Exhibit No. 203

OPC – Exhibit 203
David Murray
Rebuttal Testimony
File No. ER-2022-0337

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Issue(s):	Rate of Return (ROR)/ Capital Structure
Witness/Type of Exhibit:	Murray/Rebuttal
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Case No.:	ER-2022-0337

REBUTTAL TESTIMONY

OF

DAVID MURRAY

Submitted on Behalf of the Office of the Public Counsel

UNION ELECTRIC COMPANY D/B/A AMEREN MISSOURI

CASE NO. ER-2022-0337

February 15, 2023

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REBUTTAL TESTIMONY

OF

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UNION ELECTRIC COMPANY d/b/a AMEREN MISSOURI

FILE NO. ER-2022-0337

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's 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. I will address capital structure first. As it relates to capital structure, I will address Mr. Sagel and Dr. Won together since they recommend the same approach for purposes of setting Ameren Missouri's authorized ROR. I will then address Ms. Bulkley's and Dr. Won's recommended ROEs separately because they have different recommendations and approaches to how they arrive at their recommended ROEs.

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. Although my testimony addressing capital structure is primarily focused on a fair and reasonable ratemaking capital structure for purposes of setting Ameren Missouri's ROR, I will also discuss the effect Ameren Corp's holding company's financial strategies have on standard ratemaking formulas, such as capitalizing financing costs associated with construction work in progress ("CWIP"). Based on the logic and understanding that it is customary financing practice to use short-term debt to initially fund capital expenditures, Ameren Corp's holding company financing strategies cause unreasonably high capitalization charges (i.e. increases to rate base) using the standard Federal Energy Regulatory Commission ("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 myself.

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 electric utility using Ameren Missouri's capital structure ratios. At this point, the only cause for the difference in Dr. Won's and Mr. Sagel's capital structure ratios is due to Dr. Won's use of Ameren Missouri's actual capital structure balances as of September 30, 2022, where Mr. Sagel recommends Ameren Missouri's projected capital structure ratios as of December 31, 2022. Assuming Dr. Won and Mr. Sagel update Ameren Missouri's capital structure balances for actual information through December 31, 2022, then their recommended capital structure ratios will likely be identical.

Q. Are you confident Ameren Missouri will achieve its projected common equity of around 52% as of the December 31, 2022, true-up date in this case?

A. Yes. As I identified in my direct testimony, Ameren Corp consistently manages Ameren Missouri's capital flows to achieve a common equity ratio of approximately 52% for the anticipated end-of-period test year or updated/trued-up test year for any given rate case. It is not difficult for Ameren Corp to achieve this target for Ameren Missouri since Ameren

Corp manages Ameren Missouri's capital flows to achieve its targeted common equity ratio of approximately 52%. Ameren Corp has been able to consistently manage Ameren Missouri's capital structures for ratemaking to achieve an end-of-period ratemaking common equity ratio range of 51.75% to 52.30% for rate cases over the last ten years.

Q. Does the Company contend that the Commission authorized Ameren Missouri's capital structure in Ameren Missouri's 2021 rate case, Case No. ER-2021-0240?

A. Yes. Mr. Sagel testifies that although Ameren Missouri's capital structure was settled as part of the overall "black box" settlement of the revenue requirement in Case No. ER-2021-0240, the parties to the case agreed to use Ameren Missouri's actual capital structure at September 31, 2021 for purposes of accruals/capitalizations related to Plant-in-Service Accounting ("PISA"), the Renewable Energy Standard Rate Adjustment Mechanism ("RESRAM") and AFUDC. Mr. Sagel indicates that Ameren Missouri's capital structure contained 51.97% common equity at this date. In Mr. Sagel's opinion, because the Commission approved the settlement ("S&A") in the 2021 rate case, this also constitutes Commission authority of Ameren Missouri's capital structure.

Q. Did the parties to that S&A in Ameren Missouri's last general electric rate case specify a ROR for purposes of PISA, RESRAM and AFUDC?

A. Yes. The S&A specifies an after-tax ROR (referred to as a post-tax Weighted Average Cost of Capital in the S&A) of 6.76%.

Q. Does the S&A specify a ROE?

A. No.

Q. Can one imply a ROE if the capital structure, cost of debt, cost of preferred stock and overall ROR are known?

A. Yes. With only one unknown variable, this is a simple matter of performing algebra. The ROE would have to be 9.39% to achieve an overall ROR of 6.76% based on Ameren

Missouri's September 30, 2021, capital structure of 51.97% common equity, 47.30% long-term debt and 0.73% of preferred stock.

Q. From another perspective, what is the ROE if the ROR is 6.76% and the common equity ratio is 50%?

A. 9.6%.

Q. Do you agree with Mr. Sagel's characterization that the Commission "authorized" a capital structure of 51.97% common equity for Ameren Missouri in its last general electric rate case?

A. No. These were not disputed issues before the Commission. In that case the Commission decided neither an authorized capital structure nor an authorized ROE for Ameren Missouri. The Company's suggestion the Commission did concerns me. As I will discuss when addressing Ms. Bulkley's ROE testimony, a "Commission authorization" should not be used liberally as it relates to settlement terms. I define the Commission's last authorized capital structure and ROE for Ameren Missouri as the Commission's explicit decision on this issue in Ameren Missouri's last fully litigated case, Case No. ER-2014-0258. A fair and reasonable capital structure for ratemaking was not a disputed issue in Ameren Missouri's 2014 rate case because Ameren Corp had not been issuing significant amounts of holding company debt at that time. This is no longer the case.

Q. Fundamentally, why do you disagree with Dr. Won's and Mr. Sagel's proposed capital structure ratios for Ameren Missouri for purposes of determining Ameren Missouri's revenue requirement in this case?

A. As I testified in direct and earlier in this testimony, Ameren Corp targets 52% common equity at Ameren Missouri, which, as the ultimate parent of Ameren Missouri, it can accurately achieve by managing the capital flows to and from Ameren Missouri.

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 has been steadily increasing over the last several rate cases. 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 rate case, Case No. ER-2021-00240, the difference increased to 7% (52% vs. 45%). In this case, the gap is now 9% (52% vs. 43%). The widening gap is due to the fact that Ameren Corp has continued to increase the amount and proportion of holding company debt as compared to total consolidated debt. On March 29, 2019, Moody's lowered its Funds from Operations ("FFO")/debt threshold to 17% from 19% which gave Ameren Corp the flexibility to incur more leverage at the holding company level without jeopardizing its credit rating. One of the primary reasons Moody's cited for allowing less stringent financial metrics was the "improved regulatory construct in Missouri facilitating meaningful rate base growth and reducing regulatory lag [PISA]."[1]

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

A. 51.76% equity and a 9.53% ROE.[2]

[1] "Updated to Credit Analysis," Moody's Investor Service, March 29, 2019, p. 2.
[2] Case No. ER-2014-0258, Report and Order, April 29, 2015, pgs. 61 and 68.

Q. Has Ameren Corp adjusted its common equity ratios for its other subsidiaries, Ameren Illinois and ATXI, after the Commission changed Ameren Missouri's rates in its 2019 general electric rate case?

A. Yes. It increased its common equity ratio for its subsidiary Ameren Illinois from 50% to approximately 54%.[3] It increased its common equity ratio for ATXI from 56% to approximately 60%.[4]

Q. If Ameren Corp has increased the equity ratios of Ameren Illinois and ATXI and is still maintaining a 52% equity ratio at Ameren Missouri, why does Ameren Corp's consolidated capital structure have a lower equity ratio now than it did at the time of Ameren Missouri's 2019 rate case?

A. Because it is issuing holding company debt to invest in the equity of its subsidiaries. Ameren Corp's only assets are its equity interests in its subsidiaries. Ameren Corp's debt capacity arises from its ownership of low-risk regulated utility assets. Ameren Corp's debt capacity increased after Ameren Missouri was able to elect PISA.

Q. Is Ameren Missouri directly using the debt capacity enabled by PISA?

A. No. Ameren Corp has not allowed it to because this would upset the ratemaking paradigm Ameren Corp believes it has established for its Ameren Missouri subsidiary. The Commission can correct this misappropriation of Ameren Missouri's debt capacity to Ameren Corp by authorizing a lower common equity ratio for Ameren Missouri for ratemaking purposes. I recommend the Commission authorize Ameren Missouri a 43% common equity ratio, which is consistent with the leverage Ameren Corp has deemed appropriate and optimal considering the low business risk of its regulated assets. If Ameren Corp wants the Commission to authorize Ameren Missouri a higher common equity ratio, it can simply reduce the amount of holding company debt it issues and maintain the current debt ratios at its subsidiaries.

