Exhibit No.: _____
Issue(s): Rate of Return/Capital Structure
Witness/Type of Exhibit: Murray/Rebuttal
Sponsoring Party: Public Counsel
Case No.: GR-2024-0369

REBUTTAL 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

April 4, 2025

PUBLIC

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OF

DAVID MURRAY

UNION ELECTRIC COMPANY d/b/a AMEREN MISSOURI

FILE NO. GR-2024-0369

Q. Please state your name and business address.

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

Q. Are you the same David Murray who previously filed Direct Testimony in this case?

A. Yes.

Q. What it the purpose of your testimony?

A. To respond to the direct testimony of Ameren Missouri witnesses, Ann E. Bulkley and Darryl T. Sagel, as it relates to rate of return ("ROR") and capital structure. I will also respond to the direct testimony of Staff witness Seoung Joun Won, PhD.

Q. How will you approach the presentation of your rebuttal testimony?

A. First, I will address capital structure, responding to Mr. Sagel's and Dr. Won's testimonies simultaneously due to the similarities in their arguments. I will specifically address their recommendation to use Ameren Missouri's capital structure ratios to set Ameren Missouri's authorized ROR for its local natural gas distribution system ("gas utility"). Next, I will respond to Ms. Bulkley's and Dr. Won's recommended ROEs, separately, to address the different recommendations and approaches they took to arrive at those recommendations.

Q. Do you plan to address any issue other than capital structure and ROE as it relates to Ameren Missouri's requested revenue requirement?

A. Yes. I will discuss the effect Ameren Corp's holding company financing strategies have on the Federal Energy Regulatory Commission's ("FERC") standard formula for capitalizing financing costs associated with construction work in progress ("CWIP").

Logic and custom support the financing practice of using short-term debt to initially fund capital expenditures. However, Ameren Corp's holding company financing strategies cause an unreasonably high proportion of higher-cost long-term capital (*i.e.* increases to rate base) to be included in the standard FERC allowance for funds used during construction ("AFUDC") formula.

CAPITAL STRUCTURE

Q. Whose direct testimony addressed the recommended ratemaking capital structure for determining Ameren Missouri's revenue requirement in this case?

A. Ameren Missouri witness Mr. Sagel, Staff witness Dr. Won, and me.

Q. Do you agree with Mr. Sagel's and Dr. Won's positions on capital structure in this case?

A. No. Both Mr. Sagel and Dr. Won recommend the Commission determine Ameren Missouri's authorized ROR for its gas utility using Ameren Missouri's capital structure ratios. Dr. Won's and Mr. Sagel's capital structure ratios only differ because they used differing dates for their capital structure recommendations. Dr. Won used Ameren Missouri's actual capital structure ratios as of September 30, 2024, while Mr. Sagel used Ameren Missouri's projected capital structure ratios as of December 31, 2024.

Q. Why did Mr. Sagel estimate Ameren Missouri's capital structure as of December 31, 2024, for purposes of his recommended ratemaking capital structure?

A. Because he filed his direct testimony on September 30, 2024.

Q. Why didn't Mr. Sagel use the actual capital structure balances as of the date he filed direct testimony?

A. Because he wanted to provide an anticipated capital structure as of the true-up date in this case.

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Q. Did Mr. Sagel and Dr. Won provide their capital structure recommendations as of December 31, 2024, in Ameren Missouri's current electric utility rate case?

A. Yes, both Mr. Sagel and Dr. Won recommended a 51.96% ratemaking common equity ratio for Ameren Missouri's electric utility operations in Case No. ER-2024-0319. I have no reason to expect their capital structure recommendations will change in this case, since the true-up period is the same as in the electric case.

Q. How was Ameren Corp able to ensure Ameren Missouri's common equity ratio achieved Mr. Sagel's projection in his direct testimony?

A. Through managing inter-company capital flows between itself and Ameren Missouri. At the end of September 30, 2024, Ameren Missouri had approximately $593 million of short-term debt outstanding. Because Ameren Missouri's monthly short-term debt balances are consistently below its CWIP balances, short-term debt is not typically included in Ameren Missouri's proposed ratemaking capital structure. Therefore, Ameren Corp ensured Ameren Missouri's ratemaking capital structure had an approximate 52% common equity ratio as of December 31, 2024, by simply managing affiliate financing transactions. Ameren Corp made capital contributions to Ameren Missouri's common equity account and did not receive any dividend distributions from Ameren Missouri.

Q. What third-party financing activities did Ameren Missouri complete during the fourth quarter of 2024?

A. Ameren Missouri issued $450 million of long-term debt on October 7, 2024. Ameren Missouri also received $476 million of proceeds from its Rush Island securitized bonds during the fourth quarter of 2024 for a total of $926 million in long-term financing proceeds. Ameren Missouri had an outstanding short-term debt balance of $593 million as of September 30, 2024, but $0 as of December 31, 2024. Additionally, according to Ameren Missouri's response to OPC Data Request 3003, Ameren Missouri had also loaned ** _____ ** to Ameren Corp's regulated money pool. Therefore, after Ameren Missouri used a portion of the $926 million in proceeds to reduce short-term debt and fund capital expenditures, Ameren Missouri had excess funds available to loan to the money pool.

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Q. Could Ameren Missouri have used the entire amount of the proceeds raised at Ameren Missouri for its own use?

A. Yes. Considering Ameren Corp contributed $126 million of capital into Ameren Missouri's equity capital account during the fourth quarter of 2024, Ameren Missouri could have simply retained the excess funds loaned to the money pool to reduce Ameren Corp's equity contribution. Ameren Corp's financing activities were primarily driven by its desire for Ameren Missouri's capital structure at the true-up date to match the approximate 52% common equity ratio it desires for ratemaking.

Q. Has Ameren Corp engaged in any other peculiar financing transactions that involve Ameren Missouri's capital structure?

A. Yes. In November and December 2024, Ameren Corp purchased $58 million of Ameren Missouri's outstanding long-term debt from third-party investors. Ameren Corp recorded a $16 million pre-tax gain on its consolidated income statement due to purchasing the debt at a discount.[1]

Q. Did Ameren Corp's purchase of Ameren Missouri's long-term debt impact Ameren Missouri's cost of long-term debt or its capital structure?

A. No. While Ameren Corp's consolidated financial statements recognized its purchase of Ameren Missouri's debt as a debt extinguishment, because Ameren Missouri did not directly purchase the debt from the third-party debt investors, it was not recorded as a debt extinguishment on Ameren Missouri's balance sheet. Therefore, Ameren Missouri's outstanding long-term debt was not reduced, and its cost of long-term debt is the same, even though Ameren Missouri now pays Ameren Corp the debt service on $58 million of its outstanding debt.

[1] Ameren Corp's 2024 SEC Form 10-K Filing, p. 121.

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Q. If Ameren Missouri had ** _____ ** available to loan to the money pool during the fourth quarter of 2024, why didn't Ameren Missouri repurchase its own long-term debt?

A. That is a great question for which I currently do not have a reasonable answer. However, regardless of Ameren Corp's rationale, these transactions further cast doubt on the integrity of Ameren Missouri's capital structure.

Q. Can you provide an example of another Missouri regulated utility that has adjusted its capital structure at the true-up date to target a more reasonable ratemaking capital structure?

A. Yes. Evergy Missouri West ("EMW") also targeted a 52% common equity ratio for its true-up period in Case No. ER-2024-0189. However, it upsized its projected long-term debt issuance by $100 million, which resulted in EMW requesting a ratemaking common equity ratio of approximately 50%.[2]

Q. Were EMW's credit ratings impacted by its decision to adjust its ratemaking capital structure to a 50% common equity ratio rather than its initial request of a 52% ratemaking common equity ratio?

