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Q. What steady-state ROEs and payout ratios do investors assume for the electric utility industry?

A. 9% to 9.25% ROEs and payout ratios of 65% to 75%.[33]

PETER CHARI'S REBUTTAL TESTIMONY

Q. Staff witness Mr. Chari and Ms. Bulkley criticize your recommended ROE of 9.0% because they note that the COE has increased since the Commission determined an authorized ROE of 9.25% was reasonable for Empire. How do you respond?

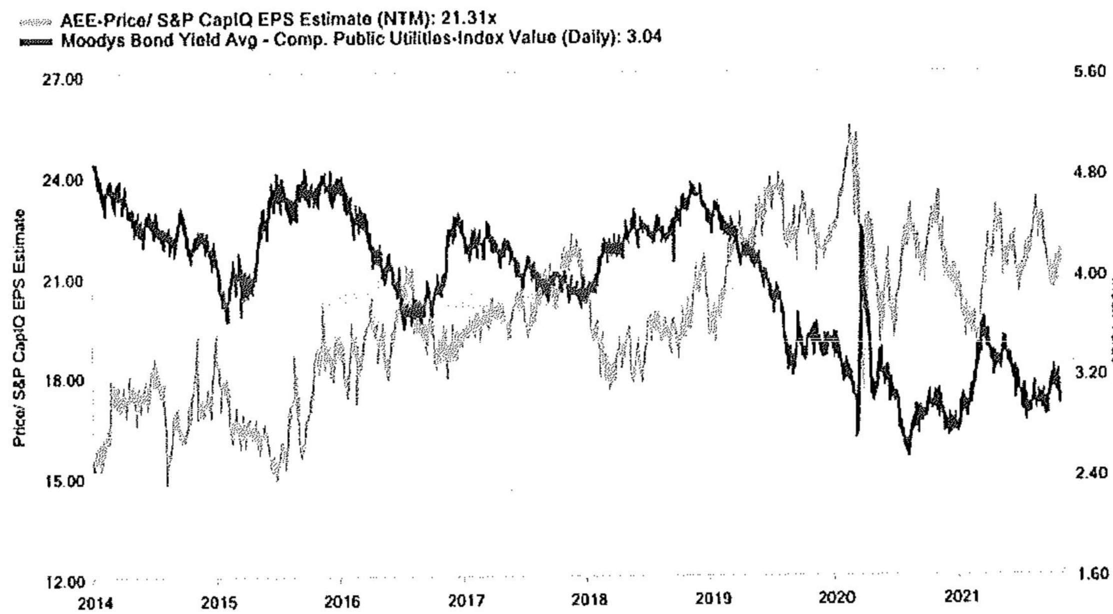
A. I obviously agree that the COE increased since I performed my COE analysis for Empire's and Ameren Missouri's rate cases in 2019. However, as I explained in those cases, electric utility stock valuation levels were at all-time highs at the time. Naturally, this translated into very low COE estimates. While it was certainly my opinion that this justified at least some consideration by the Commission for a lower ROE for Missouri's electric utilities, I also recognized that it is important to gradually reduce authorized ROEs rather than reducing them in one fell swoop.

Q. Mr. Chari suggests that because your COE estimates have increased since the Empire rate case, this supports authorizing Ameren Missouri an ROE of 9.5%. What is the problem with Mr. Chari's logic?

A. It fails to consider the longer-term trend in Ameren Missouri's cost of capital both due to macro trends and more investor friendly rate mechanisms. Ameren Missouri's current authorized ROE of 9.53% was decided in Case No. ER-2014-0258. Although the cost of capital was low at that time based on historical standards, it pales in comparison to today's capital markets. Additionally, Ameren Missouri's business risk has declined over this period. The below chart shows the change in Ameren Corp's P/E ratios and Moody's

