

¹⁸ Coinciding with negative stock price reaction subsequent to the ICC decision on the AIC multi-year rate plan in December 2023

1 LDCs traded at a premium to the electric utility proxy group and Ameren Corp from 2015
2 to 2020; a discount to the electric utility proxy group and Ameren Corp from 2020 to 2022;
3 in-line for most of 2023 to mid-2024; a discount at the end of 2024; a larger discount to
4 Ameren Corp in early 2025 and a lower discount to the electric utility proxy group in early
5 2025.

6 **Q. What are utility equity investors' reactions to the recent interest rate environment?**

7 A. Based solely on interpreting/evaluating utility stock price changes as compared to that of
8 the broader market, stronger economic conditions and optimism about potential
9 productivity benefits from artificial intelligence have been causing the S&P 500, especially
10 constituents in the information technology sector, to significantly outperform the utilities
11 sector. Until 2022, most utility equity analysts had projected that low interest rates justified
12 a continued reduction of authorized ROEs. However, given the fact that long-term bond
13 yields have remained higher since late 2022, investors now expect regulators to at least
14 hold the line on awarded ROEs.

15 **Q. Why would investors expect utility commissions to hold the line on authorized ROEs
16 if the cost of capital has increased?**

17 A. Because investors recognize that utility commissions did not reduce authorized ROEs as
18 much as was justified when the cost of capital was declining. Barclays recently indicated
19 the following about authorized returns while the cost of capital was declining from 2010
20 to the early 2020s:

21 **High Returns Unlikely as ROEs Sticky While Rates Were at Decade Lows**

22
23 Simplistically, from 2010 to early 2020s long term risk free yields
24 have only declined, while utility ROEs remained steady at an
25 average 9.8% authorized rate on the electric side. Utilities were
26 arguably over-earning during this timeframe in our view. We
27 believe over a long term (10yr+) time horizon there should be a case
28 for higher ROEs if risk free yields remain elevated or move higher,
29 but we see it unlikely that regulated ROEs return to 12%+ levels
30 anytime soon. This likely leads to an extended CoC [cost of capital]
31 crunch for the utility industry, which will pressure management
32 teams' abilities to raise capex budgets materially in the five-year

1 window. Please see our additional work below highlighting the CoC
2 crunch.¹⁹

3 **Q. What COE have equity analysts been using to estimate a fair price to pay for Ameren**
4 **Corp’s stock in the current capital market environment?**

5 A. Wells Fargo applies a 7.5% COE to Ameren Corp’s estimated dividends in its multi-stage
6 DDM analysis.²⁰ Morningstar also applied a COE of 7.5% for purposes of its fair value
7 estimate for Ameren Corp’s stock.²¹

8 **Q. What COE have equity analysts recently been using to estimate a fair price to pay for**
9 **LDC stocks?**

10 A. In a February 5, 2025, report on Atmos Energy Corp and Spire Inc., Wells Fargo applied
11 an 8% COE to its estimated dividends for Atmos and an 8.25% to 8.5% COE to its
12 estimated dividends for Spire.²²

13 **Q. Does Wells Fargo estimate a 7.5% COE for all pure-play vertically integrated electric**
14 **utilities, such as Ameren Missouri?**

15 A. No, it does not. In fact, Wells Fargo applied a COE in the range of 7.75% to 8% for
16 purposes of estimating the present value of Evergy’s expected dividends.²³

17 **Q. Can utilities still create value for their shareholders at a narrower spread between**
18 **the COE and allowed ROEs?**

19 A. Yes. Even at a narrower spread, as long as a company has the opportunity to earn more
20 than its cost of capital, it will create value above the initial book value investment (*i.e.*
21 investment in rate base for utility companies). The ratemaking principle of setting an
22 authorized ROE at or near parity with the COE is that utility companies will only invest in

¹⁹ Nicholas Campanella, et. al., “U.S. Power & Utilities: Initiating Coverage: Down but Not Out,” Barclays, August 22, 2023, p. 23.

²⁰ Neil Kalton, et. al., “Takeaways from Investor Meetings—Reiterate Overweight,” Wells Fargo, September 20, 2024.

²¹ Andrew Bischof, “Ameren Earnings: Transmission Opportunities in Midwest Could Prove Meaningful in Long Term,” Morningstar, November 7, 2024.

²² Sarah Akers, et. al., “Fiscal Q1 LDC Earnings: ATO & SR,” Wells Fargo, February 5, 2025.

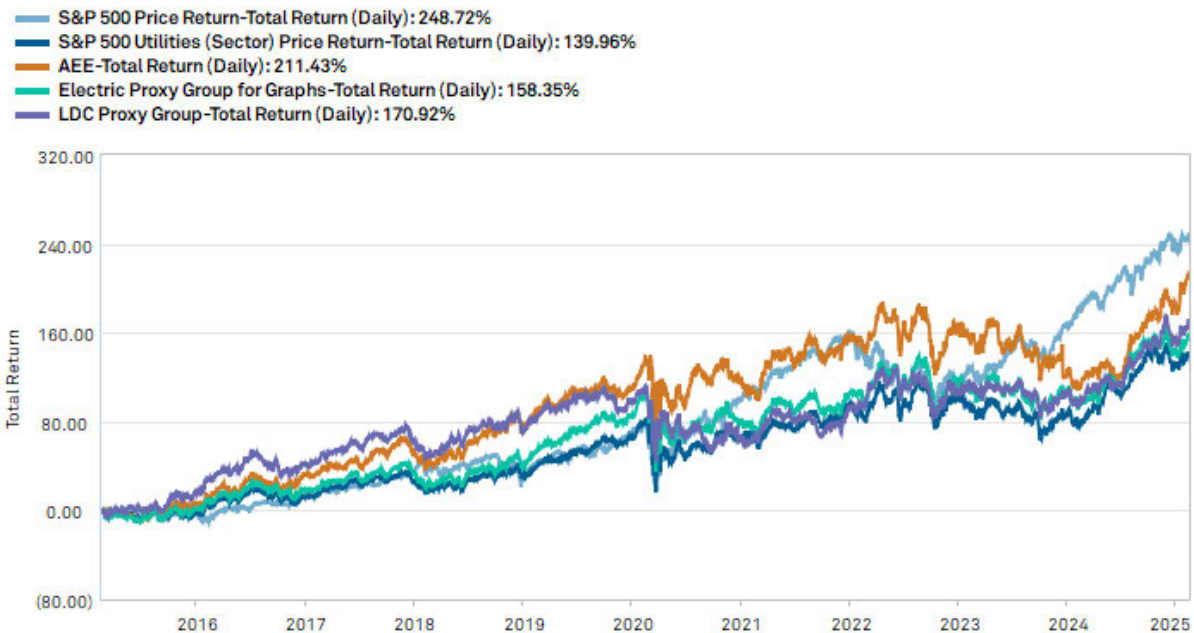
²³ Sarah Akers, et. al., “Evergy Inc. – Q2 Updated Keeps 2024 on Track with CapEx Refresh on Deck – Reiterate Overweight,” Well Fargo, August 9, 2024.

1 projects that are expected to be economically efficient based on the merits of the projects
2 rather than simply being authorized a return higher than the cost of capital. Morningstar's
3 DCF analysis recognizes this principle should at least hold over the long-term.
4 Specifically, as it relates to estimating growth in cash flows in the perpetuity stage,
5 Morningstar states the following:

6 Once a company's marginal ROIC [Return on Invested Capital] hits
7 its cost of capital, we calculate a continuing value, using a standard
8 perpetuity formula. At perpetuity, we assume that any growth or
9 decline or investment in the business neither creates nor destroys
10 value and that any new investment provides a return in line with
11 estimated WACC.²⁴

12 **Q. Would you show how Ameren Corp's shareholder returns have compared to the S&P**
13 **500, the utilities in the S&P 500, a representative LDC proxy group, and a**
14 **representative electric utility proxy group for the last ten years?**

15 **A.** Yes. See the below chart:



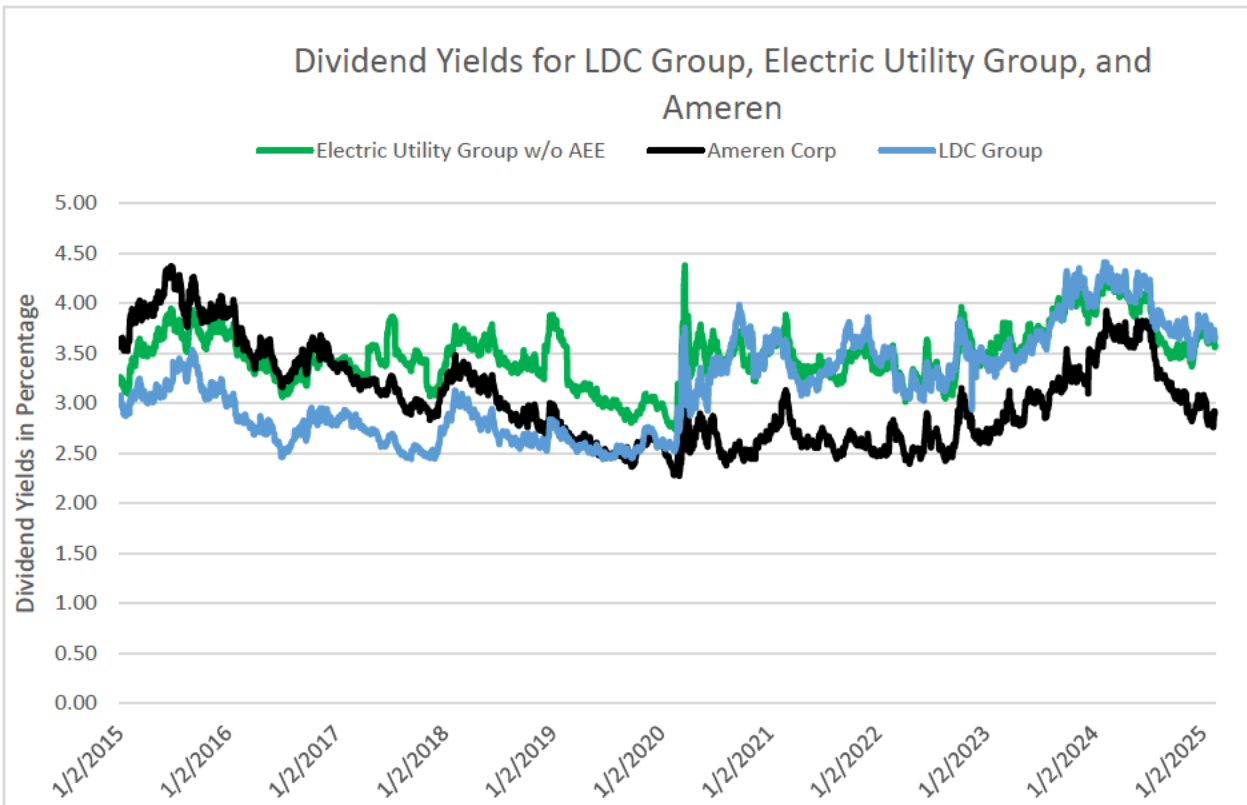
16

²⁴ *Id.*

1 The key takeaway from the above chart is the fact that until the pandemic, Ameren Corp,
2 the LDC proxy group, and the electric utility proxy group achieved higher total returns than
3 the S&P 500 despite the fact that they typically do not achieve as high a proportion of their
4 total returns from capital gains as compared to growth stocks. Utilities' high total returns
5 over this period were largely due to the sustained long-term decline in interest rates over
6 this period, which also caused higher capital gains for bond investments. Being that bond
7 coupons are typically fixed, this pattern clearly demonstrated that yield investments
8 achieved capital gains mainly due to a decline in long-term yields. However, post
9 pandemic, and, more importantly, post the response of the Fed and the U.S. Congress to
10 support the economy during the pandemic, aggressive stimulus measures caused the S&P
11 500 to significantly outperform the LDC industry and the electric utility industry. This fact
12 is largely attributed to the Fed providing a tremendous amount of capital market support,
13 which caused negative real bond yields during much of this period. These negative real
14 bond yields had the impact of reducing the discount rates (*i.e.* COE) for the broader
15 markets, which made potential future profits worth more in present value terms. However,
16 the Fed began to aggressively tighten monetary policy due to its concern about sustained
17 inflationary pressures. The tightened monetary policy then caused investors to fear a
18 recession in 2023. These fears explain utility stocks' stronger performance relative to the
19 S&P 500 for much of 2022, despite increases in long-term bond yields.

20 **Q. Would you show the changes to the dividend yields of the LDC industry, electric**
21 **utility industry and Ameren Corp since the Commission authorized Ameren**
22 **Missouri's electric utility a 9.53% ROE in 2015?**

23 **A.** Yes. This chart shows the continuous changes since January 2, 2015.



1
2 As illustrated, the LDC group's dividend yields in 2015 were approximately in the range
3 of 3% to 3.5%, but in early 2025 are now generally above 3.5%, implying LDCs currently
4 have a higher COE than in 2015. However, electric utility industry dividend yields in 2025
5 are generally within the range of its dividend yields in 2015. This consistency supports my
6 opinion that a 9.5% authorized ROE is fair and reasonable based on current capital market
7 conditions.

8 While the focus of the above chart is to illustrate the trend in dividend yields between the
9 LDC and electric utility industries, the relative difference and change in Ameren Corp's
10 dividend yield since 2015 is striking. In 2015, when Ameren Missouri's electric utility
11 operations were authorized a 9.53% ROE, its dividend yield was at its highest level in the
12 past decade. Additionally, that dividend yield was higher than both the LDC proxy group
13 and the electric utility proxy group. However, for the past five years, Ameren Corp's
14 dividend yield has been lower than both the electric utility proxy group and the natural gas
15 distribution industry proxy group.

1 **COST OF EQUITY METHODS**

2 **Q. Having provided context on recent changes in the utility capital market generally and**
3 **with regard to Ameren Corp specifically, would you explain how you approached**
4 **estimating the COE for Ameren Missouri’s natural gas distribution operations?**

5 A. Yes. I performed a multi-stage DCF analysis and a CAPM analysis on Ameren Corp and
6 a proxy group of publicly-traded LDCs. Then, I tested the reasonableness of my estimates
7 by using simple reasonableness checks, such as the BYPRP method discussed in the CFA
8 Program curriculum.

9 INVESTOR INSIGHT

10 **Q. How did you inform yourself as to reasonable and rational inputs for your COE**
11 **approaches?**

12 A. The objective of a rate of return witness is to emulate investors’ approaches to analyzing
13 and making investment decisions as it relates to investing in utility stocks. Therefore, I
14 have made it a priority to review, analyze, and understand how equity research analysts
15 estimate fair prices for utility stocks. My analysis has allowed me to test the theory of cost-
16 of-capital estimation in utility ROR testimony, as it compares to practice. I have
17 discovered investment analysts use multi-stage DCF approaches to estimate fundamental
18 values of utility stocks, and/or they use relative valuation techniques that compare a
19 company’s P/E ratios to averages for the industry and/or a more tailored subset of peer
20 companies.

21 In my experience, professional equity (“Wall Street”) analysts project long-term compound
22 annual growth rates (“CAGR”) in earnings per share (“EPS”) to determine whether a
23 company’s P/E ratio deserves a premium or a discount to its peers. Wall Street analysts
24 DO NOT use these estimated long-term CAGRs in EPS for purposes of projecting a
25 perpetual dividend growth rate, as some ROR witnesses suggest. When performing an
26 absolute valuation analysis, such as a DCF/DDM, Wall Street analysts assume rational
27 perpetual growth rates in the 2.5% to 3.3% range for electric utility companies and LDCs.

1 Finally, as I discussed earlier in my testimony, these analysts estimate LDC's COE to be
2 in the 8.00% to 8.50% range.

3 **Q. Is it important to analyze the information these equity research firms rely on to**
4 **determine a fair and reasonable ROE for Ameren Missouri?**

5 A. Yes.

6 **Q. Why?**

7 A. Analyzing this information is important because these Wall Street analysts are the very
8 individuals that underlie various consensus estimates widely considered by investors. ROR
9 witnesses recognize the influence Wall Street analysts have on utility stock prices by the
10 very fact that they use their consensus financial metric forecasts for purposes of estimating
11 the COE.

12 **Q. What equity research firms cover Ameren Corp's stock?**

13 A. According to Ameren Corp's website, the following firms cover its stock: Argus Research
14 Corporation, Bank of America ("BofA"), Barclays, BMO Capital Markets, Evercore ISI,
15 Goldman Sachs, Guggenheim, JP Morgan, KeyBanc Capital Markets ("KeyBanc"),
16 Mizuho, Morgan Stanley, Morningstar Equity Research, UBS, Value Line, Wells Fargo
17 Securities, and Wolfe Research ("Wolfe").²⁵

18 **Q. Did you review any of these firms' research for purposes of performing your cost of**
19 **equity analysis and preparing your testimony?**

20 A. Yes. I mainly relied on reports Ameren Missouri made available for review in response to
21 Staff Data Request No. 0121. However, over my career I have established relationships
22 with some firms/analysts who have distributed this material to me directly through their
23 email distribution lists. These relationships were borne from my role as a regulator in
24 which many of these analysts seek information related to Missouri's general and specific

²⁵ <https://www.amereninvestors.com/company-info/analyst-coverage/default.aspx>.