A. No.

Q. You have discussed various levers that can be used to manipulate Ameren Missouri's capital structure. With those levers of manipulation in mind, what do you conclude about Mr. Sagel's and Dr. Won's recommended ratemaking capital structure for Ameren Missouri?

A. I fundamentally disagree with Dr. Won's and Mr. Sagel's conclusion that Ameren Missouri has an "independent" capital structure acting purely as a function of third-party transactions with competing interests. Ameren Corp maximizes shareholder wealth by investing in Ameren Missouri's utility system at a higher ROR than the cost of capital it realizes at Ameren Corp on a consolidated basis. While Ameren Corp is entitled to a fair and

[2] Case No. ER-2024-0189, Rebuttal Testimony of Geoffrey Ley, p. 3.

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reasonable authorized ROE, the ratemaking common equity ratio to which it is applied should be consistent with the business risk.

Ameren Corp has constantly targeted a 52% ratemaking common equity ratio for Ameren Missouri, both before and after the passage of Plant-in-Service-Accounting ("PISA"). However, since PISA took effect, Ameren Corp has consistently increased the amount of leverage in its consolidated capital structure. This leverage increase provides direct insight into Ameren Corp's managements' views of the true debt capacity of Ameren Missouri's low risk, regulated utility investments.

Q. Has Ameren Corp consistently targeted a 52% common equity ratio on a consolidated basis?

A. No. As I explained in my direct testimony, Ameren Corp's equity ratio has continued to diverge from Ameren Missouri's targeted equity ratio. In fact, the delta between Ameren Missouri's and Ameren Corp's common equity ratio steadily increased over the last several years. In Ameren Missouri's 2019 electric rate case, Case No. ER-2019-0335, the difference was 4% (52% vs. 48%). In Ameren Missouri's 2021 electric and natural gas utility rate case, Case Nos. ER-2021-0240 and GR-2021-0241, respectively, the difference increased to 7% (52% vs. 45%). In Ameren Missouri's 2022 electric rate case, Case No. ER-2022-0337, the gap increased to 9% (52% vs. 43%). As of this rate case, the gap is now 10% (52% vs. 42%).

Ameren Corp continues to increase the amount and proportion of holding company debt, as compared to total consolidated debt, causing the widening gap between the common equity ratios.

On March 29, 2019, Moody's lowered its Funds from Operations ("FFO")/debt threshold for Ameren Corp to 17% from 19%. Therefore, Ameren Corp had the flexibility to incur more leverage at the holding company level without jeopardizing its credit rating. A primary reason Moody's provided for allowing less stringent financial metrics was the

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"improved regulatory construct in Missouri facilitating meaningful rate base growth and reducing regulatory lag [PISA]."[3]

Q. What were Ameren Missouri's authorized equity ratio and ROE before it was able to elect PISA accounting for its electric utility operations?

A. Prior to PISA, the Commission authorized Ameren Missouri a 51.76% equity ratio and a 9.53% ROE.[4]

Q. How have the common equity ratios of Ameren Corp's other major subsidiaries, Ameren Illinois Company ("AIC") and Ameren Transmission Company of Illinois ("ATXI"), changed since Ameren Missouri's 2019 electric rate case?

A. AIC's common equity ratio increased from 50% to approximately 54%.[5] ATXI's common equity ratio has remained in the 58% to 60% range.

Q. So, Ameren Corp increased AIC's common equity ratio while maintaining ATXI and Ameren Missouri's common equity ratios?

A. Yes.

Q. Why, then, does Ameren Corp's consolidated capital structure have a lower equity ratio now than it did at the time of Ameren Missouri's 2019 electric rate case?

A. Because Ameren Corp is issuing holding company debt to invest in the equity of its wholly owned subsidiaries.[6] Ameren Corp's debt capacity arises from its indirect ownership of low risk, regulated utility assets, which increased after Ameren Missouri was able to elect PISA.

[3] "Updated to Credit Analysis," Moody's Investor Service, March 29, 2019, p. 2.
[4] Case No. ER-2014-0258, Report and Order, April 29, 2015, pgs. 61 and 68.
[5] Docket 23-0082, Illinois Commerce Commission, Ameren Illinois Company.
[6] Ameren Missouri, ATXI, and AIC.

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Q. Has Ameren Missouri been allowed to use the increased debt capacity caused by Missouri's lower business risk profile due to investor-friendly legislation and regulatory treatment in Missouri?

A. No. Ameren Corp has not allowed Ameren Missouri to benefit from these conditions because that would upset the ratemaking paradigm Ameren Corp believes it has established for its Ameren Missouri subsidiary. The Commission can correct the misappropriation of Ameren Missouri's debt capacity to Ameren Corp by authorizing a lower common equity ratio when setting Ameren Missouri's authorized ROR.

I recommend the Commission authorize a 42% common equity ratio for Ameren Missouri. This ratio is consistent with the leverage Ameren Corp considers appropriate and optimal considering the low business risk of its regulated assets. Ameren Corp could attain a higher ratemaking common equity ratio for Ameren Missouri by simply reducing its proportion of holding company debt and maintaining the current debt ratios at its subsidiaries.

Q. Let's move on to your response to Dr. Won's capital structure recommendation. For context, why does Dr. Won recommend that the Commission use Ameren Missouri's standalone capital structure for determining the revenue requirement in this case?

A. Dr. Won reached his recommendation based on his view that Ameren Missouri's financial relationship with Ameren Corp is consistent with past Commission decisions in which it set the authorized ROR based on a standalone capital structure. Therefore, he recommends the Commission set Ameren Missouri's ROR "based on its [Ameren Missouri's] most recent actual standalone capital structure."[7]

Q. What previous Commission ratemaking decisions did Dr. Won identify in his testimony?

A. Dr. Won identified the Commission's decisions in the following three rate cases: The Empire District Electric Company's ("Empire") Case No. ER-2019-0374, Spire Missouri's

[7] Won Direct, p. 39, lns. 2-5.

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Case No. GR-2021-0108, and Confluence Rivers Utility Operating Company, Inc.'s ("Confluence Rivers") Case No. WR-2023-0006.[8]

Q. Which of the financing relationships in the above-cited cases are comparable to Ameren Missouri and Ameren Corp?

A. The Spire Missouri relationship with its parent company, Spire Inc., is comparable. The corporate and financing structures associated with Empire and Confluence Rivers are not comparable.

Q. What makes the financing relationship in the Empire case different to the one in this case?

A. Ameren Missouri issues its own long-term debt, but Empire relies on a financing affiliate to access long-term debt funds on its behalf.

Q. Dr. Won testifies that, in Case No. ER-2019-0374, the Commission found that Empire's consolidated capital structure was appropriate for ratemaking.[9] Did the Commission adopt Empire's consolidated capital structure in Case No. ER-2019-0374 for purposes of setting Empire's ROR?

A. No. The Commission used Liberty Utilities Company's ("LUCo") adjusted consolidated capital structure for purposes of setting Empire's ROR. After Algonquin Power & Utilities Corporation ("APUC") acquired Empire, it consolidated the debt financing needs of its North American regulated utility subsidiaries at the LUCo level. Since this consolidation, Empire's capital needs have been funded through affiliate financing transactions.

Q. Is the Commission's decision in the Confluence Rivers rate case a good comparable for Ameren Missouri?

A. No. In that case, the Commission deemed a hypothetical capital structure, consisting of 50% common equity and 50% long-term debt, to be reasonable for purposes of setting Confluence Rivers' ROR. The Commission adopted the hypothetical capital structure

[8] *Id.,* p. 31, ln. 18 – p. 32, ln. 21.
[9] *Id.,* p. 32, lns. 7-8.