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[3] Docket 22-0297, Illinois Commerce Commission, Ameren Illinois Company.
[4] Ameren Corporation SEC Form 10-K Filing, December 31, 2021, p. 8.

Q. Why does Dr. Won recommend that the Commission use Ameren Missouri's per books capital structure for determining the revenue requirement in this case?

A. Dr. Won testifies that based on his review of Ameren Missouri's financial relationship with Ameren Corp, and to be consistent with the Commission's previous ratemaking decisions, he recommends the Commission set Ameren Missouri's ROR "based on Ameren Missouri's standalone capital structure."[5]

Q. Do you know to which previous Commission ratemaking decisions Dr. Won is referring?

A. I am not sure. Dr. Won indicates he reviewed the Commission's previous decisions in Spire Missouri rate cases, Case No. GR-2021-0108 and Case Nos. GR-2017-0215 and GR-2017-0216 (Case Nos. GR-2017-0215 and GR-2017-0216 were consolidated because while Spire Missouri East and Spire Missouri West are separate rate districts, they are not separate companies). Dr. Won also indicates he reviewed the Commission's decision in The Empire District Electric Company's ("Empire") 2019 rate case, Case No. ER-2019-0374.

Q. Of these Commission decisions which do you consider most applicable to Ameren Missouri's relationship with its parent Ameren Corp?

A. The Spire Missouri rate cases.

Q. Dr. Won testifies that the Commission adopted Empire's consolidated capital structure in Case No. ER-2019-0374. Is he correct?

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 all of the debt financing needs of its North American regulated utility subsidiaries at the LUCo level. Since this

[5] Won Direct, p. 27, lines 8-11.

consolidation, Empire's capital needs have been funded through affiliate financing transactions.

Q. In your opinion is Empire's financing relationship with LUCo a good comparable for Ameren Missouri's financing relationship with Ameren Corp?

A. No.

Q. Why not?

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

Q. In your opinion is Spire Missouri's financing relationship with Spire Inc. an appropriate comparable for Ameren Missouri's financing relationship with Ameren Corp?

A. Yes.

Q. Why?

A. Because 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. What do you conclude about Ameren Missouri and Ameren Corp being comparable as to their financing relationships to Spire Missouri's financing relationships with Spire Inc. for purposes of the Commission using their per books capital structures for purposes of setting their authorized RORs?

A. The Commission should not rely on their per books capital structures for that purpose.

Q. Why not?

A. Both Ameren Corp and Spire Inc. target capital structures for their utility subsidiaries in Missouri primarily for ratemaking, not to achieve a lower cost of capital for ratepayers. It is clear from Spire Inc.'s and Ameren Corp's more leveraged consolidated capital structures that management recognizes that the low business-risk of its regulated utility subsidiaries allow for a much more optimal use of debt than reflected on each subsidiary's per books balance sheets.

Q. Do the purposes for which Spire Inc. and Ameren Corp. issued holding company debt matter for purposes of the Commission deciding what capital structure to use for their subsidiaries it rate regulates?

A. No. Spire Inc. issued most of its holding company debt in conjunction with its acquisitions of Spire Alabama Inc. and Spire EnergySouth Inc. Ameren Corp.'s holding company debt has largely been issued for purposes of financing investments into its existing subsidiaries. However, both Spire Inc.'s and Ameren Corp.'s capital structure policies at the holding company level indicate managements' views as to the amount of leverage its regulated utility assets can support. Ameren Missouri and Spire Missouri have shown through their actions that their targeted capital structures are driven by desired ratios for ratemaking rather than to target a reasonable cost of capital to charge ratepayers.

Q. As it relates to Dr. Won's citation of circumstances he believes supports the use of Ameren Missouri's stand-alone capital structure, do you disagree with any of the circumstances Dr. Won present as statements of fact?

A. Yes. I specifically disagree with the following statements related to Dr. Won's capital structure testimony on page 23, line 16 through page 27, line 18:

> 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 2020, 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]

> …Ameren Corp has not raised debt in order to contribute equity to Ameren Missouri....Therefore, Staff does not find evidence that Ameren Corp. has used "double leverage" for investing in Ameren Missouri. [fourth statement]

Q. Why do you disagree with Dr. Won's first statement?

A. While Ameren Missouri does issue its own long-term debt, I do not agree that Ameren Missouri operates as an independent entity as it relates to the procurement of financing. As I testified in direct, Ameren Services Company ("AMS") provides financing and capital management services for Ameren Corp's subsidiaries, including Ameren Missouri. Additionally, the fact that Ameren Missouri has been relying more heavily on long-term capital (i.e. retained earnings and long-term debt) rather than short-term debt to fund its liquidity needs illustrates Ameren Missouri is not being managed independent of Ameren Corp. Ameren Corp shares credit facilities with Ameren Missouri and Ameren Illinois. Under Ameren Corp's shared credit facility with Ameren Missouri, it has the ability to directly borrow up to $900 million of the shared $1.2 billion credit facility or issue this amount in commercial paper.[6] Commercial paper is typically used to support immediate cash needs, such as for working capital, construction work in progress ("CWIP"), or paying expected dividends to third-party shareholders. The ability of Ameren Corp to issue this commercial paper is dependent on the low business-risk profile of its Ameren Missouri assets, which was enhanced by Ameren Missouri's ability to elect PISA.

Ameren Corp uses its shared credit facilities with its regulated utility subsidiaries to facilitate its access to the commercial paper markets (i.e. short-term debt). Ameren Corp can then use commercial paper to fund dividend distributions to shareholders rather than rely on the operating cash flows from its subsidiaries. However, this strategy artificially drives up capital costs paid by Ameren Missouri's ratepayers as it relates to capitalizing CWIP through the standard AFUDC formula. For example, because Ameren Missouri retained 100% of its $535 million earnings for the last twelve months through September 30, 2022, based on the standard AFUDC formula, Ameren Missouri ratepayers are charged a long-term capital financing rate for the excess $310 million of retained earnings that

[6] Ameren Corp SEC Form 10-K Filing, December 31, 2021, p. 115.

Ameren Missouri would normally distribute as dividends if it were a true stand-alone company.[7] While Ameren Corp's use of commercial paper at the holding company level to fund dividends is beneficial to Ameren Corp's financing efficiency, this affiliation inflates Ameren Missouri's rates through a higher capitalization rate (AFUDC) applied to CWIP.

Q. Why do you disagree with Dr. Won's second statement?

A. Ameren Corp has made $698 million of common equity contributions to Ameren Missouri since January 1, 2020. Therefore, Ameren Corp has provided long-term financing to Ameren Missouri. If Dr. Won intended to state that Ameren Corp has not provided long-term *debt* financing to Ameren Missouri since January 1, 2020, then I agree.

Q. Why do you disagree with Dr. Won's third statement?

A. Because it is not true as it relates to S&P's ratings methodology. Moody's and S&P have differing approaches for assigning their credit ratings to Ameren Missouri. Moody's gives weight to Ameren Missouri's stand-alone capital structure for purposes of assigning its long-term issuer rating of 'Baa1'. However, S&P assigns Ameren Missouri a credit rating based on Ameren Corp's group credit profile. Dr. Won cites Ameren Missouri's response to Staff Data Request No. 0196 (*see* Schedule DM-R-1) and S&P Global Capital IQ Pro to support his position.[8] I am not surprised Ameren Missouri's response to Dr. Won's data request confirmed his statement because doing otherwise would not support Ameren Missouri's position in this case. However, because Dr. Won also cited S&P as support for his position, I wanted to ensure I was not misinterpreting S&P's ratings approach. Therefore, I requested Staff's source document for its position. As can be seen in the attached Schedule DM-R-2, Dr. Won referred me to documents included in the S&P folder with his workpapers. Dr. Won appears to have relied on S&P Global Ratings April 30, 2021 report for his position (attached as Schedule DM-R-3). However, this report does not support Dr. Won's position. S&P specifically states the following on page 10 of this report:

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[7] Ameren Corp's recent dividend payout ratio of approximately 58% multiplied by $535 million.

[8] Won Direct, p. 5, lines 7-8 and p. 24, lines 4-5.