1 regulatory issues. I have also interacted with these analysts through my participation in
2 organizations, such as the Society of Utility and Regulatory Analysts (“SURFA”).

3 *MULTI-STAGE DCF/DDM*

4 **Q. How did you approach the multi-stage DCF/DDM analysis you performed on Ameren**
5 **Corp?**

6 A. Schedule DM-D-2 attached to my testimony illustrates the primary logic and assumptions
7 I used in my multi-stage approach. For the first stage, I used consensus analysts’ discrete
8 estimates for dividend per share (“DPS”) through 2029. Ameren Corp’s consensus
9 dividend payout ratio is projected to be 54.73% in 2029, which is slightly below Ameren
10 Corp’s current targeted dividend payout ratio guidance range of 55% to 65%.²⁶ I then
11 modeled an equal percentage change in the annual payout ratio from this period until the
12 terminal year, which is when I assumed that Ameren Corp would converge to a dividend
13 payout ratio necessary to ensure it retains sufficient earnings to sustain an assumed
14 perpetual growth rate of 2.5% to 3.5%. Consequently, both Ameren Corp’s DPS and EPS
15 annual growth rates gradually declined to my assumed perpetual sustainable growth rate in
16 the range of 2.5% to 3.5%. Based on a terminal expected ROE of 9.50%, the terminal
17 dividend payout ratios are in the range of 63.16% (3.5% perpetual growth rate) to 73.68%
18 (2.5% perpetual growth rate).

19 **Q. What is your basis for an assumed terminal ROE of 9.5%?**

20 A. In recent rate cases, I had assumed a terminal ROE of 9.25%, which was generally
21 consistent with terminal ROE assumptions used by Wells Fargo (9.0%) and Evercore ISI
22 (9.25%). However, due to recent increases in long-term bond yields, and the fact that
23 average authorized ROEs generally did not decline to a range of 9% to 9.25% when the
24 cost of capital was at all-time lows, I decided a 9.5% terminal ROE is a more reasonable
25 assumption at this time.

²⁶ Durgesh Chopra, et. al., “Q3 Highlights,” Evercore ISI, November 8, 2024.

1 **Q. How did you determine the stock price you assumed as the initial cash outflow?**

2 A. I used Ameren Corp’s average stock prices for the last three months. This period captures
3 the recent increases in bond yields, which would be considered by utility equity investors
4 in determining its implications on potential estimates of further changes in interest rates.

5 **Q. What does industry data suggest is a sustainable growth rate for a predominately
6 regulated electric utility company, such as Ameren Missouri?**

7 A. I reviewed past actual historical industry growth rate data from the Moody’s electric utility
8 index,²⁷ a sample group of electric utility companies in which data was available from
9 Value Line,²⁸ and commentary/analysis available from institutional investors/analysts.²⁹
10 This information supports a perpetual growth rate in the range of 2.5% to 3.5%. A
11 perpetual growth rate within this range is also consistent with the “sustainable growth
12 model,” which estimates EPS growth by multiplying an average long-term industry
13 retention rate by an expected book ROE. Assuming the utility industry reverts to its long-
14 term earnings retention rate of approximately 30% and allowed ROEs are maintained
15 around 9.5%, supporting a 2.85% perpetual growth rate if investment opportunities are
16 available (9.5% allowed ROE multiplied by 30%).

17 **Q. Is this industry data consistent with **_____**
18 _____ **

19 A. Yes. In fact, one of the sources I relied on for purposes of estimating the perpetual growth
20 rate is from **_____

21 _____

22 _____ **

²⁷ Staff Cost of Service Report, Case No. ER-2011-0028, p. 18.
²⁸ *Id.*
²⁹ Discussed throughout this testimony.
³⁰ Ameren Dividend Policy Considerations, Ameren Finance Committee, October 2017, p. 5-10.

1 **Q. How do these growth rates compare to perpetual growth rates used by equity analysts**
2 **to estimate fair prices for utility stocks?**

3 A. They are consistent with the perpetual growth rates used for purposes of estimating utility
4 stock prices. For example, Evercore ISI uses a perpetual growth rate of 2.5% to 3.5% in
5 its 3-stage DDM analyses of electric utility stocks.³¹ Wells Fargo uses an average perpetual
6 growth rate of around 3%.³²

7 **Q. Does Ameren Corp’s history include periods which provide insight as to a**
8 **sustainable/perpetual growth rate?**

9 A. Yes. For the period 2010/2011 through Ameren Missouri’s election of plant in service
10 accounting (“PISA”) on September 1, 2018, Ameren Corp limited its investment in
11 Ameren Missouri to maintenance-level capital expenditures.

12 **Q. What was the CAGR in Ameren Missouri’s rate base over this approximate period?**

13 A. Ameren Missouri’s CAGR in its rate base was in the range of 2.2% to 3% from 2010/2011
14 to December 31, 2019.³³ These growth rates further support a rational expected terminal
15 growth rate when the utility industry is maintaining systems to ensure safe and reliable
16 service.

17 **Q. Has Ameren Corp recently changed its planned investment growth in its Illinois**
18 **jurisdiction?**

19 A. Yes. Before the ICC’s decisions on Ameren Illinois’ electric utility rate case in December
20 2023, and its LDC rate case in November 2023, Ameren Corp had planned to target a 5-
21 year CAGR of 7.4% for its Ameren Illinois electric utility rate base and a 5-year CAGR of
22 6.7% for its Ameren Illinois LDC rate base.³⁴ After the ICC decisions, Ameren Corp is
23 now only targeting a 5-year CAGR of 2.3% for its Ameren Illinois electric utility rate base

³¹ Durgesh Chopra, et. al., “A Look at US Electricity Consumption Forecast,” Evercore ISI, June 9, 2024.

³² Neil Kalton, Sarah Akers, and Jonathan Reeder, “DDM Analysis Supports Sector Valuation & Quality/Growth Trade,” August 19, 2019, Wells Fargo.

³³ Case No. ER-2019-0335, Laura Moore Direct Testimony, July 3, 2019, p. 18.

³⁴ “Transforming For Our Future: Third Quarter 2023 Earnings,” November 9, 2023, p. 15.

1 and a 5-year CAGR of 3.3% for its Ameren Illinois LDC rate base.³⁵ Again, these
2 maintenance-level capital expenditure growth rates provide insight as to a sustainable
3 growth rate.

4 **Q. What cost of equity did you estimate for Ameren Corp using the multi-stage**
5 **DCF/DDM approach?**

6 A. Using Ameren Corp's most recent 3-month average stock price of approximately \$91 and
7 discounting prospective dividends by reasonable growth rates in the intermediate future as
8 well as perpetually, the implied COE for Ameren Corp is approximately 7.7% to 7.9% (*see*
9 *Schedule DM-D-2*). This estimate is approximately 35 basis points higher than my Ameren
10 Corp company-specific COE estimates of 7.3% to 7.6% in Ameren Missouri's 2022 rate
11 case.

12 **PROXY GROUP COST OF EQUITY**

13 **Q. Should you compare your estimate of Ameren Corp's company-specific COE to the**
14 **COE of a LDC proxy group?**

15 A. Yes. Investors frequently evaluate the attractiveness of a utility company's share price by
16 comparing it to the average of a peer proxy group, whether it's based on a broader utility
17 index or a custom proxy group.

18 **Q. How did you approach selecting a custom proxy group for purposes of comparing**
19 **Ameren Corp's COE to that of LDCs?**

20 A. The number of publicly-traded companies generally classified as LDCs is fairly small, with
21 Value Line giving only nine companies that classification. Additionally, based on my
22 review of equity research reports covering the LDC industry, equity analysts typically only
23 include eight to nine companies in their LDC peer groups. I decided to use the same proxy
24 group I used in the recent Liberty Midstates rate case.³⁶ My LDC proxy group consists of
25 the following seven companies: Atmos Energy Corporation ("Atmos"), New Jersey

³⁵ "Powering a Reliable, Sustainable Tomorrow: Third Quarter 2024 Earnings," November 7, 2024, p. 13.

³⁶ Case No. GR-2024-0106

1 Resources Corporation (“New Jersey”), NiSource Inc. (“NiSource), Northwest Natural
2 Holding Company (“Northwest”), ONE Gas Inc. (“One Gas”), Southwest Gas Holdings
3 Inc. (“Southwest”) and Spire Inc.

4 **Q. How does your proxy group’s credit ratings compare to the credit rating assigned to**
5 **Ameren Missouri?**

6 A. The average S&P issuer credit rating for the LDC proxy group is in the range of ‘BBB+’
7 to ‘A-’ as compared to Ameren Missouri’s ‘BBB+’ S&P credit rating.

8 **Q. What is the average common equity ratio of your proxy group as of the most recent**
9 **fiscal year?**

10 A. The simple average common equity ratio as a percentage of total capital is 43.91%. The
11 simple average common equity ratio as a percentage of long-term capital is 46.89%.