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because of its concern about the legitimacy of Confluence Rivers' per books capital structure. The Commission was specifically concerned about Confluence Rivers' affiliate financing transactions with its parent companies, U.S. Water Systems LLC and CSWR LLC. Additionally, there was a lack of transparency as to the financing activities of CSWR LLC's private equity owners, Sciens Capital Management LLC.

Q. What about Spire Missouri's financing relationship with Spire Inc. makes it an appropriate comparable for Ameren Missouri's financing relationship with Ameren Corp?

A. Spire Missouri issues its own long-term debt rather than relying on a financing affiliate to access long-term debt funds on its behalf.

Q. Does the comparable nature of the financing relationship in the Spire Missouri rate case and this rate case support the adoption of Ameren Missouri's standalone capital structure to set Ameren Missouri's authorized ROR?[10]

A. No.

Q. Why not?

A. Because both Ameren Corp and Spire Inc. target desired ratemaking capital structure ratios when managing the capital structures for their Missouri utility subsidiaries, not achieving a lower cost of capital for ratepayers. Spire Inc.'s and Ameren Corp's consolidated capital structures are more leveraged, which highlights both managements' recognition of two related facts. First, that the regulated utility subsidiaries of Ameren Corp and Spire Inc. have low business risk. Second, that low risk allows for a more optimal use of debt than that which is reflected on each subsidiary's per books balance sheets.

Q. Should the purposes for which Spire Inc. and Ameren Corp issued holding company debt matter when deciding which capital structure to use for ratemaking?

A. No. The capital structure policies at the holding company level for both Spire Inc. and Ameren Corp signal each management's view on the true debt capacity of its regulated

[10] *Id.*, p. 32, lns. 9-11.

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utility subsidiaries. The actions of Ameren Missouri and Spire Missouri have shown that desired ratios for ratemaking drives their targeted capital structures, not an economical cost of capital to charge ratepayers.

Q. Do you disagree with any of the circumstances that Dr. Won characterizes as supporting the use of Ameren Missouri's standalone capital structure?

A. Yes. I specifically disagree with the following statements, as they relate to Dr. Won's capital structure testimony:

> Ameren Missouri operates as an independent entity when considering Ameren Missouri's procurement of financing and the cost of that financing...[first statement]
>
> …Since January 2022, Ameren Missouri has not received long-term financing from Ameren Corp. or other Ameren Corp. subsidiaries…[second statement]
>
> …Ameren Missouri's stand-alone capital structure supports its own credit rating. The debt is rated by credit rating agencies based on the stand-alone credit quality of Ameren Missouri…[third statement]
>
> …no proceeds from Ameren Corp. long-term debt issuances have been used to infuse equity into Ameren Missouri. Therefore, Staff does not find evidence that Ameren Corp. has used "double leverage" for investing in Ameren Missouri. [fourth statement][11]

Q. For clarity, let's address each statement, individually. Why do you disagree with Dr. Won's first statement?

A. I do not agree with Dr. Won's assertion that Ameren Missouri operates as an independent entity as it relates to the procurement of financing. As stated in my direct testimony, Ameren Services Company ("AMS") provides both financing and capital management services for Ameren Corp's subsidiaries, including Ameren Missouri. Additionally, Ameren Missouri's record shows that it relies more heavily on long-term capital (*i.e.*

[11] *See* Won Direct, p. 34, ln. 16 through p. 36, ln. 6.

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retained earnings and long-term debt) than short-term debt to fund its liquidity needs. This record illustrates Ameren Missouri is not being managed independent of Ameren Corp.

Also, Ameren Corp shares credit facilities with Ameren Missouri and AIC. Under Ameren Corp's shared credit facility with Ameren Missouri, it can directly borrow up to $1.0 billion of the shared $1.4 billion credit facility or issue that amount in commercial paper.[12] Commercial paper is typically used to support immediate cash needs for purposes such as working capital, construction work in progress ("CWIP"), or dividend payments to third-party shareholders. Ameren Corp owes its ability to access commercial paper to the credit quality of its low risk regulated utility subsidiaries.

Ameren Corp uses its shared credit facilities with its regulated utility subsidiaries to facilitate its access to commercial paper markets (*i.e.* short-term debt). That commercial paper can then fund dividend distributions to shareholders, negating any reliance on the operating cash flows from its subsidiaries. However, this strategy increases the amount of capital costs charged on CWIP through the standard AFUDC formula.

For example, Ameren Missouri retained 96.72% of its $1.675 billion cumulative earnings for the three-year period beginning on December 31, 2021, and ending December 31, 2024. Based on the standard AFUDC formula, Ameren Missouri charges ratepayers a long-term capital financing rate for the excess $916.5 million in retained earnings a true, standalone company would normally distribute as dividends.[13] While it is financially efficient for Ameren Corp to use commercial paper at the holding company level to fund dividend payments, this strategy inflates Ameren Missouri's rate base due to a higher capitalization rate (*i.e.*, AFUDC) applied to CWIP.

[12] Ameren Corp SEC Form 10-K Filing, December 31, 2023, p. 117.
[13] Ameren Corp's recent dividend payout ratio of approximately 58% multiplied by $1.675 billion less $55 million of dividends actually distributed.

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Q. Why do you disagree with Dr. Won's second statement, that Ameren Missouri has not received long-term financing from Ameren Corp?

A. Records show that Ameren Corp has contributed $476 million in common equity to Ameren Missouri's equity account since January 1, 2022. Therefore, Ameren Corp has provided long-term financing to Ameren Missouri.

Dr. Won may have misspoken, intending to state that Ameren Corp has not provided long-term *debt* financing to Ameren Missouri since January 1, 2022. If so, then I agree.

Q. Why do you disagree with Dr. Won's third statement, that Ameren Missouri's standalone capital structure supports its own credit rating?

A. Because it is inaccurate when considering S&P's ratings methodology. Moody's and S&P have differing approaches for assigning credit ratings to Ameren Missouri. Moody's assigns weight to Ameren Missouri's standalone capital structure when determining its 'Baa1' long-term issuer rating, while S&P assigns Ameren Missouri's credit rating based on Ameren Corp's group credit profile.

Dr. Won cites S&P Global Ratings – Ratings Direct to support his position.[14] However, the attached S&P Global Ratings report, published on March 23, 2023, shows Ameren Missouri's credit rating is based on S&P's group rating methodology (attached as Schedule DM-R-1). On page 8 of this report, S&P states:

> Under our group rating methodology, we consider Ameren Missouri a core subsidiary of parent Ameren with a group credit profile of 'bbb+'. This core status reflects our view that Ameren Missouri is highly unlikely to be sold, integral to the group's overall strategy, possesses a strong long-term commitment from senior management, and closely linked to the parent's name and reputation. Given its core subsidiary status and Ameren's group credit profile of 'bbb+', the issuer credit rating on Ameren Missouri is 'BBB+'.[15]

Therefore, Dr. Won's assertion that S&P assigns Ameren Missouri a credit rating based on its own capital structure is incorrect. S&P assigns a 'BBB+' rating to Ameren Missouri

[14] Won Direct, p. 35, lines 5-6.
[15] William Hernandez, et. al., Union Electric Co. d/b/a Ameren Missouri, S&P Global Ratings – RatingsDirect, March 23, 2023, p. 8.

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because Ameren Corp's rating is 'BBB+'. Ameren Missouri's hypothetical, standalone credit profile ("SACP") matching Ameren Corp's consolidated credit profile is a coincidence.