> Under our group rating methodology, we consider AM [Ameren Missouri] a core subsidiary of parent Ameren with a group credit profile of 'bbb+'. This core status reflects our view that AM 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 AM is 'BBB+'.[9]

Therefore, Dr. Won is incorrect when he testifies that S&P assigns Ameren Missouri a credit rating based on its own capital structure. S&P assigns a 'BBB+' rating to Ameren Missouri based on the fact that Ameren Corp's rating is 'BBB+'. It is a coincidence that Ameren Missouri's hypothetical stand-alone credit profile ("SACP") is the same as Ameren Corp's consolidated credit profile.

Q. How do you know this is a coincidence?

A. Because, despite the fact that S&P assigns Ameren Illinois a hypothetical SACP of 'A-', it ultimately assigns Ameren Illinois a credit rating of 'BBB+' based on Ameren Corp.'s group credit profile.[10]

Q. Why do you disagree with Dr. Won's fourth statement?

A. The existence of double leverage is not limited to a direct reconciliation of the use of holding company debt to purchase equity in any specific subsidiary. In fact, Ameren Corp does not deny the fact that it issues debt at the holding company to purchase equity in its other subsidiaries. To claim that this proves that Ameren Corp does not employ double leverage is too narrow of an interpretation and does not consider the fact that Ameren Corp balances its consolidated capital structure based on the business risk of all of its subsidiaries, including Ameren Missouri. In fact, contrary to Dr. Won's view that because Ameren Corp only has a small percentage of non-regulated utilities, Ameren Missouri's capital structure is appropriate, it is the fact that Ameren Corp is predominately a pure-play

[9] William Hernandez, et. al., Union Electric Co. d/b/a Ameren Missouri, S&P Global Ratings – RatingsDirect, April 30, 2021, pgs. 10-11.
[10] Ameren Illinois Company, S&P Global Ratings – RatingsDirect, April 28, 2022.

regulated utility that allows Ameren Corp the ability issue significant amounts of holding company debt in addition to its subsidiary debt (*i.e*. double leverage).

Q. Does Ameren Missouri need support from Ameren Corp to issue stand-alone debt?

A. No. In fact, Ameren Missouri could have its own stand-alone credit facility without sharing it with Ameren Corp, but this would not be beneficial to Ameren Corp as it relates to its access to commercial paper to fund other investments.

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

A. Yes. Ameren Corp did so in 2010 when it was attempting to limit the impact Ameren Corp's non-regulated subsidiary, Ameren Energy Generating Company had on its credit quality.[11] Ameren Corp also did so in 2006 when it no longer allowed Ameren Illinois (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) access to the shared credit facility Ameren Corp had with Ameren Missouri and Ameren Energy Generating Company.[12]

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

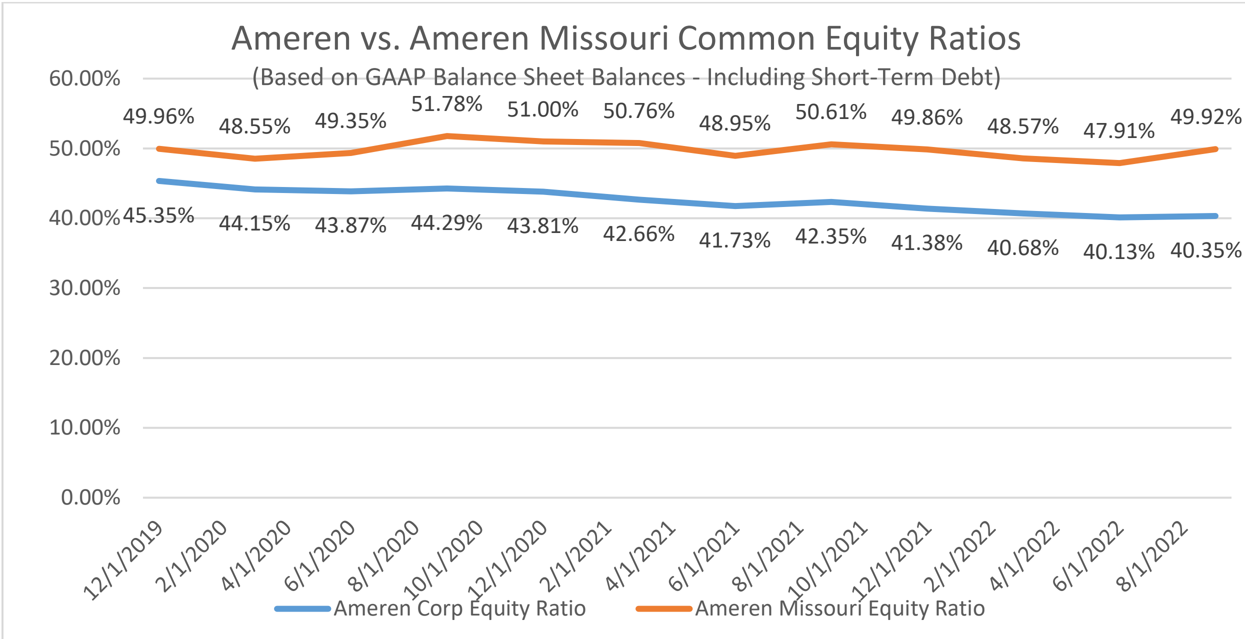
A. Not that I am aware. The financial obligations Ameren Corp is required to fund is its holding company debt.

Q. What capital structure has Ameren Corp managed to take advantage of the lower business-risk associated with its regulated utility subsidiaries?

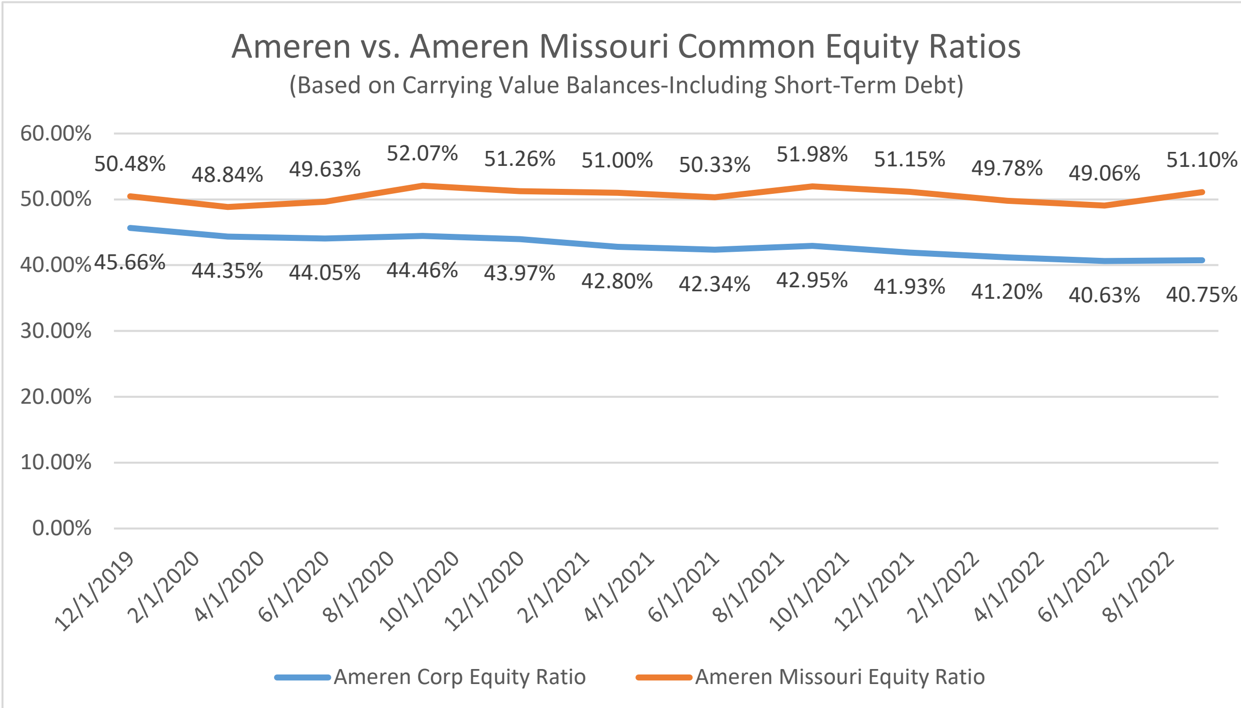
A. It has dynamically managed its capital structure as detailed in in Schedule DM-R-4 and summarized in the below graph. I created this graph by using data from Ameren Corp's and Ameren Missouri's balance sheets filed with the Securities and Exchange Commission

[11] Ameren Corp 2010 SEC 10-K Filing, pgs. 114-118.
[12] Ameren Corp 2006 SEC 10-K Filing, pgs. 124-128.