12 **Q. Did you perform a multi-stage DCF analyses on these companies?**

13 A. Yes. I applied the same principles as I did when applying the multi-stage DCF to Ameren
14 Corp. For the first stage,³⁷ (January 31, 2025, through early to mid-2029) I used Wall
15 Street analysts’ consensus discrete DPS estimates to the extent they were available. For
16 the second stage (early to mid-2029 through early to mid-2039), I allowed for a gradual
17 decline from Wall Street analysts’ projected 5-year CAGR in EPS to a perpetual growth
18 rate in the range of 2% to 3.3% starting in 2039. In order to estimate investors’ anticipated
19 annual DPS over the second stage, I determined consensus analysts’ estimated dividend
20 payout ratios as of 2029. I then allowed the dividend payout ratios to gradually converge
21 to a sustainable payout ratio to gradually converge to a sustainable payout ratio in the range
22 of 65.26% (3.3% perpetual growth at 9.5% terminal ROE) to 78.95% (2% perpetual growth
23 at 9.5% terminal ROE) starting in 2039. The terminal payout ratios are consistent with the
24 constant/sustainable-growth DCF theory that requires DPS, EPS and book value per share
25 (“BVPS”) to grow in perpetuity at the same rate.

³⁷ January 31, 2025, through early to mid-2029.

1 As it relates to my assumed timing of investors' receipt of dividends, I assumed investors
2 receive the entire annual DPS estimate at the middle of the fiscal year. This discounting
3 convention mitigates the potential under- or over-estimating of the COE based on either
4 end-of-year or beginning-of-year discounting conventions.

5 Using a 3-month average of LDC stock prices, my industry COE estimate based on
6 application of the multi-stage DCF to the proxy group indicates a COE in the range of
7 approximately 7.8% to 8.1% (*see* Schedule DM-D-3, p. 1).

8 CAPM

9 **Q. Did you use any other models to estimate Ameren Corp's and the LDC proxy group's**
10 **cost of equity?**

11 A. Yes. In my experience, many Wall Street analysts use the CAPM to determine a discount
12 rate, *i.e.* the COE, to apply to expected cash flows to the equity investor. The CAPM shows
13 the potential impact of changes in interest rates on the cost of capital. COE estimates can
14 be manipulated with the CAPM by using unreasonable market risk premium estimates,
15 fortunately there are a variety of authoritative sources that provide equity risk premium
16 estimates that can form the basis for a consensus view of reasonable risk premiums based
17 on current capital market conditions.

18 **Q. What is the underlying theory that supports the use of the CAPM to estimate the cost**
19 **of equity for utilities?**

20 A. The CAPM is based on capital market theory in which it is recognized that although the
21 total risk of a company and/or industry consists of market ("systematic") risk and
22 asset/business-specific ("unsystematic") risk, investors are only compensated for
23 systematic risk because holding a diversified portfolio allows the investor to avoid
24 unsystematic risk. Systematic risks are unanticipated events in the economy, such as
25 economic growth, changes in interest rates, demographic changes, etc., that affect almost
26 all assets to some degree. The required risk premium for incurring the market risk as it
27 relates to the investment/portfolio is determined by adjusting the market risk premium by
28 the beta of the stock or portfolio. The adjusted risk premium is then added to a risk-free

1 rate to determine the cost of equity. The CAPM is typically expressed in equation form as
2 follows:

$$K_e = R_f + \beta (RP_m)$$

3
4
5 Where: K_e = the cost of equity for a security;
6 R_f = the risk-free rate;
7 β = beta; and
8 RP_m = market risk premium.

9 For purposes of my CAPM analysis, I relied on Kroll’s recommended equity risk premium
10 of 5.0% provided as of June 6, 2024³⁸ and a range of realized historical equity risk
11 premiums of 5.14%³⁹ to 6.56%⁴⁰ derived from data provided by Ibbotson Associates’
12 Stocks, Bonds, Bills and Inflation database.

13 Although each of these equity risk premium estimates use various methods and risk-free
14 rates to arrive at their final estimates, I do not consider any estimate outside of these to be
15 consistent with the investment community’s “consensus.” I specifically used a market risk
16 premium range of 5% to 6% to estimate the COE for the LDC industry. One of the primary
17 drivers of using a higher market risk premium versus a lower market risk premium is
18 whether this market risk premium is applied to a normalized risk-free rate or a current risk-
19 free rate (higher market risk premiums applied to lower current low risk-free rates). Long-
20 term expected nominal market returns for the S&P 500 are approximately 7%.⁴¹ Therefore,
21 market risk premiums in the 5.0% to 6.0% range may actually be excessive for purposes
22 of a CAPM analysis.

23 **Q. What does the beta represent in a CAPM analysis?**

24 A. Beta is statistically defined as the covariance of the returns on an asset (in this case an
25 individual or group of stocks) with the return on the S&P 500 divided by the variance of

³⁸ <https://www.kroll.com/-/media/kroll-images/pdfs/kroll-lowers-its-recommended-us-equity-risk-premium-effective-june-5-2024.pdf>

³⁹ The geometric historical mean for 1926 through 2023.

⁴⁰ The arithmetic historical annual mean for the period 1926 through 2023.

⁴¹ <https://www.philadelphiafed.org/-/media/FRBP/Assets/Surveys-And-Data/survey-of-professional-forecasters/2025/spfQ125.pdf>; <https://am.jpmorgan.com/content/dam/jpm-am-aem/global/en/insights/portfolio-insights/lcma/noindex/lcma-full-report.pdf>

1 the returns on the S&P 500. This statistical measure is intended to provide investors with
2 insight regarding expected volatility of a security (or portfolio of securities) as it relates to
3 market volatility. A beta of less than one implies less expected volatility than the market
4 with the trade-off of a lower expected return than the market. The reverse is expected for
5 a beta greater than one.

6 **Q. Are stock betas calculated based on historical market prices and relationships?**

7 A. Yes. For example, Value Line's published betas are based on five years of historical
8 weekly returns of a stock or portfolio of stocks as compared to the weekly returns of the
9 market.

10 **Q. Have utility stock betas exhibited a wide range of values since the onset of the Covid-
11 19 pandemic?**

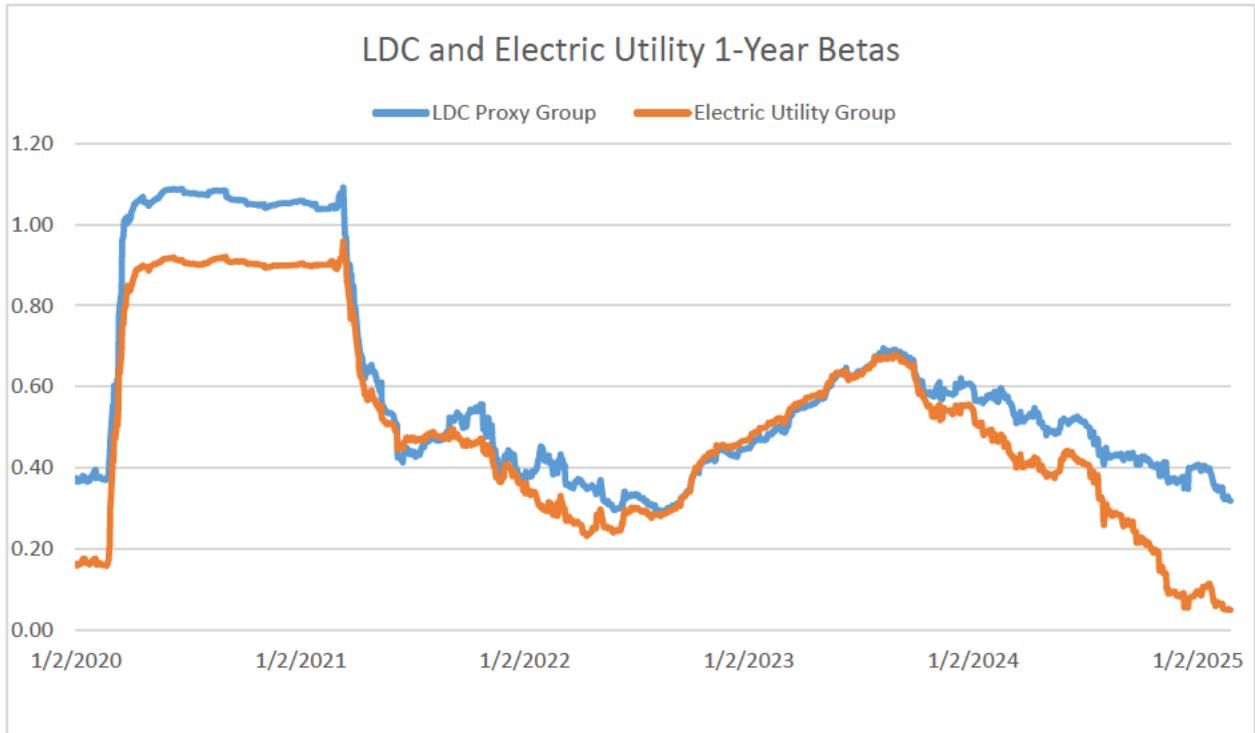
12 A. Yes. Betas for the LDC industry at the end of 2019 were as low as approximately 0.6.
13 After the market swooned in synchronization at the beginning of the Covid-19 pandemic,
14 it caused utility betas to increase dramatically. In Spire Missouri's 2021 rate case, LDC
15 betas had increased to 0.77 with published Value Line betas reaching close to 0.9. LDC's
16 current historical 5-year stock betas are around 0.85.