Q. How do you know the fact that the S&P ratings match is a coincidence?

A. Because S&P assigns AIC a hypothetical SACP of 'A-' but ultimately assigns AIC a credit rating of 'BBB+' based on Ameren Corp.'s group credit profile.[16]

Q. Why do you disagree with Dr. Won's fourth statement, that because Ameren Corp has not used long-term debt proceeds to fund its equity contributions into Ameren Missouri, no evidence of double leverage exists?

A. I disagree with this statement for a couple of reasons. First, double leverage does not only exist when there is a direct reconciliation between the use of holding company debt to directly purchase equity in any specific subsidiary. In fact, Ameren Corp has attempted to legitimize Ameren Missouri's per books common equity balance by claiming its equity infusions into Ameren Missouri were funded by Ameren Corp's third-party common equity issuances. This assertion caused Ameren Corp to allocate most of the proceeds from common equity issuances to Ameren Missouri, using the proceeds from its holding company debt to fund equity infusions in AIC and ATXI.

It is vital for the Commission to take note of Ameren Corp's attempt to mislead Missouri regulators through creative financial management. Dr. Won's narrow interpretation of double leverage does not consider the fact that Ameren Corp balances its consolidated capital structure on the business risk of its subsidiaries, including Ameren Missouri. Dr. Won believes that Ameren Corp owning a small percentage of non-regulated utility operations supports the use of Ameren Missouri's capital structure for ratemaking, but the opposite conclusion should be reached. Rather, it is the fact that Ameren Corp is predominately as a pure-play regulated utility that allows it the ability to issue significant amounts of holding company debt in addition to its subsidiary debt (*i.e.* double leverage).

[16] Ameren Illinois Company, S&P Global Ratings – RatingsDirect, March 20, 2024.

Second, notwithstanding my disagreement with Dr. Won about the definition of double leverage, Ameren Corp recently issued short-term debt to fund an equity contribution into Ameren Missouri. Ameren Corp contributed $350 million of equity capital to Ameren Missouri during the second quarter of 2024. However, Ameren Corp only received $36 million in common equity during the second quarter of 2024.[17] Therefore, Ameren Corp must have used the proceeds from the $301 million of short-term debt it issued during the second quarter of 2024 to fund its equity contribution into Ameren Missouri.

Q. Does Ameren Missouri need support from Ameren Corp to issue standalone debt?

A. No. In fact, Ameren Missouri could have its own standalone credit facility without sharing it with Ameren Corp. However, separate credit facilities may limit Ameren Corp's access to cheaper commercial paper to fund other investments and dividend payments to shareholders.

Q. Has Ameren Corp disaggregated shared credit facilities in the past when an entity was causing strain on Ameren Corp's credit quality?

A. Yes. In 2006, Ameren Corp removed AIC's[18] access to the shared credit facility that Ameren Corp had with Ameren Missouri and Ameren Energy Generating Company.[19] Then, in 2010, Ameren Corp disaggregated Ameren Energy Generating Company, its non-regulated subsidiary, to limit the impact it had on Ameren Corp's credit quality.[20]

Q. Does Ameren Corp currently provide financial support for any non-regulated subsidiaries?

A. Not that I am aware. Ameren Corp's main financial obligations are its holding company debt.

[17] Ameren Corp issued $11 million of common equity through its dividend reinvestment plan and received $25 million of dividends from its subsidiaries.
[18] Then operating as five different companies: Central Illinois Public Service Company, CILCORP Inc., Central Illinois Light Company, Illinois Power Company and Ameren Energy Resources Generating Company.
[19] Ameren Corp 2006 SEC 10-K Filing, pgs. 124-128.
[20] Ameren Corp 2010 SEC 10-K Filing, pgs. 114-118.

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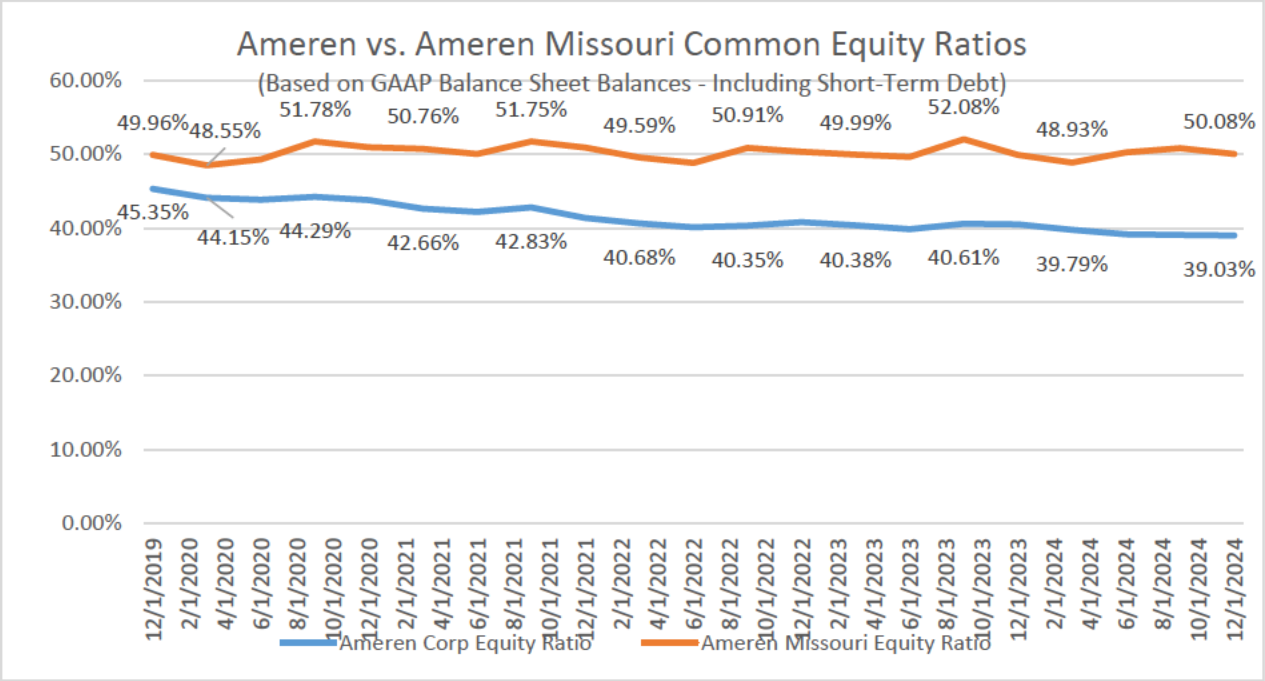
Q. What capital structure reflects the benefits of the lower cost of capital afforded by the reduced business risk associated with Ameren Missouri's utility operations?

A. Ameren Corp's consolidated capital structure, rather than Ameren Missouri's capital structure. Ameren Corp has dynamically managed its capital structure as Schedule DM-R-2 and the graph below both illustrate.[21] As the graph shows, Ameren Corp's consolidated common equity ratio has been declining whereas Ameren Missouri's common equity ratio has generally remained constant.



Ameren Corp's common equity ratio has dropped by 632 basis points (*i.e.* 6.32%) since December 31, 2019, while Ameren Missouri's common equity ratio has oscillated around 50%.

[21] The ratios in the graph are based on data from the balance sheets that Ameren Corp and Ameren Missouri filed with the Securities and Exchange Commission ("SEC").

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Q. What caused Ameren Missouri's common equity ratio to increase between March 31, 2024, and December 31, 2024?

A. Ameren Missouri's common equity ratio increased because it retained 100% of the $536 million in earnings it generated (*i.e.* did not pay a dividend to Ameren Corp) and it received $476 million equity contributions from Ameren Corp.