("SEC"). Ameren Corp's consolidated common equity ratio has been declining whereas Ameren Missouri's has remained generally constant.



Recognizing that for ratemaking purposes capital balances may be adjusted to reflect the carrying values or net proceeds received for various capital issuances, I also show Ameren Corp's and Ameren Missouri's common equity ratios using these balances in the below chart:



As demonstrated in the above charts, Ameren Corp's common equity ratio has dropped by 500 basis points (*i.e.* 5%) over the last three years, while Ameren Missouri's has hovered right around 50%. While Ameren Missouri's common equity ratio dropped at June 30, 2022, because Ameren Corp targets a 52% common equity ratio for Ameren Missouri for ratemaking purposes, and the ordered true-up period in this case is December 31, 2022, Ameren Corp is repositioning Ameren Missouri's capital structure to meet its 52% target for ratemaking.

Q. What allowed Ameren Missouri's common equity ratio to increase significantly between June 30, 2022 and September 30, 2022?

A. Ameren Missouri did not pay a dividend to Ameren Corp, despite the fact that it generated $398 million of earnings during the third quarter of 2022. Because Ameren Corp can fund dividend obligations to its shareholders from parent company financing, Ameren Corp can forego dividends from Ameren Missouri. These strategies do not support the argument that Ameren Missouri's capital structure is managed independent of Ameren Corp's capital structure.

Q. Would you summarize your disagreement with Dr. Won regarding the information he cites to support the use of Ameren Missouri's stand-alone capital structure for ratemaking in this case?

A. Yes. Dr. Won is incorrect in stating that Ameren Missouri's capital structure supports its own credit rating and that its debt is rated based on its own stand-alone credit profile. While I agree that Moody's gives consideration to Ameren Missouri's capital structure, and consequently its financial risk, 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. There is no reason Ameren Missouri's capital structure should be less levered than Ameren Corp's capital structure. Instead of passing the benefit of lower capital costs through to Ameren Missouri ratepayers who provide the certainty of recovery of costs associated with PISA investments, Ameren Corp is attempting to retain the financial benefit of lower capital costs for its shareholders. The Commission can correct the misappropriation of Ameren Missouri's debt capacity to Ameren Corp by authoring a lower common equity ratio for ratemaking.

While there are differing degrees of merit in deciding when to consider the holding company's consolidated capital structure compared to a subsidiary's capital structure, the overarching consideration that should be given the most weight is whether the use of leverage is consistent with a company's business risk. As I discussed in my direct testimony, Ameren Corp and Moody's recognized the lower business risk afforded the Ameren group by the ability of Ameren Missouri to elect PISA in 2018. This was cited as a primary reason to allow Ameren Corp to carry more leverage. Unfortunately, it appears the Commission is the only entity that has the authority and potential willingness 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 electric utility?

A. Ms. Bulkley recommends the Commission allow Ameren Missouri a ROE anywhere in the range of 9.90% to 11.25% for its electric utility operations. Based on her range, she concludes that the Company's request of a 10.20% allowed ROE is reasonable.[13]

Q. What premise underlies Ms. Bulkley's recommended allowed ROE?

A. Ms. Bulkley estimates the cost of equity ("COE") for Ameren Missouri's electric utility operations to be in the range of 9.90% to 11.25% based on her application of a 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 analysis.

Q. What is your general reaction to Ms. Bulkley's testimony regarding how to estimate the utility industry's cost of common equity ("COE")?

A. First, I completely disagree with her that the utility industry's COE is in the high single-digit range, let alone in the low double digits. While estimating a COE for the utility industry this high may be convenient for attempting to sustain higher authorized ROEs, they are not consistent with the discount rates, *i.e.* the COE, that investors use for purposes of estimating the intrinsic value of electric utility's share prices.[14]

Second, Ms. Bulkley's conjecture about potential changes to utility stock prices in future periods should be dismissed. Ms. Bulkley claims that because interest rates have increased and are expected to increase further, this causes her constant-growth DCF results to

[13] Bulkley Direct, p. 8, lns. 1-12.
[14] Murray Direct, p. 27, lns. 18-19.

understate utility companies' COE during future periods.[15] She also testified that market conditions at the time she filed her testimony in August 2022 were likely to cause utility industry equity returns to underperform the broader market.[16] As I will explain later in my testimony, while interest rates have increased in recent months, Ms. Bulkley's predictions that utility stocks will underperform, causing their COE to increase, were wrong.

Finally, while she devotes almost thirty pages of testimony trying to convince the Commission that Ameren Missouri is riskier than average utilities, she forgets that her proxy group contains companies that are exposed to competitive markets. Her opinions are also completely contradicted by Ameren Corp's significant increased investment in Ameren Missouri. This increased capital spend is due directly to utility-friendly legislation passed in Missouri in recent years.

Q. Do you and Ms. Bulkley agree on some fundamental issues in this case?

A. Yes. We both agree that long-term interest rates started to increase during 2022, and based on the historical negative correlations utility valuation levels typically had with long-term interest rates, this typically would cause utility stock prices to decline. We also agree that should this happen, this intuitively implies that utility companies' COE increases.

Q. Where do you and Ms. Bulkley disagree on your interpretation of market conditions and how they should be considered in assessing a fair and reasonable authorized ROE for purposes of this case?

A. Ms. Bulkley relies heavily on market prognostications rather than analyzing and interpreting current market conditions. In my couple of decades of performing cost-of-capital analysis, I am not aware of anyone consistently providing accurate and reliable market predictions. Based on Ms. Bulkley's testimonies since at least 2020, she has been predicting a decline in utility valuation levels. She initially reasoned that this would occur because low long-term interest rates were not sustainable. Now, despite the fact that long-term interest rates did increase in 2022, utility valuation levels did not plummet as Ms.

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[15] *Id.,* p. 16, lns. 3-13.
[16] *Id.* p. 26, line 8 – p. 30, line 20

Bulkley predicted. This has been perplexing to some, but not necessarily to those that have studied the history of other periods similar to the current period.

Q. Ms. Bulkley testifies that the financial environment is substantially different than when the "Commission set the Company's current authorized ROE." Does she identify when the Commission set Ameren Missouri's current authorized ROE?

A. No.

Q. When did the Commission last "set" Ameren Missouri's authorized ROE?

A. In 2015 in Case No. ER-2014-0258.

Q. Do you agree with Ms. Bulkley that current financial and capital market conditions are substantially different than in 2015?

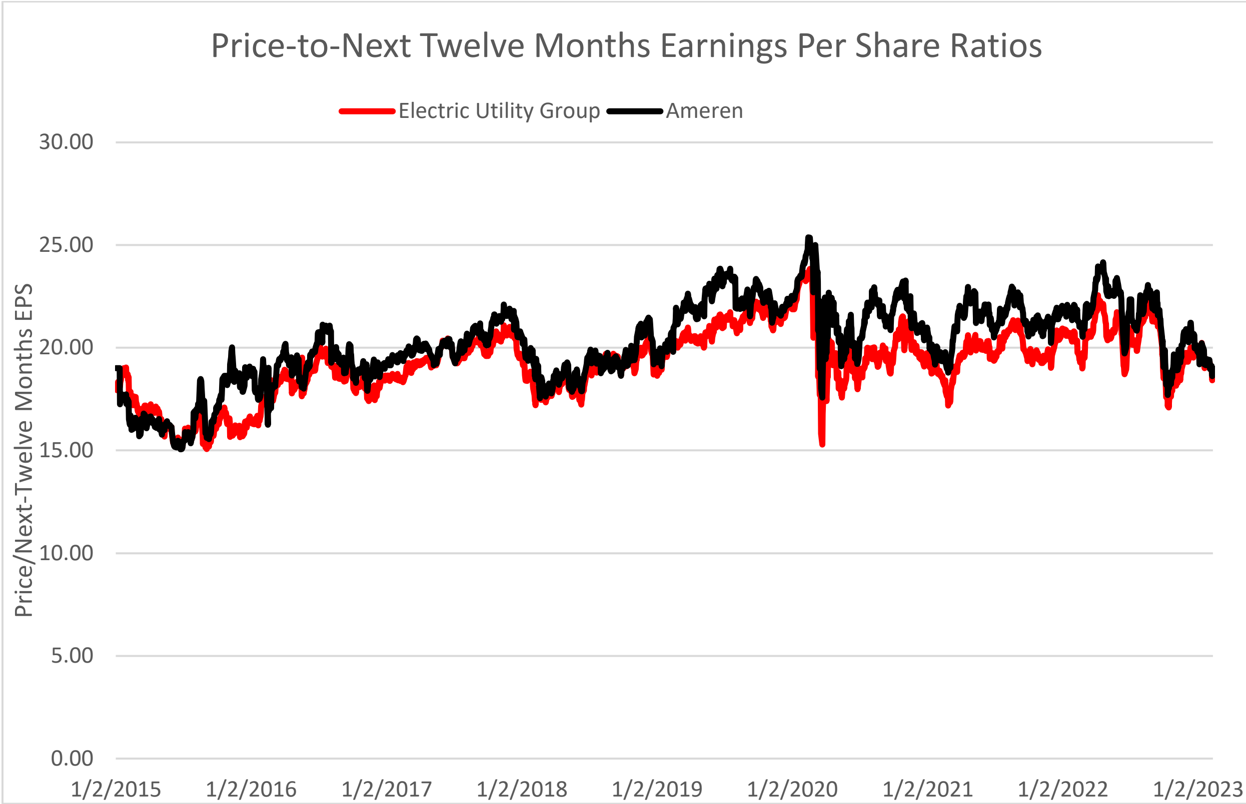
A. Only as it relates to current inflationary conditions. However, as it relates to valuations assigned to electric utility stocks, and more specifically Ameren Corp's stock, current capital market conditions are more favorable for issuing common equity (i.e. lower cost of equity).