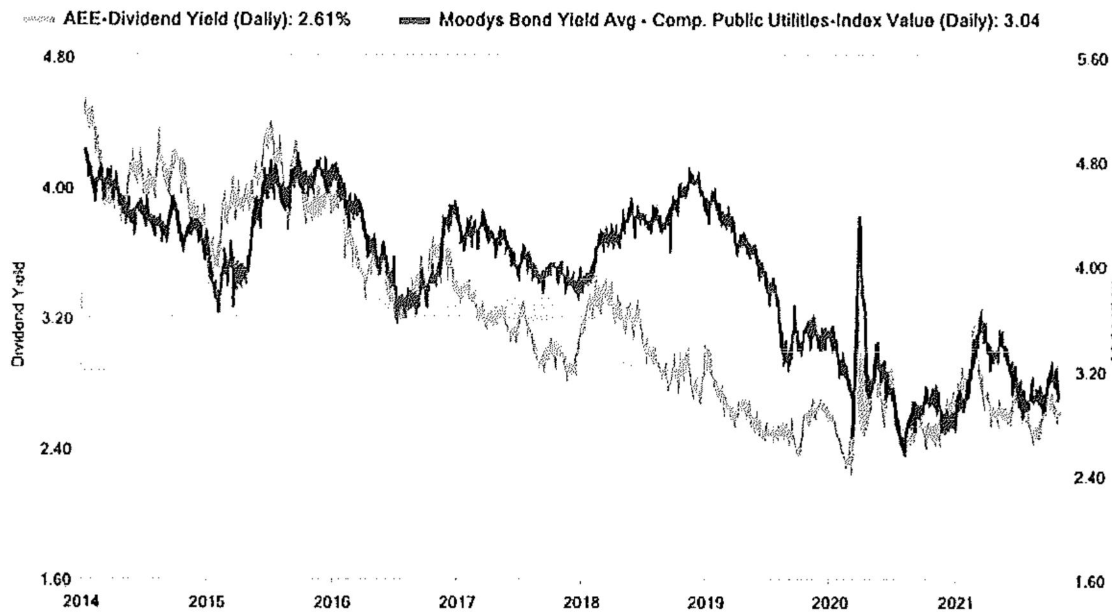
[33] Durgesh Chopra and Michael Lonegan, "On the Heels of Deals, A Look at Utilities M&A" Evercore ISI, October 31, 2021, p. 5 and Neil Kalton, et. al., "DDM Analysis Supports Sector Valuation & Quality/Growth Trade," August 19, 2019, Wells Fargo.

utility bond yields since January 1, 2014:



As is clearly shown in the above graph, during the period in which the Commission authorized Ameren Missouri an ROE of 9.53%, Ameren Corp's P/E ratio was in the 15x to 18x range and Moody's composite utility bond yields were in the 4% to 4.8% range. Now, Ameren Corp's P/E ratios are trading in the 21x to 22x range with Moody's composite utility bond yields in the 2.9% to 3.4% range. This clearly demonstrates that the current cost of capital is much lower than the 2015 time frame when the Commission deemed a 9.53% ROE fair and reasonable.

Another way observe the favorability of Ameren Corp's cost of capital is to observe the change in Ameren's dividend yield over the same period, which I provide in the following chart:



This chart makes it even more clear how closely Ameren Corp's stock valuation has been to changes in bond yields. Other than the period in 2019 when utility dividend yields actually declined while bond yields increased, the correlation has been quite high.

SUMMARY AND CONCLUSIONS

Q. Can you summarize your surrebuttal testimony??

A. Yes. This is not the first time Ameren Corp has tried to preserve a higher equity ratio at its regulated subsidiary after significant legislative strategies allowed for more favorable ratemaking. It is also not unique to compare the parent company's financing structure to that of its subsidiaries when evaluating a fair and reasonable ratemaking capital structure. The Commission need look no further than its two neighboring states, Illinois and Kansas, for some guidance on this issue. Illinois went as far as codifying a 50% ratemaking equity ratio into law, but not until after the ICC Staff stood its ground in arguing for a more reasonable common equity ratio than that shown in Ameren Illinois' "independently" managed capital structure. Kansas required a cap on equity ratios for purposes of approving the merger of equals transaction between Great Plains Energy and Westar Energy, with the cap being adjusted downward if the new holding company used too much leverage. As it relates to Missouri's ability to limit excessive common equity ratios, it is up to this Commission to do so in context of this rate case. Doing so will not cause a decline in Ameren Missouri's credit quality unless Ameren Corp refuses to offset this financial risk by reducing the amount of holding company debt in its capital structure.

Q. Does this conclude your testimony?

A. Yes.

Case No. ER-2021-0240

Schedule DM-S-1 to

David Murray's Surrebuttal

Testimony has been deemed

"Confidential"

in its entirety

Case No. ER-2021-0240

Schedule DM-S-2 to

David Murray's Surrebuttal Testimony has been deemed "Confidential" in its entirety

Case No. ER-2021-0240

Schedule DM-S-3 to

David Murray's Surrebuttal

Testimony has been deemed

"Confidential"

in its entirety