Ameren Corp can forego dividends from Ameren Missouri because it can fund dividend obligations to its shareholders through parent company financing. Ameren Corp's financing strategies discredit the argument that the management of Ameren Missouri's capital structure is independent of Ameren Corp's capital structure.

Q. Would you summarize your disagreement with the cited assertions that Dr. Won made to support the use of Ameren Missouri's standalone capital structure for ratemaking in this case?

A. Yes. I do not agree that Ameren Missouri's capital structure supports its own credit rating or that its debt is rated based on its own standalone credit profile. While Moody's considers Ameren Missouri's capital structure when assessing Ameren Missouri's financial risk profile, S&P clearly states that it assigns Ameren Missouri a credit rating based on Ameren Corp's group credit profile.

Further, there is no reason Ameren Missouri's capital structure should be less levered than Ameren Corp's capital structure. Ameren Corp is not passing the benefit of lower costs of capital through to Ameren Missouri's ratepayers, who provide the certainty of recovery of costs associated with PISA investments and now a securitization charge. Rather, Ameren Corp is attempting to retain the financial benefit of lower costs of capital for its shareholders. Therefore, the Commission should correct this misappropriation of Ameren Missouri's debt capacity by authorizing a lower ratemaking common equity ratio.

There are differing degrees of merit in deciding when to consider the holding company's consolidated capital structure or a subsidiary's capital structure. However, the overarching consideration that should be weighed most heavily is whether the use of leverage is consistent with a company's business risk. As I discussed in my direct testimony, both Ameren Corp and Moody's have recognized the lower business risk granted by Ameren

Missouri's decision to elect PISA in 2018. Moody's cited this decreased business risk as a primary reason to allow Ameren Corp to carry more leverage. Therefore, the Commission is the only entity that has the authority to ensure Ameren Missouri's ratepayers receive fair consideration for the lower business risk profile their rate payments support.

RETURN ON COMMON EQUITY

ANN E. BULKLEY'S RECOMMENDED ROE

Q. What is Ms. Bulkley's recommended allowed ROE for Ameren Missouri's gas utility operations?

A. Ms. Bulkley recommends the Commission allow Ameren Missouri an ROE anywhere in the range of 10.25% to 11.25% for its gas utility operations. Based on her range, she concludes that the Company's request of a 10.25% allowed ROE is reasonable.[22]

Q. What is the premise underlying Ms. Bulkley's recommended allowed ROE?

A. Ms. Bulkley estimates the cost of equity ("COE") for Ameren Missouri's gas utility operation to be in the range of 10.25% to 11.25% based on her application of three primary COE methodologies: (1) the constant-growth discounted cash flow ("DCF") method, (2) the Capital Asset Pricing Model ("CAPM") – a standard CAPM and an empirical CAPM, and (3) a Bond Yield Plus Risk Premium ("BYPRP") analysis.

Q. What is your general reaction to Ms. Bulkley's testimony regarding estimating the utility industry's COE?

A. First, I disagree with her assessment that the utility industry's COE is in the double digits. Her estimates are more consistent with an attempt to increase authorized ROEs rather than reasonable discount rates, *i.e.* the COE, investors use to estimate utility common equity's intrinsic value. The Commission need look no further than examples of discount rates actually used by investors to dismiss the reliability of Ms. Bulkley's COE estimates.

[22] Bulkley Direct, p. 8, lns. 8-14.

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Additionally, she devotes approximately twenty pages of testimony attempting to convince the Commission that Ameren Missouri is riskier than her proxy group. However, she ignores the fact that her proxy group contains companies that have or have had exposure to competitive markets and restructuring activities. This exposure to non-regulated business should cause her proxy-group's COE to be higher than the business risks inherent in Ameren Missouri's price-regulated, insulated monopoly gas utility business.

The fact that there are no significant recommended disallowances to Ameren Missouri's gas utility investments in this case further discredits her opinions about regulatory risk in Missouri. Considering the approximate 55% increase in Ameren Missouri's gas utility rate base since its 2021 rate case[23] and Ameren Missouri's proposed 50.7% average increase in its delivery service charges,[24] Ameren Missouri's authorized ROE should be set at my more economically efficient recommendation of 9.5%.

Q. Do you have concerns about Ms. Bulkley's proxy group?

A. Only to the extent that she does not recognize or address that some companies in her proxy group have significant exposure to non-regulated operations. Cyclical industries, such as energy companies, with exposure to changes in commodity prices, are impacted to a much greater extent by variations in economic/market conditions. This fact explains why companies in cyclical industries typically have stock betas closer to one, which indicates that the equity risk associated with these industries are higher than for regulated utilities.

Southwest Gas Corporation ("Southwest Gas") and Spire Inc. have significant (greater than 10%) non-regulated business exposure. Southwest Gas' business segments include its non-regulated utility infrastructure construction business, Centuri Group, Inc. ("Centuri"), which it is in the process of divesting. This divestiture has also contributed to the volatility in Southwest Gas' stock price. Regarding Spire Inc., the company has been increasing the size and proportion of its non-regulated gas marketing business. This exposure increases uncertainty in Spire Inc.'s earnings from period-to-period.

[23] Based on Staff's November 2021 Accounting Schedules in Case No. GR-2021-0241 and February 2025 Accounting Schedules in this case.
[24] Steven M. Wills Direct Testimony, p. 3, footnote 3.

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Unfortunately, Ms. Bulkley focuses, instead, on what she views as shortcomings in Missouri's regulatory ratemaking environment, as compared to the regulated utility subsidiaries owned by the companies in her proxy group. She claims that these perceived shortcomings cause Ameren Missouri to have a higher cost of capital than the cost of capital of her proxy companies.[25]

Q. Ms. Bulkley testifies that the fact that Ameren Missouri is owned by Ameren Corp does not affect her analysis of Ameren Missouri's cost of capital.[26] Was this prudent on her part?

A. No. Ameren Missouri is inextricably linked to its parent company, Ameren Corp. Ameren Corp's financial strategies, such as capital structure management, directly impact Ameren Missouri.

Ameren Corp's COE is based on the collective business risks of its various subsidiaries. Slightly over 50% of that collective business risk is attributed to its utility assets in Missouri, as well as the financial risk it incurs at the consolidated level. Because Ameren Corp's business operations are predominately regulated utilities,[27] its capital structure and COE are ideal proxies for estimating Ameren Missouri's cost of capital.

Therefore, Ms. Bulkley's failure to consider Ameren Corp in her assessment of Ameren Missouri's cost of capital causes her analysis to be incomplete.

Q. Did Ms. Bulkley testify about the negative impact the Illinois Commerce Commission's ("ICC") decision regarding AIC's electric utility rate case had on Ameren Corp's share price?

A. Not in this case, but she has in two recent cases: 1) the Missouri American Water Company ("MAWC") rate case, Case No. WR-2024-0320, and 2) the Evergy Missouri West ("EMW") rate case, Case No. ER-2024-0189.

[25] *Id.,* p. 39, ln. 4 – p. 58, ln. 4.
[26] *Id.*, p. 12, lns. 1-7.
[27] Vertically integrated electric utility in Missouri, transmission and distribution electric utility in Illinois, natural gas distribution utility in Illinois and Missouri, and a transmission electric utility subject to FERC jurisdiction

Q. Considering the possible effect Ameren Corp's consolidated business and financial risk could have on Ameren Missouri's cost of capital, was Ms. Bulkley's choice to not consider those risks prudent?

A. No. While remaining silent on the issue in Ameren Missouri's electric and gas utility rate cases, Ms. Bulkley recently testified that it is important to consider an operating company's ability to attract capital within its family of companies.[28] In her testimony in the EMW and MAWC rate cases, Ms. Bulkley acknowledges the fact that Ameren Corp's other jurisdictions (*i.e.,* Missouri and FERC) would be more attractive than investing in Illinois.