Q. Did you compare current capital market conditions to 2015 capital market conditions, as it relates to the electric utility industry in general and Ameren Corp in specific in your direct testimony?

A. Yes. Therefore, I will not repeat my analysis in my rebuttal testimony.

Q. Have electric utility capital market conditions changed significantly since you filed your direct testimony?

A. No. See the below chart for Ameren Corp's and the electric utility industry's updated valuation information related to equity securities:



In my direct testimony, I had indicated I may lower my recommended authorized ROE from 9.25% to 9.00% if Ameren Corp's and the electric utility industry's valuation levels at the end of 2022 were sustained through 2023. However, because valuation levels have slightly declined in early 2023, I reaffirm my 9.25% recommended ROE as being fair and reasonable based on current market conditions.

Q. Does the resiliency of Ameren Corp and the electric utility industry's equity valuation levels mean Ameren Missouri's cost of debt capital has not been impacted by inflationary conditions?

A. No. Ameren Missouri issued a 30-year first mortgage bond on March 21, 2022, at a coupon rate of 3.9%. This compares to the coupon rate of 2.625% Ameren Missouri paid on a 30-year first mortgage bond issued on October 1, 2020.

Q. Despite significant declines in Ameren Missouri's cost of debt issuances during 2020 and 2021, did you recommend a significant reduction to Ameren Missouri's ROE in its last general electric rate case (2021)?

A. No. As I detailed in my testimony in the 2021 rate case, Ameren Corp's stock valuation, as well as the electric utility industry's stock valuation levels did not increase consistent with utility's traditional inverse correlation within interest rates. Recognizing such, I recommended a 9% ROE, despite extremely low implied COE estimates (in the 5% range) derived by applying standard risk premiums to low debt yields.

Q. Ms. Bulkley testifies that the Commission is "establishing the Company's cost of equity" in this proceeding.[17] Does the Commission "establish" Ameren Missouri's cost of equity?

A. No. The Commission "establishes" Ameren Missouri's authorized ROE for designing general rates, not the cost of equity ("COE"). The COE is established/determined by capital markets. Ameren Missouri's COE is much lower than its authorized ROE.

Q. Why are you so certain?

A. Because I have repeatedly discovered corroborating information in past rate cases establishing this fact.

PROXY GROUP:

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

A. Only to the extent she does not acknowledge the fact that some of her companies have significant exposure to non-regulated operations, which are typically much more economically sensitive than their regulated utility operations. For example, the consumption of commodities, such as energy, are highly correlated with the expansion and contraction of the economy. This explains why utility companies with exposure to

[17] Bulkley Direct, p. 15, lines 17-18.

unregulated commodity prices typically have higher betas than pure-play regulated utilities. The following companies included in Ms. Bulkley's proxy group have significant non-regulated business exposure at least as recently as 2020: Entergy Corporation, NextEra Energy Inc., OGE Energy Corporation and Otter Tail Corporation. Unfortunately, Ms. Bulkley focuses on her perception that the regulatory ratemaking shortcomings in Missouri as compared to her proxy group cause Ameren Missouri to have a higher cost of capital than the cost of capital of her proxy companies that have considerable non-regulated business risks.[18]

Q. Ms. Bulkley testifies that Ameren Corp owning Ameren Missouri does not affect her analysis of Ameren Missouri's cost of capital.[19] Should it have?

A. Yes. 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. Additionally, Ameren Corp.'s corporate governance structure does not allow for Ameren Missouri's financial health to be managed independent of Ameren Corp, which has been directly acknowledged by S&P in its past Ameren Corp and Ameren Missouri rating assessments.

Ameren Corp's cost of equity is based on the collective business risks of its various subsidiaries, approximately 50% of which is related to Ameren Missouri, as well as the financial risk it incurs at the consolidated level. Because Ameren Corp's business operations are predominately regulated electric utilities (both vertically integrated and transmission and distribution) and local natural gas distribution utilities, its capital structure and cost of equity are appropriate proxies for estimating Ameren Missouri's cost of capital.

Therefore, because Ms. Bulkley did not consider Ameren Corp in her assessment of Ameren Missouri's cost of capital, I consider her cost of capital analysis in her direct testimony to be incomplete and inadequate.

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[18] Bulkley Direct, p. 68, l. 3 – p. 71, l. 15.
[19] Bulkley Direct, p. 14, lns. 1-7.

INTERPRETATION OF MARKET CONDITIONS

Q. What is Ms. Bulkley's opinion related to consideration of current market conditions as it relates to determining a fair and reasonable authorized ROR for Ameren Missouri?

A. Mr. Bulkley testifies as follows:

> …analysts and regulators have concluded that current market conditions have affected the results of ROE estimation models. As a result, it is important to consider the effect of these conditions on the ROE estimation models when determining the appropriate range and recommended ROE for a future period. If investors do not expect current market conditions to be sustained in the future, it is possible that the ROE estimation models will not provide an accurate estimate of investors' required return during that test year. Therefore, it is very important to consider projected market data to estimate the return for that forward-looking period.[20]

Q. Do you disagree with her testimony?

A. Yes, Ms. Bulkley's opinion violates basic tenets of efficient market prices. Apparently Ms. Bulkley believes Ameren Missouri's ROE should be set based on market prognostications that long-term rates will continue to increase and cause utility stocks to decrease. Ms. Bulkley surmises that if such prognostications materialize, this will cause Ameren Missouri's cost of equity to be higher in future periods.

Q. Does Ms. Bulkley's logic mean that her COE estimates are inflated even before scrutinizing other assumptions?

A. Yes. Because Ms. Bulkley relies on projected market data she claims is more consistent with expected increases in bond yields, she is already admitting that the current COE is lower than her projected COE estimates. Of course, even her COE estimates using current market prices are too high because of irrational inputs. I will discuss those later.

[20] Bulkley Direct, p. 14, ln. 19 – p. 15, ln. 6.

Q. Did long-term interest rates, as measured by the 30-year United States Treasury ("UST") bond, increase after Ms. Bulkley prefiled her direct testimony on August 1, 2022?