17 **Q. What was the primary cause of the increase in utility stock betas?**

18 A. The spike in utility stock betas occurred when the market plummeted at the onset of the
19 pandemic in March 2020. It is quite common for all securities, both higher-risk and lower-
20 risk securities, to move in tandem during significant market corrections. Because betas
21 measure the relative volatility of a company or a portfolio as it relates to the market, if all
22 securities rapidly decline at the same time, this fall causes all betas to converge toward one.

23 **Q. How much have LDC and electric utility one-year raw betas changed over the last
24 few years due to the market contraction at the onset of the pandemic?**

25 A. Please see the following chart for one-year raw betas since January 1, 2020:



1

2 **Q. How do you interpret the one-year raw beta data shown in the chart?**

3 A. First, I decided to compare LDC 1-year betas to electric utility 1-year betas because I
4 analyzed and discussed this issue in Ameren Missouri’s pending electric rate case.⁴²
5 Although there are times in which LDCs and electric utility company stocks trade
6 differently, both subsectors usually have similar betas over the long-term. As is evident
7 from the chart above, after the market data from the spring of 2020 drops off the beta
8 calculations, both electric and LDC betas were more similar to betas experienced before
9 Covid-19. That being said, since the beginning of 2024, electric utility raw betas have
10 declined much more rapidly than LDC betas, implying investors currently perceive electric
11 utility companies as having lower risk profiles than LDCs. However, because one year is
12 a relatively short period compared to typical five-year betas, I hesitate to assign significant
13 weight to this recent data to conclude that LDCs’ COE is higher than electric utilities’
14 COE. I will continue to monitor LDC and electric utility betas to determine if this pattern

⁴² Case No. ER-2024-0319

1 appears to be the start of a fundamental change rather than a difference caused by short-
2 term sentiment.

3 **Q. Did you determine longer-term LDC betas which exclude the abnormal situation that**
4 **occurred during the broad market decline at the onset of the Covid-19 pandemic?**

5 A. Yes. I determined LDC betas based on data for the last four years and ten months, which
6 captures the market dynamics of the period impacted by monetary and fiscal policies in
7 response to Covid-19 but excludes the market swoon in March 2020. The LDC betas based
8 on 58 months of data were around 0.70. A beta of around 0.70 is consistent with historical
9 betas for both the electric and natural gas subsectors of the utility industry.

10 **Q. What are electric utility betas based on the same 58 months of data?**

11 A. Approximately 0.68. Therefore, the recent divergence between LDC and electric utility
12 betas is starting to impact longer-term historical beta calculations.

13 **Q. Based on your CAPM analysis using 58-month betas, what is the estimated COE for**
14 **Ameren Corp and the proxy groups?**

15 A. My CAPM COE analysis indicates that Ameren Corp and the LDC industry currently have
16 a COE generally in the 8.3% to 8.6% range based on market risk premium estimates in the
17 5% to 6% range. (see Schedule DM-D-6).

18 SIMPLE TESTS OF REASONABLENESS

19 **Q. Are there any other reasonableness tests to show your COE estimates are rational**
20 **and logical?**

21 A. Yes. First, as I indicated earlier in my testimony, a simple rule of thumb the Chartered
22 Financial Analyst (“CFA”) suggests in its curriculum is to estimate the COE by adding a
23 3% to 4% risk premium to a company’s bond yield, providing a simple, yet objective COE.
24 Being that the investment community views utility stocks as bond surrogates/substitutes, it
25 is logical and reasonable to not add a risk premium any higher than 3% to the bond. Simply
26 adding a 3% risk premium to recent YTM’s of Ameren Missouri’s long-term bonds of
27 around 5.7% implies a COE of approximately 8.7%.

1 Second, thinking about the basic characteristics of utility stocks, which is that investors
2 typically view them as yield investments. An analysis performed by Alliance Bernstein
3 (an equity research firm) showed that between 1974 to 2010, approximately 68% of returns
4 from utility stocks were from the income received through dividends, with the remaining
5 from capital gains.⁴³ Assuming LDC stocks generated 50% of returns from capital gains
6 over the long-term, this attribution translates into a 7.4% required return based on the
7 current average LDC dividend yield of approximately 3.7%.

8 RECOMMENDED AUTHORIZED ROE

9 **Q. Based on your analysis and understanding of Ameren Corp's COE, the LDC**
10 **industry's COE, investor expectations on allowed ROEs, average authorized ROEs**
11 **for natural gas utility companies, and Ameren Corp's authorized returns for its**
12 **Illinois natural gas utility operations, what would be a fair and reasonable allowed**
13 **ROE range in this case?**

14 A. 9.00% to 9.50% with 9.5% being my point ROE recommendation to set Ameren Missouri's
15 authorized ROR for its natural gas distribution operations.

16 **Q. Considering you estimate the COE for Ameren Missouri's LDC operations to be in**
17 **the 7.8% to 8.5% range, why do you consider a 9.5% authorized ROE reasonable?**

18 A. While it certainly may be a worthwhile debate to quantify the amount of "premium," if
19 any, over the COE that is fair and reasonable to allow a utility, the Commission has
20 repeatedly communicated in its orders that it needs to consider average authorized ROEs
21 in setting a fair and reasonable ROE for its Missouri utilities. As it relates to this instant
22 case, I believe the fact that although the cost of capital has increased over the last couple
23 of years, an authorized ROE of 9.5% still allows Ameren Missouri the ability to create
24 shareholder value by simply investing in rate base because a 9.5% ROE is higher than the
25 COE for investments in natural gas utility infrastructure.

⁴³ Hugh Wynne, Francois D. Broquin, and Saurabh Singh, "U.S. Utilities: Our Dividend Growth Model Identified Utilities Poised to Pay More," May 20, 2011, Bernstein Research.

1 **CAPITAL STRUCTURE**

2 **Q. Will you briefly explain capital structure?**

3 A. Capital structure represents how a company finances its assets. The typical capital
4 structure consists of common equity, long-term debt, and short-term debt. Some utilities'
5 capital structures may also include a small portion of preferred stock, though that inclusion
6 has become rare in recent years. Although short-term debt is a typical component of a
7 utility company's capital structure, if the balances of short-term debt are fairly consistent
8 or below construction work in progress ("CWIP") balances, then it is fair to exclude short-
9 term debt from the rate making capital structure. This is due to the expectation that the
10 short-term debt and its corresponding rates are used to calculate the allowance for funds
11 used during construction ("AFUDC") capitalization rate. However, as I highlighted earlier
12 in my testimony, pure-play LDC companies typically finance natural gas inventories with
13 short-term debt. Because Ameren Missouri's financing strategies are primarily a function
14 of its electric utility operations, this customary practice is not apparent when analyzing
15 Ameren Missouri's capital structure.

16 **Q. What capital structure do you recommend for purposes of setting Ameren Missouri's**
17 **ROR?**

18 A. I recommend a capital structure that consists of approximately 42% common equity, 0.60%
19 preferred stock, and 57.40% long-term debt. While not exactly the same as Ameren Corp's
20 consolidated capital structure as of March 31, 2024, this recommendation is in line with
21 Ameren Corp's recent targeted consolidated capital structure.

22 **Q. What is the basis for your capital structure recommendation?**

23 A. My recommended capital structure is consistent with Ameren Corp's consolidated capital
24 structure, net of short-term debt. This capital structure best represents the amount of debt
25 capacity Ameren Corp considers reasonable and appropriate for its regulated utility assets,
26 including those of Ameren Missouri. Using this capital structure ensures that Ameren
27 Missouri's ratepayers receive credit for the additional debt capacity associated with
28 Ameren Missouri's reduced business risk profile, due to PISA and the ability to recover

1 stranded assets and extraordinary costs through securitization. It is clear that Ameren
2 Corp’s strategy for managing its regulated utility subsidiary capital structures is primarily
3 for purposes of ratemaking. Ameren Corp has targeted a common equity ratio of around
4 52% for Ameren Missouri since at least 2012 and plans to continue targeting this common
5 equity ratio for ratemaking for the foreseeable future. This static 52% common equity
6 ratio, regardless of changes in business risk and/or economic conditions, contradicts one of
7 the primary purposes of managing a company’s capital structure – to achieve the lowest
8 reasonable cost without jeopardizing financial stability. As I discuss later, Ameren
9 Missouri’s lower business risk has afforded Ameren Corp the ability to carry a higher
10 proportion of debt in its capital structure. However, instead of sharing the lower cost of this
11 additional debt capacity with Ameren Missouri and its customers, Ameren Corp is
12 misappropriating this debt capacity by leveraging shareholder returns at the holding
13 company level.