Q. Ms. Bulkley testified that the Commission should consider Ameren Missouri's substantial planned capital expenditures in setting a fair and reasonable authorized ROR in this case.[29] Do you agree?

A. Yes. However, these significant, planned capital expenditures highlight the importance of ensuring Ameren Missouri's authorized ROR is not set too high over the cost of capital. Yet, Ms. Bulkley recommends the Commission focus on not setting the ROR too low.

Based on Ms. Bulkley's opinion in the EMW and MAWC rate cases, if the Commission sets Ameren Missouri's authorized ROR much higher than authorized for AIC in Illinois, then Missouri runs the risk Ameren Corp over allocating capital to Ameren Missouri.

DISCOUNTED CASH FLOW ASSUMPTIONS

Q. What is the most glaring mis-specification in Ms. Bulkley's constant-growth DCF analysis?

A. Ms. Bulkley testified that she believed utility investors expect perpetual annual stock price gains at parity with equity analysts' projected 3-5 year CAGR in EPS. For purposes of her mean 90-day constant-growth DCF COE estimate of 10.07%, she assumes the perpetual stock price appreciation will be 5.98%/year.

[28] Case No. WR-2024-0320, Bulkley Direct, p. 11, lns. 10-20; Case No. ER-2024-0189, Bulkley Direct, p. 11, lns. 3-9.
[29] *Id.,* p. 45, ln. 12 – p. 50, ln. 10.

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Ms. Bulkley's assumption implies that utility investors expect approximately 59.38% of their total returns will be in the form of capital gains with the remaining portion achieved through dividend returns. Considering that, on average, utility companies distribute approximately 2/3 of their EPS in dividends per share ("DPS"), her assumption is illogical.

Although admittedly a simple test, flipping Ms. Bulkley's assumption to cause 58.75% of utility stock investors' returns to be achieved from dividends results in a COE estimate of 6.96%. While lower than my own COE estimate, this implied COE is much closer to those used by investors than Ms. Bulkley's 10.07% estimate.

Q. Are you aware of any equity analysts that assume a utility's DPS can grow in perpetuity at the same rate as their own projected 3-to-5 year CAGR in EPS?

A. No.

CAPM ASSUMPTIONS

Q. Why are Ms. Bulkley's CAPM COE estimates so high?

A. Because she uses irrational expected market returns. Ms. Bulkley estimates a total compound annual market return for the S&P 500 of 12.07% for the foreseeable future (perpetually based on her use of a constant-growth DCF to estimate S&P 500 returns).[30] Subtracting long-term, risk-free rates from Ms. Bulkley's estimated market return results in her market risk premium estimates of 7.77% to 7.95%.[31]

Q. How is Ms. Bulkley able to achieve such high market risk premium estimates?

A. Because she assumes that the S&P 500 can grow its earnings at a compound annual growth rate of 10.45% in perpetuity.[32] To put that assumption in perspective, the CAGR in the United States' gross domestic product ("GDP") is expected to be approximately 4% to 4.25% over the long-term.

[30] *Id.,* p. 31, ln. 17 – p. 32, ln. 8.
[31] *Id.*
[32] *Id.*

Q. Are you aware of any authoritative sources, academic or practical, that use Ms. Bulkley's approach for estimating market returns?

A. No. I know of no authoritative source that suggests this is a rational or reasonable approach for purposes of estimating market returns. In fact, I know of several authoritative sources that recommend against using a growth rate higher than GDP to determine the long-term expected return for a broad index, such as the S&P 500.

Q. What academic sources are you referring to?

A. The 2010 curriculum for Level III of the Chartered Financial Analyst ("CFA") Program discusses analysts use of the Gordon growth model (synonymous with the constant growth DCF model used in utility ratemaking) to formulate the long-term expected return for the broader equity markets. In the case of a broad-based equity index, such as the S&P 500, it is reasonable to estimate the long-term potential capital gains for the index by using estimated nominal GDP over a long-term period. The curriculum specifically provides the following guidance for estimating the constant growth rate:

> Earnings growth rate = GDP growth rate + Excess corporate growth (for the index companies)
>
> where the term *excess corporate growth* may be positive or negative depending on whether the sectoral composition of the index companies is viewed as higher or lower growth than that of the overall economy. If the analyst has chosen a broad-based equity index, the excess corporate growth adjustment, if any, should be small.[33]

The S&P 500's current dividend yield is approximately 1.54% and projected long-term growth in U.S. nominal GDP is around 4.0%. Therefore, investment professionals' forecasts of long-term returns for the S&P 500 of around 7%[34] are more consistent with the above-prescribed formula than Ms. Bulkley's suggested formula and inputs for estimating a required market return.

[33] 2010 CFA® Program Curriculum, Level III, Volume 3, p. 34.
[34] Murray Direct, p. 28, ln. 28 – p. 29, ln. 1.

Q. Are you aware of any common valuation metrics that demonstrate Ms. Bulkley's market growth rate expectations are irrational?

A. Yes. A comparison of a broad equity market capitalization amount to that of the total size of the U.S. economy. This valuation metric provides a sanity check on potential growth for capital markets. Warren Buffett made it popular when he provided insight on how high the market, as measured by the Wilshire 5000, became valued as compared to U.S. GDP at the time of the "dot com" bubble around March 2000. At that time, the Wilshire 5000 was around 1.4x that of GDP. As of December 31, 2024, it was 1.98x, which demonstrates investors are currently requiring lower than average market risk premiums.

Q. What would this ratio be in 50 years if the market grew at the 10.45% compound annual growth rate as Ms. Bulkley suggests?

A. The Wilshire 5000 index would be approximately 40x times the GDP level. Based on the market capitalization of the Wilshire 5000 of approximately $58.97 trillion as of December 31, 2024, the Wilshire 5000 would have a market capitalization of $8.49 quadrillion in 50 years. U.S. GDP was $29.72 trillion as of the same date. Based on a 4.0% long-term growth rate for the U.S. economy, GDP would be approximately $211.21 trillion in 50 years. It is irrational to assume corporate wealth will become much larger than the economy in which it operates, let alone 40x the size of the economy. This comparison explains why the CFA Program advises not using a perpetual growth rate much, if any, higher than the GDP growth rate of the economy(ies) in which a company operates.

Q. Why are Ms. Bulkley's Empirical CAPM ("ECAPM") results higher than her standard CAPM results?

A. Ms. Bulkley's ECAPM gives 25% weight to the unadjusted market risk premium and 75% weight to the utility beta adjusted market risk premium. Ms. Bulkley's utility betas reduce her high equity risk premium estimates by 12% to 25%. But her ECAPM allows for a 25% weighting to an unadjusted risk premium, which amplifies the bias inherent in Ms. Bulkley's high risk premiums.

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Q. Does this mean that the larger the market risk premium estimate, the more widely divergent the ECAPM results will be compared to the standard CAPM?

A. Yes.

Q. Can you explain further?

A. Yes. Ms. Bulkley assumes a market risk premium of approximately 7.77% to 7.95% compared to more rational estimates of around 5%. If Ms. Bulkley had used a more reasonable market risk premium of 5%, her ECAPM adjustment would have been approximately 9 to 18 basis points lower.

BOND YIELD PLUS RISK PREMIUM ANALYSIS

Q. What are your thoughts on Ms. Bulkley's Bond-Yield-Plus Risk Premium ("BYPRP") analysis?

A. Ms. Bulkley's BYPRP is a regression analysis of allowed ROEs to interest rates. Ms. Bulkley concludes from her regression analysis that because allowed ROEs haven't changed as much as interest rates, an adjustment needs to be made to recognize that regulators have been hesitant to adjust allowed ROEs as much as interest rates would suggest. This approach is circular in that the regression coefficient is dependent on commissions' regulatory decisions rather than on market required returns. As I testified in my direct testimony, the investment community recognizes that authorized ROEs did not decline along with the COE.