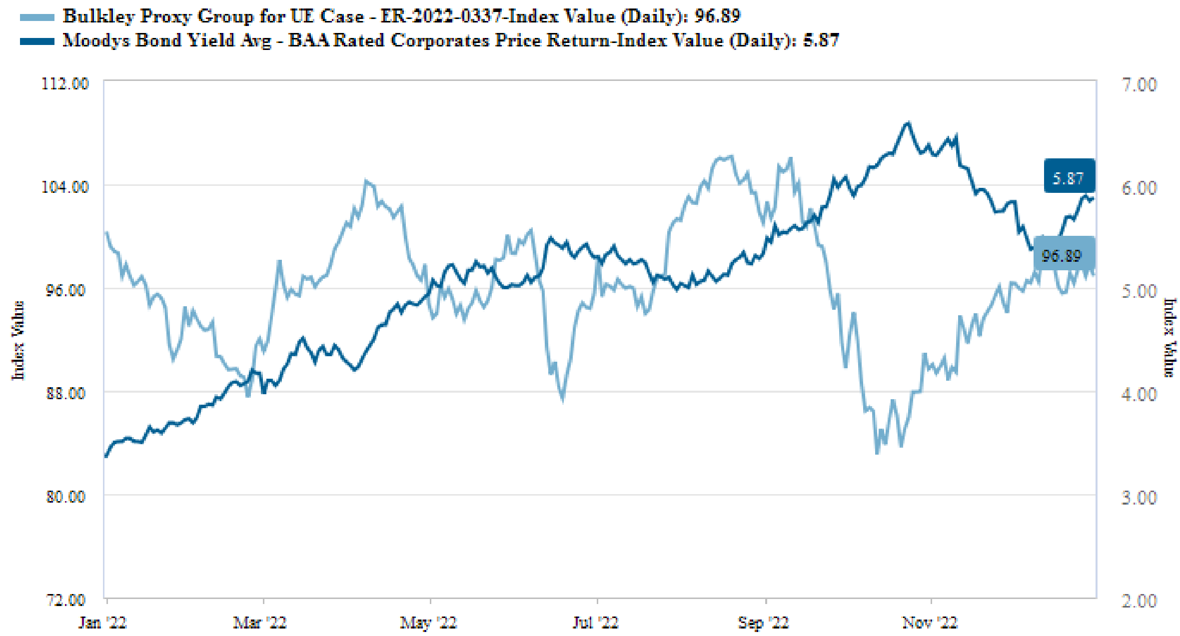
A. Yes. The 30-year UST bond yield continued to increase through October 2022, peaking at 4.4%. Since the end of October 2022, 30-year UST bond yields have declined to a recent range of 3.55% to 3.80% for most of 2023.

Q. Did utility stocks underperform the broader markets during 2022 as Ms. Bulkley predicted would occur at the time she filed her testimony?

A. No. In fact, they outperformed the broader markets by the largest margin this century. As I discussed on page 19 of my direct testimony, utilities outperformed the S&P 500 by 1,800 basis points (18%) despite a 237 basis points increase in long-term interest rates.

Q. Does this mean that utility stocks achieved positive returns in 2022?

A. No. As shown in the following chart using Ms. Bulkley's proxy group, the market-weighted average stock price of her proxy group declined by 3.11%. After factoring in dividends, the market-weighted total return for Ms. Bulkley's proxy group was a negative 0.41%.

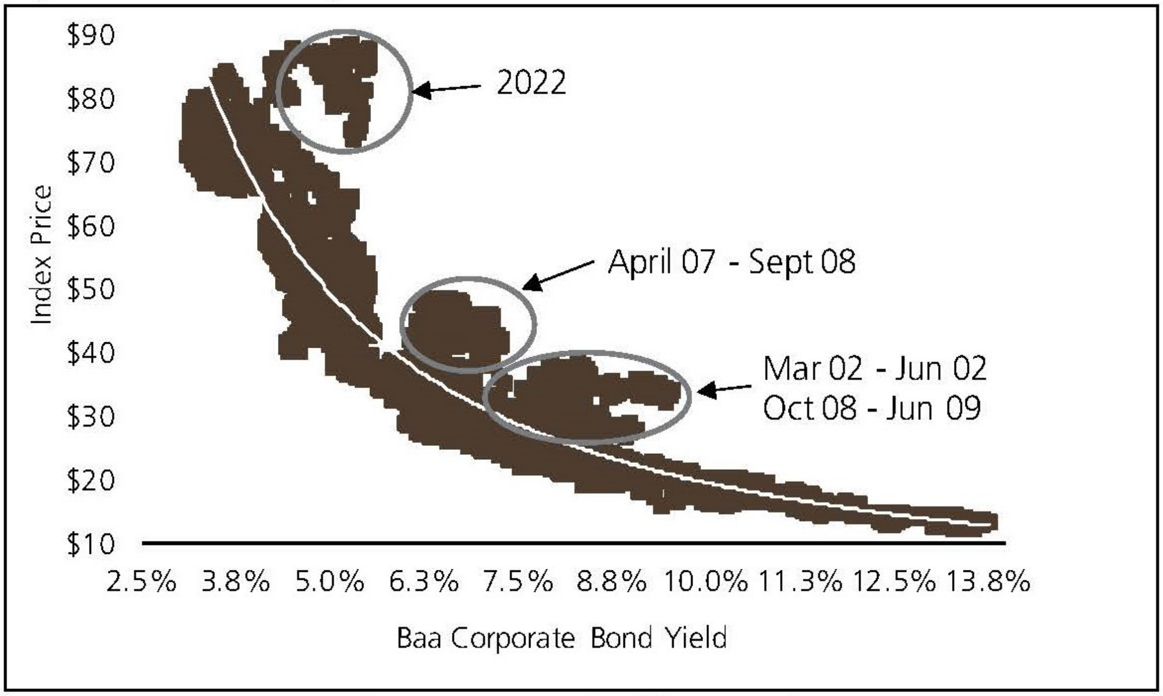


As can be seen, despite long-term Moody's Baa corporate bond yields increasing by 74% during 2022, stock prices for Ms. Bulkley's proxy group only declined by 3.11%.

Q. Have investors recognized the disconnect between predicted utility stock prices based on historical relationships and actual prices?

A. Yes. UBS Securities provided the price regression of predicted utility stocks compared to actual prices:

Figure 1: BAA vs. Price Regression



Source: Company Reports, Moody's, FactSet, Strategic Insights, UBS Estimates

[21]

As illustrated, based on historical correlations of utility stocks with changes in 'Baa' Corporate Bond yields, the predicted price of utility stocks is around $30 lower than current prices. Current utility stock prices indicate that the required equity risk premium to invest in utility stocks is lower than that predicted by historical correlations.

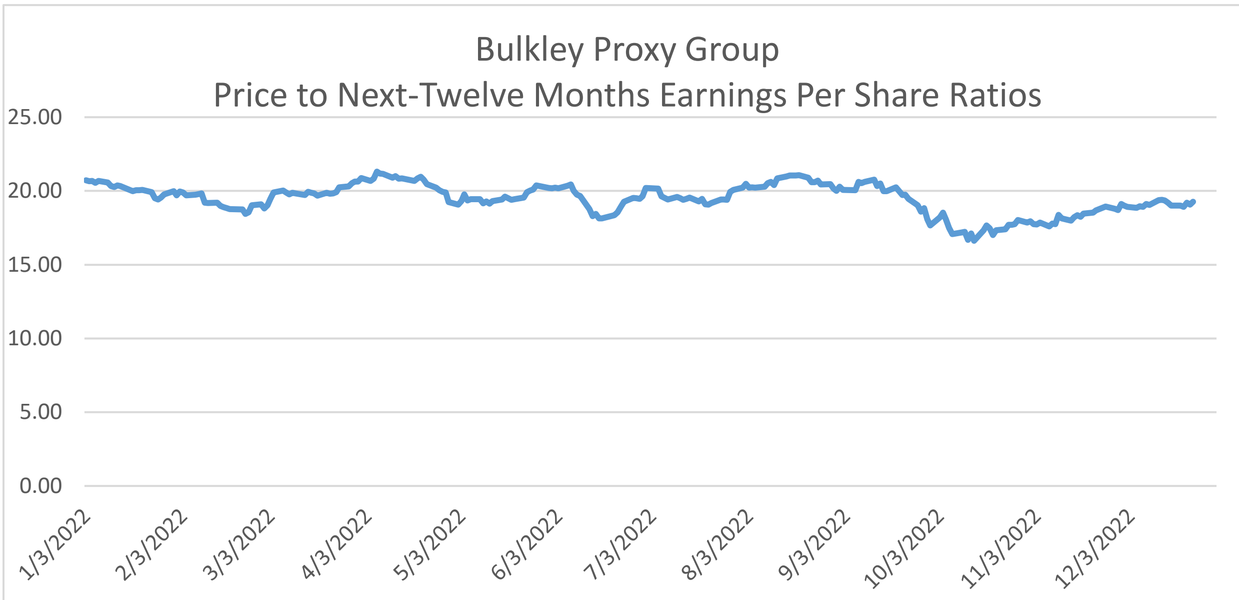
Q. Is it more relevant to evaluate price-to-earnings ("P/E") ratios rather than just stock prices?

A. Yes. If prices increase at the same rate as earnings growth, then this implies that the utility industry's COE is stable throughout the period. If the P/E ratio increases and growth is stable, then factors other than earnings growth are likely at play, such as a change in investors' required returns due to macro factors, such as economic cycles and/or changes in opportunity costs.