14 **Q. What is the basis for your conclusion that Ameren Corp targets common equity ratios**
15 **for ratemaking purposes?**

16 A. My conclusion is based on Ameren Corp’s past financial management of its subsidiaries
17 and Ameren Corp’s projected equity ratios for the next few years. The Federal Energy
18 Regulatory Commission (“FERC”) authorized a 60.16% equity ratio at Ameren
19 Transmission Company of Illinois (“ATXI”). The Illinois Commerce Commission
20 (“ICC”) authorized a 50% common equity ratio for Ameren Illinois’ electric utility and
21 natural gas utility operations. The Missouri Public Service Commission authorized an
22 equity ratio of approximately 52% for Ameren Missouri in its last litigated electric rate
23 case.⁴⁴ ** _____

24 _____
25 _____ **45

26 In other words, Ameren Missouri’s equity balance does not represent the most efficient
27 amount of equity for Ameren Missouri. Its equity balance is based on Ameren Corp’s

⁴⁴ Case No. ER-2014-0258; *See* Ameren Corp’s 2023 SEC Form 10-K Filing, p. 8.

⁴⁵ “Powering a Reliable, Sustainable Tomorrow,” Ameren Rating Agency Update, April 2024, p. 51.

1 desire for an equity ratio that allows it to attempt to charge higher rates to Ameren Missouri
2 customers.

3 **Q. What capital structure has Ameren Corp managed for purposes of taking advantage**
4 **of debt capacity afforded by Ameren Corp’s low-risk regulated utility subsidiaries?**

5 A. Ameren Corp has managed its consolidated capital structure for purposes of taking
6 advantage of its regulated utilities’ debt capacity. Ameren Corp has steadily increased the
7 amount of holding company debt it uses to invest in its subsidiaries.

8 As of the updated test year in Ameren Missouri’s 2019 rate case,⁴⁶ Ameren Corp had \$700
9 million of holding company debt outstanding (8.39% of total consolidated debt).

10 As of the December 31, 2020, test year in its 2021 rate case,⁴⁷ Ameren Corp had \$1.6
11 billion of holding company debt outstanding (14.63% of total consolidated debt).

12 As of the updated test year of June 30, 2022, in Ameren Missouri’s 2022 rate case,⁴⁸
13 Ameren Corp had \$2.55 billion of outstanding holding company long-term debt, which
14 represents 18.95% of total consolidated debt.

15 As of March 31, 2024, Ameren Corp had \$3.85 billion of outstanding holding company
16 long-term debt, which represents 23.39% of total consolidated long-term debt.

17 It is clear that Ameren Corp dynamically manages its consolidated capital structure to take
18 advantage of the debt capacity provided by its regulated utility subsidiaries, but targets a
19 static 52% equity ratio at Ameren Missouri for ratemaking purposes. Ameren Missouri
20 should not be allowed an equity ratio that its own parent company deems to be cost
21 inefficient. This is especially egregious since Ameren Missouri’s ratepayers incur the risk
22 associated with Ameren Missouri’s ability to defer investment costs using PISA.

⁴⁶ Case No. ER-2019-0335

⁴⁷ Case No. ER-2021-0240

⁴⁸ Case No. ER-2022-0337

1 **Q. Do you have other evidence that Ameren Missouri should have a lower common**
2 **equity ratio than the 52% it has constantly targeted over the last twelve years?**

3 A. Yes, Ameren Missouri's business risk declined due to the Missouri Legislature's passage
4 of Senate Bill 564 ("SB 564"), which became law in 2018, and Ameren Missouri's decision
5 to elect PISA in September 2018. A fundamental consideration in determining how much
6 financial risk, *i.e.* additional debt, an asset/business can support is the level of business risk
7 inherent in that asset/business. Consequently, Ameren Missouri can carry more leverage
8 (*i.e.*, debt) in its capital structure due to its business risk declining. Despite operating with
9 less risk, Ameren Corp has not adjusted its targeted capital structure for Ameren Missouri
10 to reflect the lower cost of capital that Ameren Missouri's customers support by being
11 charged for the recovery of depreciation and a ROR on plant that goes into service between
12 general rate cases. Based on Ameren Corp's continued management of Ameren Missouri's
13 capital structure to a 52% common equity ratio, it is evident that Ameren Corp is trying to
14 reward shareholders with the financial benefits enabled by SB 564, rather than passing the
15 reduced cost of capital through to ratepayers by adjusting its equity ratio. The Commission
16 can ensure ratepayers realize the benefits of the lower risk they financially support by
17 authorizing Ameren Missouri's ROR based on a lower common equity ratio. This can
18 most objectively be accomplished by authorizing a common equity ratio for Ameren
19 Missouri that is consistent with Ameren Corp's on a consolidated basis. In addition, by
20 using Ameren Corp's common equity ratio for purposes of setting Ameren Missouri's
21 revenue requirement, Ameren Corp will be incentivized to manage its consolidated capital
22 structure to a more conservative level, which will provide it financial flexibility during
23 uncertain business and market conditions.

24 **Q. Do you have other information which supports your position that Ameren Missouri's**
25 **business risk is lower due to its ability to recover a return on and of investments**
26 **between rate cases through PISA?**

27 A. Yes, I do. First, the very fact that Ameren Corp has committed to investing significant
28 amounts of capital in Ameren Missouri's system shows that Ameren Corp is confident that
29 it will receive timely recovery of and on its investments that are subject to PISA.

1 Second, on March 29, 2019, Moody’s lowered Ameren Corp’s Funds from Operations
2 (“FFO”)/debt⁴⁹ threshold from 19% to 17%, which means that Ameren Corp can incur
3 more leverage as it compares to cash flow and still maintain its current credit rating of Baa1
4 (functional equivalent of S&P’s BBB+). One of the primary reasons Moody’s cited for
5 allowing Ameren Corp a lower FFO/debt threshold (*i.e.* use of more leverage) was
6 “improved regulatory construct in Missouri facilitating meaningful rate base growth and
7 reducing regulatory lag [PISA].”⁵⁰ Ameren Corp’s management said,** _____
8 _____
9 _____

10 _____ ** This
11 additional debt capacity should be reflected in Ameren Missouri’s authorized capital
12 structure because Ameren Missouri’s customers are providing the cash flows that make
13 this lower business risk possible. Considering the anticipated sizeable increase in Ameren
14 Missouri’s rate base over the next several years, it is just and reasonable to ensure
15 ratepayers are charged a ROR based on the additional debt capacity they provide Ameren
16 Corp. Recognizing the reduced cost of capital through Ameren Corp’s ability to utilize
17 more debt in its capital structure should allow Ameren Missouri’s ratepayers to receive
18 credit for Ameren Corp’s reduced risk profile afforded by Ameren Missouri’s election of
19 PISA.

20 Third, as I discussed previously, before the ICC’s December 2023 decision on Ameren
21 Illinois’ electric utility rate case, Ameren Corp had been viewed as a premium utility by
22 investors, because of the anticipated growth in its investment and investors’ confidence in
23 the probability of the recovery of a return of and on this investment. As a result of the
24 ICC’s decision on AIC’s multi-year rate plan, Ameren Corp reallocated intended capital
25 spend for its Illinois electric utility systems to its Missouri electric utility systems and

⁴⁹ FFO/Debt (as generally referenced by most evaluating credit worthiness) is the credit metric that receives the most weight by both Standard & Poor’s (S&P) and Moody’s. This metric provides insight as to how much sustainable cash flow the operations generate as it relates to the amount of fixed obligations, which includes traditional debt, but also other obligations such as capital leases. The higher the ratio, the less financial risk implied by the ratio. Moody’s more specifically defines FFO/debt as “Cash flow from Operations – Pre Working Capital to Debt”.

However, I will generally refer to each as FFO/debt.

⁵⁰ “Update to Credit Analysis,” Moody’s Investor Service, March 29, 2019, p. 2.

⁵¹ Ameren Corp’s Finance Committee Meeting, February 7, 2019, p. 24.

1 ATXI. Ameren Corp has communicated that its decision to do so is due to Missouri’s more
2 “constructive” regulatory environment for investors as compared to Illinois.