CONSIDERATION FOR SPECIFIC BUSINESS AND REGULATORY RISK

Q. Ms. Bulkley testifies that Ameren Missouri's 100% pure-play regulated gas utility has a higher COE than that of her proxy group.[35] Does any of Ms. Bulkley's testimony recognize that her proxy group consists of some companies with exposure to competitive markets and more leveraged capital structures?

A. No. As I indicated when discussing Ms. Bulkley's proxy group, she includes companies that have faced significant non-regulated business exposure, exposing the companies to higher business risk. Additionally, her proxy group includes companies which have common equity ratios of approximately 40%, indicating higher financial risk than the 52% common equity ratio Ameren Corp targets for purposes of setting Ameren Missouri's authorized ROR.

There are typically few pure-play regulated utilities, let alone pure-play gas utility companies, to use to develop a larger proxy group. However, it is important to recognize that many of the proxy companies used to estimate the COE for a regulated gas utility currently have, or have had, this exposure. Ms. Bulkley's narrow comparison of only the proxy groups' regulatory operating subsidiaries to Ameren Missouri's 100% rate-regulated gas utility operations should be duly noted as to the weight given to this comparative analysis.

Q. What is your response to Ms. Bulkley's assertion that a small-size risk premium adjustment should be considered in setting the authorized ROE for Ameren Missouri's gas utility operations?

A. It should be disregarded. Ms. Bulkley's analysis is based on her hypothetical assumption that Ameren Missouri's gas utility operations are held in a separately traded company. She uses Ameren Missouri's gas utility rate base as a proxy for its total capitalization. Then, Ms. Bulkley compares the assumed common equity portion of Ameren Missouri's gas utility rate base to the market capitalizations of her proxy group to determine a net small size premium adjustment of 104 basis points.

[35] Bulkley Direct, pgs. 39-58.

Despite Ameren Missouri's gas utility rate base only consisting of 3.65% of Ameren Missouri's overall electric and gas utility rate base,[36] she recommended a 10.25% ROE for purposes of setting Ameren Missouri's electric utility authorized ROR and its gas utility ROR. Therefore, she does not appear to consider the small-size risk premium to be a necessary adjustment.

Regardless, Ms. Bulkley recognizes that her proxy group also contains companies that have smaller market capitalizations than the broader market. Therefore, she could have simply given more weight to her DCF COE estimates for the smaller companies in her proxy group. Doing so would directly capture investors' perception of all risks related to the company (including smaller size) through the price they are willing to pay for the stock. However, Ms. Bulkley's DCF COE estimates do not corroborate her suggested upward adjustment for small size. Ms. Bulkley's DCF COE estimate for NiSource Inc., the largest company in her LDC proxy group, is the highest of her proxy companies at 11.39%, while her DCF COE estimates for the second smallest company in her proxy group, ONE Gas, is the lowest at 8.71%.

Q. Ms. Bulkley also testifies that Ameren Missouri's gas utility operations are riskier than her proxy group because they currently do not have any capital investment recovery mechanisms in place.[37] Has Ameren Missouri been allowed capital investment recovery mechanisms in between general rate cases in the past?

A. Yes. Ameren Missouri has applied for and received approval to impose or amend infrastructure system replacement surcharges ("ISRS") five times since 2008.[38] Although Ameren Missouri has not filed an ISRS application since its 2021 rate case, this is not due to a prohibition of capital investment riders in Missouri.

[36] Ben Hasse' workpapers; Case No. ER-2024-0319, Stephen Hipkiss' workpapers.
[37] Bulkley Direct, p. 49, lines 1-19.
[38] Case/File Nos. GT-2008-0184, GT-2009-0038, GT-2009-0413, GO-2010-0257 and GO-2014-0015.

STAFF'S RECOMMENDED ROE

Q. What is Dr. Won's recommended allowed ROE?

A. Dr. Won recommends an ROE of 9.64%, which is the mid-point of his ROE range of 9.39% to 9.89%.

Q. Can you summarize the analysis Dr. Won performed for purposes of his testimony?

A. Yes. Dr. Won performed a COE analysis using two COE methods/models – a constant-growth DCF and the CAPM. Dr. Won's COE estimates using the DCF method were in the range of 7.66% to 9.70%.[39] Dr. Won's COE estimates using the CAPM were in the range of 8.85% to 10.17%.[40] Dr. Won then takes an average of his CAPM and DCF COE results for purposes of determining his final estimated COE range of 8.25% to 9.93%.[41]

Dr. Won also performed a risk premium analysis which he classified as a bond yield plus risk premium ("BYPRP") model. Dr. Won classified his BYPRP method as an "ROE" estimation approach rather than a COE estimation method. Dr. Won's indicated ROE using this approach was in the range of 9.63% to 9.65%.[42]

Q. Do you agree with Dr. Won that his BYPRP analysis should not be characterized as a COE analysis?

A. Yes. My own COE analysis, since at least 2010, has consistently established that authorized ROEs are higher than the COE. I have also consistently and frequently provided corroborating information/analysis from the investment community and from utility companies' internal analysis that corroborate the fact that authorized ROEs are higher than the COE.

[39] Won Direct, p. 43, lns. 12-16.
[40] *Id.,* p. 45, lns. 13-18.
[41] *Id.* p. 48, lns. 4-13.
[42] *Id.*

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Q. What methodology did Dr. Won rely on for purposes of developing his recommended ROE?

A. His BYPRP method. He applied a +/- 25 basis point adjustment to his mean indicated ROE of 9.64% to arrive at a range of 9.39% to 9.89%.

Q. Considering that authorized ROEs have been higher than the COE, what does Dr. Won's regression analysis of bond yields to authorized ROEs prove about authorized ROEs since 2014?

A. That they are "sticky" as investors often characterize them. Applying Dr. Won's regression equation to the lowest monthly bond yield of 2.77% since 2014 indicates an ROE of 9.55% would be appropriate. Applying the regression equation to the highest bond yield of 6.32% since 2014 indicates an ROE of 9.65% would be appropriate.

Q. Considering the narrow range of only 10 basis points based on Dr. Won's regression analysis, is it logical to recommend an ROE range of 50 basis points?

A. No. The Commission should disregard any ROE above 9.63%. However, considering my 9.5% ROE recommendation is still approximately 150 basis points over the COE, the Commission should adopt my ROE recommendation.

Q. Although Dr. Won does not appear to rely on some of his higher COE estimates to determine his authorized ROE recommendation, can you address what causes those higher estimates?

A. Yes. Dr. Won's higher COE estimates are primarily a function of his CAPM analysis. The high-end of Dr. Won's CAPM range is premised on a market risk premium estimate of 6.37%. Dr. Won calculated the high-end of the historical market risk premiums by calculating the annual arithmetic average returns for large company stocks and long-term government bonds and taking the difference of the two. Dr. Won relied on two different data sources and historical periods for purpose of calculating the historical risk premiums. For his first historical risk premium spread, Dr. Won used historical return data for the period 1926 to 2023 provided by Kroll, LLC in the Stocks, Bonds, Bills and Inflation

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("SBBI") Yearbook.[43] For his second historical risk premium spread, Dr. Won used historical return data for the period 1928 to 2023 provided on the website of Dr. Aswath Damadoran, Professor of Finance at the Stern School of Business, New York University.

