Data Response Display - GR-2024-0369 - 0301.0

Request Summary

Submission No.
GR-2024-0369

Request No.
0301.0

Requested Date
4/14/2025

Due Date
4/21/2025

Issue
Rate of Return

Cost of Capital (Equity/Debt)

Requested From
Office of the Public Counsel (OPC) (Other)
David Murray (david.murray@opc.mo.gov)

Requested By
MO PSC Staff (Other)
Scott Stacey (scott.stacey@psc.mo.gov)
Seoungjoun Won (seoungjoun.won@psc.mo.gov)

Brief Description
Copies and Sources of Schedules and Figures

Description
On page 6, lines 12-14, in his rebuttal testimony, Mr. David Murray stated, "In fact, the delta between Ameren Missouri's and Ameren Corp's common equity ratio steadily increased over the last several years." (1) Please indicate how much the delta between a parent company's and its subsidiary's common equity ratios can justify the use of the parent company's consolidated capital structure for ratemaking purposes. (2) Please provide any peer-reviewed, published articles that support the use of a parent company's consolidated capital structure for ratemaking purposes based on that reason. (3) Please provide any legal or commission decisions that support the use of a parent company's consolidated capital structure for ratemaking purposes based on that reason. Requested by: Seoung Joun Won (seoungjoun.won@psc.mo.gov)

Request Security
Public (DR)

Response Date
4/22/2025

Response
(1) Please indicate how much the delta between a parent company's and its subsidiary's common equity ratios can justify the use of the parent company's consolidated capital structure for ratemaking purposes. (1) It depends on the parent company's primary business risk profile. In Ameren Corp's situation, its business segments are confined to regulated utility operations. Therefore, its ability to issue additional holding company debt and still maintain a strong investment grade credit rating is dependent on the low business risk profile of its regulated utilities. In this event, any increased use of leverage on a consolidated basis would justify consideration of the parent company's consolidated capital structure for ratemaking purposes, (2) Please provide any peer-reviewed, published articles that support the use of a parent company's consolidated capital structure for ratemaking purposes based on that reason. (2) Mr. Murray is not aware of any specific peer-reviewed articles which address this matter alone. However, Mr. Murray notes that one of the primary considerations identified in "The Cost of Capital – A Practitioner's Guide," by David Parcell is whether there is the "absence of proper relationship between risk and leverage of utility and non-utility subsidiaries." The expected relationship for a diversified holding company with regulated vs. non-regulated subsidiaries is that the capital structure of the lower-risk regulated utility would contain more leverage than the capital structure of the higher-risk non-regulated subsidiary. If a company, such as Ameren Corp, is a pure-play regulated utility, then the business risk on which Ameren Corp is borrowing is that of its regulated utilities. Ameren Corp's significant use of holding company leverage demonstrates that it understands that its low-risk regulated subsidiaries allow for a much higher proportion of debt than that which it maintains at its

subsidiaries. If Ameren Corp followed common capital budgeting logic to estimate the net present value (“NPV”) of investments in its regulated utility subsidiaries, it would apply Ameren Corp’s cost of capital to discount expected cash flows. Being that authorized rates-of-return are supposed to be based on the cost of capital consistent with the investment’s business-risk, Ameren Corp’s cost of capital would be most consistent with the risk of its underlying investment in Ameren Missouri. (3) Please provide any legal or commission decisions that support the use of a parent company’s consolidated capital structure for ratemaking purposes based on that reason. (3) This list of cases where the Commission adopted a consolidated capital structure rather than an operating company or divisional capital structure is in no way exhaustive. However, some example cases where Mr. Murray recalls this Commission-ordered outcome are Missouri Gas Energy(“MGE”), Case No. GR-2009-0355, Evergy Metro, Case No. ER-2016-0285, and The Empire District Electric Company, Case No. ER-2019-0374. Please not that MGE was a division of Southern Union rather than a subsidiary corporation. Therefore, its situation is different from Ameren Missouri. However, the Commission adopted Southern Union’s consolidated capital structure in the GR-2009-0355 rate case, which included all of Southern Union’s assets, both state regulated natural gas distribution assets and non-state regulated natural gas midstream assets.

Objections

Response Security
Public (DR)

Rationale

Attachments

No Attachments Found