3 **Q. Why does Ameren Corp’s current consolidated capital structure have a much lower**
4 **equity ratio than Ameren Missouri’s capital structure?**

5 A. Primarily because of Ameren Corp’s increased use of holding company debt to fund its
6 investments. As I have already explained, Ameren Corp continues to issue more holding
7 company debt on an absolute and relative basis. As of the updated test year in Ameren
8 Missouri’s 2019 rate case,⁵² Ameren Corp had \$700 million of holding company debt
9 outstanding. As of March 31, 2024, the end of the test year in this case, Ameren Corp had
10 \$3.85 billion of holding company debt outstanding. As a proportion of consolidated debt,
11 Ameren Corp has approximately tripled its percentage of holding company debt.

12 **Q. Do you have any examples of how Ameren Corp has managed its subsidiaries’ capital**
13 **structures to target common equity ratios for ratemaking?**

14 A. Yes. Although Ameren Corp’s management of Ameren Missouri’s capital structure is my
15 primary focus, because Ameren Corp’s management, through Ameren Services (“AMS”),
16 is ultimately managing its subsidiaries for the benefit of Ameren Corp shareholders, it is
17 important to evaluate and understand Ameren Corp’s decisions as it relates to *all* of its
18 subsidiaries.

19 Ameren Corp’s management of Ameren Transmission Company of Illinois’ (“ATXI”)
20 capital structure provides the most glaring example of how Ameren Corp manages its
21 subsidiaries’ capital structures to its own benefit for ratemaking purposes. ATXI’s rates
22 are based on a FERC-authorized common equity ratio of 60.16%. Because ATXI was a
23 new company with no financial experience and no significant assets until around 2014 to
24 2015, it completely relied on Ameren Corp for its capital needs until 2017.

25 Ameren Corp has provided steady incremental financing to ATXI since 2010. Ameren
26 Corp relies on its shared credit facilities with Ameren Missouri and AIC to access
27 commercial paper for financing needs at the holding company level. Ameren Corp used

⁵² Case No. ER-2019-0335.

1 this short-term debt capital to finance both its equity and debt investments in ATXI.⁵³ It
2 appears a majority of Ameren Corp's commercial paper financing was used for purposes
3 of investing in ATXI's assets, which were classified as equity infusions into ATXI.
4 However, it is also possible some of the commercial paper was issued to finance other
5 Ameren Corp capital needs.

6 For example, Ameren Corp used commercial paper to repay \$425 million of long-term debt
7 due in May 2014. In order to reduce the amount of short-term debt carried at the holding
8 company due to the aforementioned financing needs, Ameren Corp issued \$700 million of
9 long-term debt. However, during much of this period in which Ameren Corp was funding
10 these investments with external capital, it was also receiving a significant amount of
11 dividends from Ameren Missouri. Being that there is no way to trace the capital once
12 Ameren Corp receives and redeploys it, disaggregating the various forms of capital for
13 each subsidiary becomes a futile effort. Fortunately, this is not necessary for purposes of
14 determining how much debt the subsidiaries support because the consolidated capital
15 structure provides this transparency.

16 After Ameren Corp financed ATXI's investments through short-term and long-term debt,
17 ATXI issued \$450 million of third-party debt on June 22, 2017. The proceeds from this
18 debt were used to refund \$425 million of the \$500 million of debt financing Ameren Corp
19 had provided to ATXI. None of the proceeds were used to return any portion of the equity
20 financing Ameren Corp had infused into ATXI. It is important to emphasize that ATXI's
21 equity and debt capital had been funded from the same source, Ameren Corp's commercial
22 paper. After the aforementioned transactions were completed, ATXI still had a per books
23 common equity ratio of around 55%, which was close to the 56% targeted at the time for
24 FERC ratemaking purposes, despite being financed by debt.

25 Ameren Corp had also managed AIC's capital structure for ratemaking purposes. Over the
26 course of several cases from 2011 to 2013, AIC, Staff of the ICC and an intervening
27 industrial party extensively litigated the appropriate basis of AIC's authorized ROR. AIC
28 believed its authorized ROR should be based on AIC's per books capital structure that

⁵³ Ameren Missouri response to OPC DR No. 3033 in Case No. ER-2019-0335.

1 showed a common equity ratios in the range of 52% to 54%.⁵⁴ ICC Staff and the industrial
2 party supported a lower ROR, to recognize the reduced business risk afforded by the
3 Illinois' Grid Modernization Act.

4 After many years of litigation, the parties eventually agreed to deem a common equity ratio
5 of "up to and including 50% of the total capital" as reasonable for purposes of setting rates
6 for AIC. This agreement was codified into law by the 2016 Illinois Legislature's passage
7 of the Future Energy Jobs Act ("FEJA"), an amendment to the 2011 Illinois Energy
8 Infrastructure Modernization Act. Until recently, Ameren Corp had managed AIC's actual
9 adjusted year-end common equity ratio to within 25 basis points (0.25%) of the 50%
10 determined reasonable for ratemaking in Illinois. The adjusted year-end common equity
11 ratio had not varied by more than 15 basis points (0.15%) over this period. However, in
12 AIC's final two annual rate dockets,⁵⁵ AIC requested higher ratemaking common equity
13 ratios under its formula rate plan. AIC claimed that its reduced formula ROEs and lower
14 cash flows due to the reduction of the corporate income tax rate starting in 2018 required
15 it to manage to a higher common equity ratio. In Case No. D-21-0365, the ICC applied a
16 7.36% ROE to a 51% common equity ratio for purposes of setting 2022 rates. In Case No.
17 D-22-0297, the ICC applied a 7.85% ROE to a 50% common equity ratio for purposes of
18 setting 2023 rates.

19 **Q. Is the ROR for AIC's electric utility operations still set based on the formula**
20 **prescribed in FEJA?**

21 A. No. Beginning January 1, 2024, AIC's authorized ROR was determined based on the
22 traditional approach of parties filing cost of capital/rate of return testimony for purposes of
23 setting AIC's rates. Instead, AIC's electric utility operations now operate under a multi-
24 year rate plan, which sets rates for the next four years based on projections and estimates.
25 For purposes of AIC's inaugural multi-year rate plan, the ICC authorized an 8.72% ROE
26 applied to a 50% common equity ratio.

⁵⁴ Docket Nos. D-11-0279, D-12-0293 and D-13-0301.

⁵⁵ ICC Docket Nos. D-21-0365 and D-22-0297

1 **Q. What common equity ratio did the ICC use for purposes of determining rates for**
2 **AIC's natural gas distribution operations?**

3 A. 50%.⁵⁶

4 **Q. How has Ameren Corp managed Ameren Missouri's capital structure for**
5 **ratemaking?**

6 A. Ameren Missouri manages to its 52% targeted common equity ratio by means of its equity
7 infusions, its dividend payments, and its debt financings. Ameren Missouri's common
8 equity ratios for rate cases since 2010 have been in the range of 51.26% to 52.30%, with
9 all cases but the 2010 rate case being within the range of 51.75% to 52.30%.

10 Despite Ameren Missouri's reduced business risk profile due to favorable legislative
11 initiatives such as the legislation allowing PISA in 2018 and securitization in 2021, Ameren
12 Missouri's common equity ratio has not changed. Allowing Ameren Missouri's capital
13 structure to be more leveraged would reduce Ameren Missouri's cost of capital and,
14 therefore, the ROR ratepayers are charged in its revenue requirement. Of course, Ameren
15 Corp historically needed to raise debt capital for investment in its other subsidiaries, as
16 well as support its dividend payments to its shareholders. Therefore, Ameren Corp has a
17 financial incentive to maintain a higher common equity ratio at Ameren Missouri because
18 this generates more cash flow to service Ameren Corp's holding company debt. It is not
19 fair to Ameren Missouri's ratepayers for Ameren Corp to use Ameren Missouri's debt
20 capacity for the benefit of Ameren Corp's shareholders.

21 **Q. What shows that Ameren Missouri's capital flows are not managed as if it were a**
22 **stand-alone entity?**

23 A. If Ameren Missouri's capital structure was being managed for its own benefit, then one
24 would expect that it would have a carefully managed dividend payment policy, similar to
25 how Ameren Corp manages its dividend payments to a targeted payout ratio in the range
26 of 55% to 65%. However, over the past five years, Ameren Missouri's dividend payout
27 ratios have been as follows: 100.23% in 2019, 15.03% in 2020, 4.61% in 2021, 8.14% in

⁵⁶ ICC Docket No. D-23-0067.