Q. Does SBBI provide actual market return data for the period 1928 to 2023?

A. Yes. If Dr. Won desired to determine the earned return spreads for the period 1928 to 2023, he did not need to rely on a different source for this period.

Q. Using the SBBI return data for the period 1928 to 2023, what was the arithmetic earned return spread between large-cap stocks and long-term government bonds?

A. 6.36%, which is lower than the 6.8% Dr. Won calculated from the realized return data provided on Dr. Damadoran's website.

Q. What is the primary cause for the difference in the realized return spread between the two sources?

A. The government bond return data available on Dr. Damadoran's website is based on 10-year UST bonds, where the government bond return data provided by SBBI is based on 20-year UST bonds.

Q. What was the difference in the arithmetic average annual returns for 20-year UST bonds compared to 10-year UST bonds for the period reviewed by Dr. Won?

A. The arithmetic average total return for 20-year UST bonds was 5.55%, whereas the arithmetic average total return for 10-year UST bonds was 4.86%, a difference of 69 basis points.

[43] This is the same data source and period I used for my CAPM analysis in my direct testimony.

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Q. Is there anything wrong with determining an earned risk premium spread between large capitalization stocks compared to 10-year UST bonds?

A. No, but if the analyst uses a 10-year UST bond to calculate the historical earned risk premium, then for purposes of estimating the COE, this historical earned risk premium should be added to the yield of the same security – 10-year UST bonds.

Q. What tenor of UST bonds did Dr. Won use for the risk-free rate in his CAPM analysis?

A. A 30-year UST bond, which typically trades at higher yields than 10-year UST bonds.

Q. What is a typical spread between 10-year UST notes and 30-year UST bonds?

A. Around 20 basis points based on monthly averages for the 2024 calendar year. Use of the same tenor of UST notes for Dr. Won's CAPM analysis using the 1928 to 2023 annual data on Dr. Damadoran's website would reduce his COE estimates by 20 basis points.

Q. What market risk premium does Dr. Damadoran view as reasonable based on recent market conditions?

A. As of March 1, 2025, a market risk premium of 4.12% to 4.35% over the 10-year UST yield.[44] Based on recent 10-year UST yields, this implies a market COE of approximately 8.34% to 8.57%.

Q. What COE does Dr. Damadoran estimate for the utility industry?

A. 6.28% as of January 2025.[45]

Q. What market risk premium does Kroll, Dr. Won's other data source, consider reasonable based on current market conditions?

A. Kroll considers a 5% market risk premium as reasonable based on current market conditions. Because Kroll evaluates large company stocks as compared to 20-year UST bonds, it applies its recommended market risk premium estimate to a recent 20-year UST

[44] https://pages.stern.nyu.edu/~adamodar/
[45] *Id.*

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bond yield. If the 20-year UST bond yield is below 3.5%, then Kroll recommends adding 5% to 3.5%. Based on recent 20-year UST bond yields of around 4.6%, this implies a market COE of 9.6%.

Q. Based on these authoritative sources, what is a current reasonable estimate of the market COE?

A. In the range of 8.6% to 9.6%. Applying a typical utility beta of approximately 0.75 to the market risk premium estimates from these authoritative sources indicates a utility industry COE in the range of 7.55% to 8.35%.

Q. What beta does Dr. Won apply to his market risk premium estimates?

A. 0.89.

Q. Why are Dr. Won's beta estimates so high?

A. Dr. Won uses Value Line's published betas, which calculates betas based on 5-years of historical market data. Value Line calculates the covariance of the weekly returns of the company's stock as compared to the weekly returns for the market.[46] Therefore, Value Line's published betas capture the abnormal period that occurred at the start of the Covid-19 pandemic in the spring of 2020. As I testified in my direct testimony, if this abnormal period is removed from the beta calculations, this reduces the historical beta to approximately 0.70.[47]

Q. Based on the 5-year historical period of March 20, 2020, through March 14, 2025, what is the historical adjusted beta for Dr. Won's proxy companies?

A. 0.80, which is lower than the 0.89 beta Dr. Won retrieved from the November 22, 2024, Value Line reports published on his comparable companies.

[46] Value Line uses New York Stock Exchange Composite Index as a proxy for the market.
[47] Murray Direct, p. 35, lns. 3-9.

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Q. Does the relevant historical period—March 20, 2020, through March 14, 2025—completely exclude the abnormal period in the spring of 2020?

A. No.

Q. What is the impact on the beta of Dr. Won's proxy companies if you exclude data from March 20, 2020, through April 24, 2020, from the beta calculation?

A. The historical beta declines to 0.72.

Q. What is the impact on the beta of Dr. Won's proxy companies if you exclude data from March 18, 2020, through May 22, 2020, from the beta calculation?

A. The historical beta declines to 0.70.

Q. If Dr. Won had used a 0.70 beta, how would this impact his CAPM COE estimates?

A. Dr. Won's COE estimate would decline by 19% of the market risk premium. Based on the low-end and high-end of Dr. Won's market risk premium estimates, this would lower his COE estimates by 0.93% and 1.21%, respectively.

Q. Using Dr. Won's market risk premium estimates, what is the final indicated COE if you changed the beta to 0.70?

A. The CAPM COE would be in the range of approximately 8% to 9%.

SUMMARY AND CONCLUSIONS

Q. Can you summarize your main conclusions and views as it relates to an authorized ROR in this case?

A. Yes. Staff and the Company recommend the Commission authorize Ameren Missouri a ROR based on Ameren Missouri's capital structure ratios. Ameren Corp is targeting a higher-cost capital structure for Ameren Missouri than it targets for itself on a consolidated basis. Ameren Corp's strategy is to optimize the use of debt at the consolidated level rather than at its subsidiaries. This strategy increases shareholder wealth at ratepayers' expense. Because Ameren Missouri's business risk has declined with its ability to elect PISA, its

capital structure should include a higher debt ratio rather than remain static. Instead of managing Ameren Missouri's capital structure to allow Ameren Missouri's ratepayers to receive the benefit of lower costs of capital their rates support, Ameren Corp is retaining the cost of capital savings for shareholders by issuing holding company debt. The Commission should correct this misappropriation of debt capacity by authorizing a lower common equity ratio for purposes of setting Ameren Missouri's ROR.

The Commission should not set Ameren Missouri's authorized ROE above 9.5%. While I agree with Ms. Bulkley that the utility industry's COE has increased since Ameren Missouri's 2021 natural gas distribution rate case, it is still below 9.5%. If a company is authorized an ROE that is higher than its COE, its investments still allow for the creation of excess shareholder value. Authorizing an ROE at significant margins over the COE creates inefficient incentives to invest in one jurisdiction over the other. Ameren Corp and its common equity investors view Missouri as a more investor-friendly jurisdiction than Illinois. The Commission should not set Ameren Missouri's authorized ROE much higher than those authorized in Illinois in AIC's recent rate cases. Otherwise, Missouri runs the risk of overallocation of capital, which is funded at ratepayers' expense.

Staff's recommended allowed ROE is based on its regression of allowed ROEs compared to changes in bond yields. Staff's analysis proves the views of equity analysts – that commissions did not reduce authorized ROEs despite the decline in utility industry's COE. This is not necessarily the fault of commissions because as is clear from this case and previous rate cases during the long-term decline in the cost of capital, ROR witnesses systematically over-estimate the COE. Therefore, Dr. Won's regression analysis highlights the stickiness of authorized ROEs rather than proving that required risk premiums to invest in utility stocks increase as bond yields decrease.

Q. Does this conclude your testimony?

A. Yes.

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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a Ameren Missouri's Tariffs to Adjust Its Revenues for 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 rebuttal 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 2nd day of April 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.