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

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

Q. Ms. Bulkley criticizes your recommended ROE of 9.25% because she notes that the COE has increased since the Commission determined an authorized ROE of 9.25% was reasonable for Empire.³⁴ 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.

SEOUNG JOUN WON’S REBUTTAL

Q. What is Dr. Won’s primary disagreement with your position in this case?

A. Capital structure.

Q. Why does Dr. Won believe Ameren Missouri’s capital structure ratios are appropriate for setting Ameren Missouri’s ROR?

³³ Durgesh Chopra and Michael Loneyan, “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.
³⁴ Bulkley Rebuttal, p. 61, ll. 4-18.

1 A. Dr. Won believes the four factors cited in the curriculum used for the Certified Rate of
2 Return Analyst (“CRRA”) designation supports his view that Ameren Missouri’s capital
3 structure, without adjustments, is appropriate for ratemaking. He cites the following four
4 factors:

- 5 1. Whether the subsidiary utility obtains all of its capital from its parent,
6 or issues its own debt and preferred stock;
- 7 2. Whether the parent guarantees any of the securities issued by the
8 subsidiary;
- 9 3. Whether the subsidiary’s capital structure is independent of its parent
10 (i.e. existence of double leverage, absence of proper relationship
11 between risk and leverage of utility and non-utility subsidiaries);
- 12 4. Whether the parent (or consolidated enterprise) is diversified into non-
13 utility operations.³⁵

14 Dr. Won indicates that there is **nothing** in these guidelines that supports the use of Ameren
15 Corp’s capital structure to set Ameren Missouri’s ROR.³⁶ If only this issue were as black
16 and white as Dr. Won suggests, setting a fair and reasonable ROR would be a much simpler
17 task. I already discussed these factors in my rebuttal testimony and based on my analysis
18 I concluded that these factors are much more nuanced than Dr. Won suggests.³⁷ Because
19 I already largely discussed these factors in my rebuttal testimony, I will only briefly address
20 some of further points prompted by Dr. Won’s further discussion of these four factors.

21 First, I agree with Dr. Won that it is a fact that Ameren Corp does not provide long-term
22 affiliate loans to Ameren Missouri. Ameren Missouri does issue its own long-term debt
23 directly to third-party debt investors. Second, I agree that it is a fact that Ameren Corp
24 does not guarantee the long-term debt issued by Ameren Missouri. However, this fact
25 deserves further thought, because Ameren Corp relies on the low business risk of its
26 regulated utilities, including Ameren Missouri, for its ability to issue holding company
27 debt. This should cause one to question whether Ameren Corp is doing so at the expense
28 of Ameren Missouri’s credit quality and ratepayers. This is where Dr. Won and I disagree
29 about the interpretation of these facts. In my opinion, this is why I consider the final two

³⁵ David Parcell, “The Cost of Capital – A Practitioner’s Guide,” 2010 Edition, p. 46.

³⁶ Won Rebuttal, p. 26, lns. 16-17.

³⁷ Murray Rebuttal, p. 8, l. 1 – p. 17, l. 2.

1 factors as determinative of the need to adjust Ameren Missouri's constant equity ratio of
2 52% to be more similar to Ameren Corp's equity ratio. As it relates to the third and fourth
3 factors, I will address these together because they are the most interrelated and Dr. Won
4 emphasizes the fact that each of these guidelines mentions "non-utility"
5 subsidiaries/operations. Figure 3 in Dr. Won's rebuttal testimony shows Ameren Corp's
6 increasing debt ratio (declining equity ratio) and Ameren Missouri's constant equity ratio
7 (debt ratio). Based on this graph, it appears Dr. Won now acknowledges that Ameren Corp
8 is incurring more financial risk, i.e. debt, than Ameren Missouri, despite his direct
9 testimony that concluded that Ameren Corp's and Ameren Missouri's similar business risk
10 should allow each to incur similar financial risk.³⁸ Double-leverage occurs when the
11 parent/holding company issues debt in addition to the subsidiary issuing debt. The fact
12 that double leverage exists and Ameren Corp is currently a pure-play regulated utility is
13 further support for using Ameren Corp's consolidated capital structure because the
14 additional debt capacity is afforded by Ameren Corp's low-risk regulated utilities. If
15 Ameren Corp had non-regulated operations, similar to the current situation involving The
16 Empire District Electric Company's ultimate parent company, Algonquin Power &
17 Utilities Company ("APUC"), the proper relationship between business risk and leverage
18 would result in a less leveraged capital structure at the parent company, which is currently
19 the case for APUC. Therefore, the fact that Ameren Corp is more leveraged than its
20 regulated utility subsidiaries (and as shown in Dr. Won's Figure 3 the gap is widening)
21 shows Ameren Corp recognizes its higher debt capacity by issuing holding company debt
22 rather than sharing the cost of capital savings from its lower business risk with ratepayers
23 through a more leveraged capital structure.

24 **Q. What is your response to both Ms. Bulkley's and Dr. Won's view that Ameren**
25 **Missouri's equity ratios are similar to average authorized equity ratios?**

26 **A.** I provided information about authorized equity ratios for other companies in Missouri,
27 which in Evergy Metro's case was consistent with that which the company recommended,
28 and also in Kansas and Illinois. Although a 52% equity ratio may be within average

³⁸ Won Direct, p. 27, ll. 14-19.

1 authorized equity ratios, the primary evidence that should be considered is the
2 interrelationship and comparison of Ameren Missouri's capital structure to that of its parent
3 company. Based on this evidence, Ameren Missouri's requested equity ratios of ~52% is
4 unreasonable.

5 **SUMMARY AND CONCLUSIONS**

6 **Q. Can you summarize your surrebuttal testimony?**

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

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

23 A. Yes.

Case No. GR-2021-0241

Schedule DM-S-1 to
David Murray's Surrebuttal
Testimony has been deemed
"Confidential"
in its entirety

Case No. GR-2021-0241

Schedule DM-S-2 to
David Murray's Surrebuttal
Testimony has been deemed
"Confidential"
in its entirety

Case No. GR-2021-0241

Schedule DM-S-3 to
David Murray's Surrebuttal
Testimony has been deemed
"Confidential"
in its entirety