1 2022 and 1.64% in 2023. If Ameren Missouri were financially managed as a stand-alone
2 entity, it would have its own formal dividend policy. Ameren Missouri shouldered the
3 burden of dividends ultimately paid to Ameren Corp shareholders through 2018 because
4 Ameren Corp had only been minimally reinvesting in Ameren Missouri until it elected
5 PISA in September 2018.⁵⁷ At the same time, Ameren Corp had been investing significant
6 amounts of capital in ATXI and Ameren Illinois. Over the last five years, Ameren Illinois
7 has had a dividend payout ratio that has ranged from 0% to 17.68%. ATXI has required
8 much less investment since 2017, which is the last year in which ATXI did not distribute
9 a dividend to Ameren Corp. Over the last five years, ATXI's dividend payout ratios have
10 been as low as 18.03% in 2019 and as high as 130.26% in 2023. If Ameren Corp's
11 subsidiaries were stand-alone entities, then their cash flows would not be managed in this
12 fashion because the shareholders of each entity would expect a consistent and steady
13 dividend payout ratio.

14 **Q. Does Ameren Corp manage its subsidiaries' common equity ratios in other ways?**

15 A. Yes. First, the subsidiaries do not have the capability to manage their own capital needs.
16 AMS provides this function for all of Ameren Corp's subsidiaries and has total operational
17 control of all Ameren Corp entities, except for Ameren Missouri and AIC.

18 AMS uses short-term debt, *i.e.* commercial paper, at Ameren Corp to make capital
19 infusions in its subsidiaries. There have been times that Ameren Corp has not been able to
20 fully fund the dividends it pays to its shareholders, due to its subsidiaries, such as Ameren
21 Missouri, having a finite amount of cash to provide its parent company in dividends.
22 Consequently, Ameren Corp has had to raise other capital to fund this deficiency.

23 Ameren Corp freely admits that it issues short-term debt and long-term debt at the holding
24 company level to invest in its AIC and ATXI subsidiaries.⁵⁸ However, Ameren Corp
25 indicates it is a matter of policy not to do the same for Ameren Missouri because it wants
26 to ensure that Ameren Missouri's equity is supported by Ameren Corp's third-party equity

⁵⁷ Case No. EO-2019-0044.

⁵⁸ See Ameren Missouri's response to DR No. 3033 in Case No. ER-2019-0335.

1 issuances.⁵⁹ This reasoning has been Ameren Corp’s basis for maintaining that Ameren
2 Missouri’s equity ratio is legitimate for ratemaking purposes.

3 **Q. Why do you consider Ameren Corp’s long-term equity ratio to be the most**
4 **appropriate for setting Ameren Missouri’s allowed ROR?**

5 A Ameren Corp allocates capital to its rate regulated subsidiaries to target and achieve
6 ratemaking common equity ratios. The most objective and practical measure of the capital
7 structure, that captures the debt capacity of Ameren Corp’s regulated utility assets, is that
8 of the Ameren Corp on a consolidated basis. Consequently, I recommend Ameren
9 Missouri’s common equity ratio be set no higher than Ameren Corp’s typical common
10 equity ratio of approximately 42%, net of short-term debt.

11 **Q. Do Ameren Corp’s financial projections anticipate a similar common equity ratio**
12 **over the next several years?**

13 A. Yes. Ameren Corp expects its consolidated common equity ratio to be around ** _____
14 _____ **60

15 **Q. Do you recommend short-term debt be included in Ameren Missouri’s ratemaking**
16 **capital structure for this case?**

17 A. No. Due to Ameren Missouri’s consistent and significant monthly CWIP balances of over
18 \$1 billion, it is clear that Ameren Corp and Ameren Missouri are issuing short-term debt
19 as a bridge before refinancing investment in plant with long-term capital.

20 However, as I testified earlier, approximately 1% of Ameren Missouri’s LDC rate base
21 consists of natural gas inventories. Therefore, if the Commission does not adopt my more
22 leveraged capital structure recommendation, it should at least reduce the ratemaking
23 common equity ratio by 1 percentage point.

⁵⁹ *Id.*

⁶⁰“Powering a Reliable, Sustainable Tomorrow,” Ameren Rating Agency Update, April 2024, p. 51.

1 **Q. Are Ameren Missouri's ratepayers receiving full credit for the proportion of short-**
2 **term debt needed because of the significant CWIP balances?**

3 A. No. As I discussed above, instead of Ameren Corp relying on its subsidiaries for dividend
4 payments to its third-party shareholders, it is issuing holding company short-term debt to
5 fund dividends. The creation and use of a holding company for such purposes distorts the
6 intent of ratemaking elements such as AFUDC. Based on Ameren Missouri's 13-month
7 average short-term debt balance, compared to its 13-month average CWIP balance,
8 Ameren Missouri's ratepayers are only receiving 25% weighting for short-term debt in the
9 AFUDC formula. A more accurate reflection of the proportion of short-term debt
10 supporting CWIP is to compare Ameren Corp's short-term debt balances to its CWIP
11 balances. Ameren Corp's proportion of short-term debt to CWIP average 52.1% over the
12 same period.

13 **Q. How do you recommend Ameren Missouri's ratepayers receive credit for the**
14 **expectation that short-term debt should be used as bridge financing for CWIP?**

15 A. I recommend the Commission order Ameren Missouri to apply a short-term debt rate to all
16 CWIP. Most of Ameren Missouri's projects are relatively short-term so the capitalization
17 rate should be based on a short-term cost of capital. The rationale for including long-term
18 capital costs in the AFUDC is due to potential multi-year projects in which companies may
19 be required to refinance short-term debt with long-term capital before the project is
20 complete.

21 **Q. How can the Commission determine an equitable, market-tested and objective capital**
22 **structure that more closely captures the amount of debt capacity consistent with**
23 **Ameren Missouri's low business risk?**

24 A. The Commission can more closely capture debt capacity consistent with Ameren
25 Missouri's low business risk by using Ameren Corp's consolidated capital structure as a
26 proxy. While this capital structure includes capital that is used for investment in all of
27 Ameren Corp's assets, it should not be the focus for determining the proper balance of
28 capital as it relates to each of Ameren Corp's subsidiaries. For example, while FERC has
29 decided to allow ATXI a common equity ratio of 60.1%, for purposes of setting its allowed

1 ROR, Ameren Corp understands that these assets can support a much higher amount of
2 leverage because of the low business risk associated with these assets. Consequently,
3 Ameren Corp initially issued all holding company debt for purposes of funding its
4 investment in ATXI. In 2017, ATXI issued \$450 million of third-party debt, which was
5 then used to refund the affiliate loans Ameren Corp made to ATXI. Ameren Corp's
6 strategic financing decisions primarily concentrate on the amount of leverage Ameren Corp
7 can carry on a consolidated basis. This capital structure most accurately reflects the debt
8 capacity afforded by Ameren Missouri's assets.

9 **SUMMARY AND CONCLUSIONS**

10 **Q. Would you summarize your main conclusions and views as it relates to a Commission-**
11 **authorized ROR for Ameren Missouri's natural gas distribution operations?**

12 A. Yes. While the Commission had not determined an authorized ROE for Ameren
13 Missouri's natural gas utility for quite some time, it did set a 9.53% authorized ROE for
14 Ameren Missouri's electric utility in 2015. LDCs and electric utilities P/E ratios are
15 currently similar to the electric utility industry's P/E ratios in 2015. Also, my multi-stage
16 DCF COE estimates for the LDC proxy group in this case are almost the same as my multi-
17 stage DCF COE estimates for the electric utility industry in Ameren Missouri's electric
18 rate case. Therefore, a 9.5% authorized ROE is reasonable for Ameren Missouri's natural
19 gas utility investments and its electric utility investments.

20 Despite Ameren Missouri's lower business risk, its common equity ratio has remained
21 static at 52%. Ameren Corp has not managed Ameren Missouri's capital structure to allow
22 ratepayers to benefit from the lower cost of capital made possible by Ameren Missouri's
23 lower business risk. Rather, Ameren Corp has taken advantage of its utilities' lower
24 business risk by issuing more holding company debt. The Commission can, and should,
25 correct this unfair financing practice by authorizing Ameren Missouri a ratemaking
26 common equity ratio consistent with that of Ameren Corp's consolidated common equity
27 ratio.

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

2 A. Yes.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Union Electric Company)
d/b/a Ameren Missouri's Tariffs to Adjust)
Its Revenues for Natural Gas Service) Case No. GR-2024-0369

AFFIDAVIT OF DAVID MURRAY

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

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

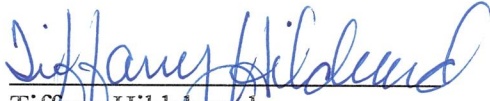
1. My name is David Murray. I am a Utility Regulatory Manager for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my direct testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.



David Murray
Utility Regulatory Manager

Subscribed and sworn to me this 27th day of February 2025.

TIFFANY HILDEBRAND
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI
MY COMMISSION EXPIRES AUGUST 8, 2027
COLE COUNTY
COMMISSION #15637121



Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2027.