[21] Ross A. Fowler, CFA and Greg Orrill, "Updated Valuation Correlation to Baa Corp Bond Yields," September 2022.

Q. What were the average P/E ratios for Ms. Bulkley's proxy group during 2022?

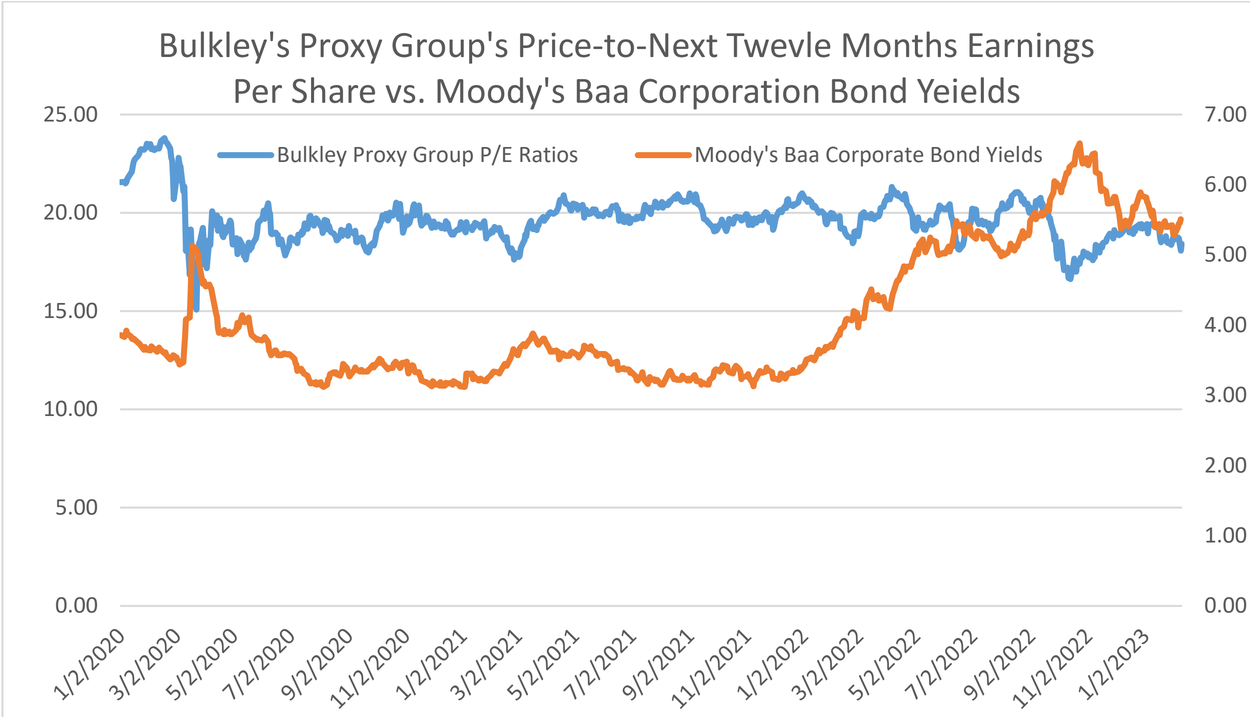
A. The P/E ratios for Ms. Bulkley's proxy group for the 2022 calendar year are as follows:



As can be seen, Ms. Bulkley's proxy group's P/E ratios started the year a little over 20x, then finished the year a little under 20x.

Q. What P/E ratios did Ms. Bulkley's proxy group trade at when bond yields hit all-time lows later in 2020 and into 2021?

A. The following chart shows Ms. Bulkley's proxy group's P/E ratios compared to Moody's Baa corporate bond yields since 2020:



Q. What does the fact that utility P/E ratios remained higher despite higher long-term interest rates indicate about investors' required risk premiums to invest in utility stocks?

A. They have declined.

Q. What is Ms. Bulkley's solution for her view that utility stocks will decline in the future?[22]

A. Her solution is to give less weight to DCF methods, which directly incorporate utility stock prices, and give more weight to her methods that rely on market risk premium estimates, such as the CAPM.[23]

[22] *Id.*, p. 25, l. 5 – p. 28, l. 11.
[23] *Id.,* p. 29, l. 2 – p. 30, l. 20., ll. 5-20 and p. 36, ll. 7-20.

Q. Does Ms. Bulkley cite investor publications' projections to support her prognostication that utility stocks will decline?

A. Yes. She cites to firms such as Barron and Fidelity in her testimony. She quotes Fidelity as indicating the utility sector has "poor fundamentals and expensive valuations."[24]

Q. If a security is *expensive* to an investor, what does this mean for the issuer of the security?

A. It is cheap to procure capital, which is synonymous with a low cost of capital. In fact, as I illustrated in various charts in my direct testimony, Ameren Corp's valuation is higher than those of its peers. Ameren Corp's low cost of equity is a function of its ownership of low-risk regulated electric and gas utility subsidiaries, which includes Ameren Missouri.

Q. Is Ms. Bulkley correct that using current utility stock prices in the constant-growth DCF analysis results in an underestimated cost of equity?

A. No.

Q. Why does she believe it underestimates the COE?

A. Because the constant-growth DCF assumes a constant P/E ratio. As Ms. Bulkley repeatedly emphasizes in her testimony, she predicts that the utility industry's P/E ratio will decrease.

Q. Do you know whether utility P/E ratios will change?

A. No. Consistent with the assumptions of the constant-growth DCF, I accept that markets are pricing utility stocks efficiently based on current market conditions and expectations.

[24] *Id.*, p. 26, l. 8 – p. 27, l. 2

Q. If Ms. Bulkley's opinion that investors expect utility stock prices to decline were correct, would the traditionally-applied constant-growth DCF analysis cause an overestimation of the COE?

A. Yes. Ms. Bulkley claims that utility stock prices will decline because long-term bond yields are expected to continue to increase. If Ms. Bulkley's opinion is correct, then investors buying utility stocks are factoring in a contraction in P/E ratios. Ms. Bulkley's constant-growth DCF does not consider this expected contraction.

Q. Is there a means to adjust the constant-growth DCF method to account for Ms. Bulkley's anticipated changes to utilities' P/E ratios?

A. Yes. The constant-growth model can be extended to include expected changes in the P/E ratio. This version of the constant-growth DCF is referred to as the "Grinold- Kroner" model.[25] It is expressed algebraically as:

$$k = D_1/P_0 + g + \Delta PE$$

Where:
k = the cost of equity;
D_1 = the expected next 12 months dividend;
P_0 = the current price of the stock;
g = the dividend growth rate; and
ΔPE = the per period change in the P/E multiple

Q. If Ms. Bulkley had used this derivative of the constant-growth DCF method to estimate the cost of common equity, how would this impact her cost of equity estimates?

A. They would be lower.

[25] 2010 CFA® Program Curriculum, Level III, Volume 3, p. 35.

DISCOUNTED CASH FLOW ASSUMPTIONS:

Q. Although Ms. Bulkley dismisses her DCF estimates for purposes of her recommended ROE, do you agree with her assumptions in her DCF analysis?

A. No. Ms. Bulkley argues that her constant-growth DCF results under-estimate the electric utility industry's COE because she predicts that electric utility industry stock prices will decline. As I testified before, I disagree that this causes her constant-growth DCF results to under-estimate the COE. However, even without an adjustment for changes in P/E ratios, her DCF analysis still overestimates the COE. Ms. Bulkley's DCF analysis assumes her proxy groups' dividends per share ("DPS") can grow in perpetuity at the same rate as equity analysts' consensus projected 5-year CAGR (compound-annual-growth-rate) in EPS. This is not how equity analysts determine fair prices to pay for utility stocks.

CAPM ASSUMPTIONS:

Q. Why are Ms. Bulkley's CAPM cost of equity 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 12.94% for the foreseeable future (perpetually based on her use of a constant-growth DCF to estimate S&P 500 returns). Subtracting long-term risk-free rates from Ms. Bulkley's estimated market return results in her equity risk premium estimates of 9.14% to 9.76%.[26]

Q. Why are Ms. Bulkley's equity risk premium estimates so high?

A. Because she assumes that the S&P 500 can grow its earnings at a compound annual rate of 11.02% in perpetuity.

[26] Bulkley Direct, p. 49, line 19 – p. 50, line 3.

Q. Are you aware of any authoritative sources, academic or actual investors, 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 for purposes of determining the expected return for a broad index, such as the S&P 500.

Q. Of what academic support are you aware?

A. The 2010 curriculum for Level III of the Chartered Financial Analyst ("CFA") Program discusses how analysts often use 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 formula for estimating the constant growth rate with an explanation that follows:

> 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.[27]

Combining Ms. Bulkley's S&P 500 dividend yield of 1.83% and projected growth in U.S. nominal GDP of approximately 4.0%, implies a much lower expected long-term return for the S&P 500.

[27] 2010 CFA® Program Curriculum, Level III, Volume 3, p. 34.

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

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 September 30, 2022, it was around 1.49x.

Q. What would this ratio be in 50 years if the market grew at the 11.02% compound annual growth rate Ms. Bulkley suggests is appropriate?

A. The Wilshire 5000 index would be approximately 39x times the GDP level. Based on the market capitalization of the Wilshire 5000 of approximately $38.35 trillion as of September 30, 2022, the Wilshire 5000 would have a market capitalization of $7.17 quadrillion in 50 years. U.S. GDP was $25.72 trillion as of the same date. Based on a 4.0% long-term growth rate for the U.S. economy, GDP would be approximately $182.81 trillion in 50 years. It is not rational to assume corporate wealth will become much larger than the economy in which it operates, let alone 39x the size of the economy. This 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 ECAPM results higher than her standard CAPM results?

A. The results are higher because Ms. Bulkley's ECAPM gives 25% weight to the unadjusted market risk premium and 75% weight to the utility beta adjusted market risk premium. Being that Ms. Bulkley's utility betas at least reduce her high equity risk premium estimates by 25%, because her ECAPM allows for a 25% weighting to an unadjusted risk premium, this amplifies the bias inherent in Mr. Bulkley's high risk premiums.

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 provide an example?

A. Yes. Ms. Bulkley assumes a market risk premium of approximately 9.14% to 9.76% compared to more rational estimates used by investors of approximately 6%. If Ms. Bulkley had used a more reasonable market risk premium of 6%, her ECAPM would have only been approximately 20 basis points higher than her standard CAPM. Because Ms. Bulkley uses extremely high market risk premiums, and these market risk premiums received more weight in her ECAPM, this causes her ECAPM results to be approximately 32 basis points higher than her standard CAPM.

<u>BOND YIELD PLUS RISK PREMIUM ANALYSIS</u>

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 declined as much as interest rates, an adjustment needs to be made to recognize that regulators have been hesitant to reduce allowed ROEs as much as lower interest rates would suggest. This approach does not allow sufficient compression of allowed ROEs versus the utility industry's COE. It only serves to maintain the current wide spread between the utility industry's COEs and allowed ROEs.

CONSIDERATION FOR SPECIFIC BUSINESS AND REGULATORY RISK

Q. What is your response to Ms. Bulkley's discussion related to her views on Ameren Missouri's specific business and regulatory risks?

A. Ms. Bulkley essentially argues that because Ameren Corp will be investing more in Ameren Missouri over the next few years, customers have to pay a higher ROR because of higher risk. As I discussed and has been recognized by equity investors, since 2018 when Missouri passed the legislation that allows PISA, Ameren Corp has been generally viewed as a "premium" utility, which means that investors believe Ameren Corp's P/E ratio should be higher than the average for the electric utility industry. Ameren Corp's prospects have improved further since 2018 with Missouri passing legislation to extend the period for Ameren Missouri to be allowed to use PISA without needing Commission approval to 2028, and the potential to continue to use PISA with Commission authority through 2033. Additionally, Ameren Corp's transmission investment prospects have also added to it potential investment pipeline, and Illinois passed legislation that allows Ameren Illinois to request multi-year rate plans for its electric utility operations.

The magnitude of the scale of investment Ameren Corp plans to make in the Ameren Missouri system will create a tremendous amount of value for Ameren Corp's shareholders. As the scale of investment increases, the higher the allowed ROR over the cost of capital, the higher the net present value created for shareholders. If the authorized ROR is set higher than the cost of capital, then the investment creates additional value for its shareholders, but this is at the expense of ratepayers. This is the economic rationale for attempting to set utility companies' ROR as close to the cost of capital as possible, because otherwise the scales are tilted in favor of inefficient investing for the sake of building shareholder value.

SEOUNG JOUN WON'S RECOMMENDED ROE:

Q. How does Dr. Won approach his recommended allowed ROE in this case?

A. Dr. Won uses the Commission's authorized ROE of 9.25% for The Empire District Electric Company in its 2019 electric rate case[28] as his starting point for determining whether he believes capital market conditions justify authorizing Ameren Missouri a different ROE. Dr. Won relies primarily on implied DCF COE estimates from the period of Empire's 2019 rate case (fourth quarter of 2019) to implied DCF COE estimates during the third quarter of 2022 in order to conclude that the COE has increased by 34 basis points since the Commission made its decision in the 2019 rate case. This forms the basis for Dr. Won's point estimate recommended ROE of 9.59%. Dr. Won then decided to allow for a range of +/- 25 basis points around his point estimate to recommend a range of 9.34% to 9.84%.

Q. Do you agree that it is appropriate to consider the Commission's 9.25% allowed ROE in the recent Empire rate case for determining a fair and reasonable for ROE for Ameren Missouri?

A. Yes.

Q. Do you agree that capital market conditions justify an allowed ROE of up to 9.84%?

A. No. Considering the Commission authorized Ameren Missouri a 9.53% ROE in its 2014 rate case, Case No. ER-2014-0258, it is not logical to consider an ROE any higher than this level. In recent years, equity capital market conditions for the electric utility industry have consistently been more favorable than they were in 2015. Additionally, despite Ms. Bulkley's attempt to characterize Missouri's legislative and regulatory environment as riskier than other electric utility companies, it is indisputable that Ameren Missouri's business risks have declined since 2014, mainly due to its ability to elect PISA, but also now the ability to pursue securitization for the early retirement of coal generating facilities. Otherwise, Ameren Missouri would not be deploying massive amounts of capital in its Ameren Missouri system. Ameren Corp's projected rate base growth for Ameren Missouri

[28] Case No. ER-2019-0374, Report and Order, July 1, 2020.

is 6.5% for the period 2021 through 2026.[29] As it relates to the Commission's assessment of Ameren Missouri's business risk, it simply needs to observe investment decisions and capital market activity, rather than be influenced by subjective assessments by ROR witnesses.

SUMMARY AND CONCLUSIONS

Q. Would you summarize your main points in response to the direct testimonies of Ameren Missouri's and Staff's rate-of-return witnesses?

A. Yes. Staff and the Company recommend the Commission authorize Ameren Missouri a ROR based on Ameren Missouri's capital structure balances. As I have demonstrated, Ameren Missouri's common equity ratio has been managed to approximately 52% over the past decade. 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 capital costs their rates support, Ameren Corp is retaining the cost of capital savings for shareholders by issuing holding company debt. The Commission needs to correct this misappropriation of debt capacity by authorizing a lower common equity ratio for purposes of setting Ameren Missouri's ROR.

Additionally, it simply makes no sense to authorize a ROE at a level consistent with that which the Commission determined reasonable over seven years ago when utility stock valuation levels were lower. However, Ms. Bulkley urges the Commission to set the authorized ROE based on her prediction that utility valuations levels will decline. Staff views the current cost of capital for utility companies as being slightly higher than when the Commission decided a 9.25% ROE for Empire was appropriate. However, Staff's assessment does not consider the longer-term trend since the Commission deemed 9.5% ROEs as being reasonable starting in 2015. Even with recent long-term interest rates increases, utility stocks have maintained higher valuation levels than in 2015. These

[29] "Transforming For Our Future," Evercore ISI Utility Conference, January 12, 2023, p. 11

conditions support a lower authorized ROE than the 9.5% the Commission authorized in 2015.

I reaffirm my recommendation in my direct testimony[30] for the Commission to order Ameren Missouri to apply a short-term debt rate to all CWIP balances. Ameren Corp has been issuing large amounts of short-term debt at the holding company level. This strategy disrupts the standard allowance for funds used during construction ("AFUDC") formulas which by its very nature, supports the logic that short-term debt would almost always be used as a bridge to fund CWIP (100% weighting applied to short-term debt before allowing long-term capital costs).

Q. Does this conclude your testimony?

A. Yes.

[30] Murray Direct, p. 50, lines 12-18.

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	)	Case No. ER-2022-0337
Its Revenues for Electric Service	)	

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 15th day of February 2023.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI
TIFFANY HILDEBRAND
My Commission Expires
August 8, 2023
Cole County
Commission #15637121

Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2023.