Exhibit No.:	
Issue:	*Rate of Return*
Witness:	*David Murray*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Rebuttal Testimony*
Case No.:	*ER-2016-0179*
Date Testimony Prepared:	*January 20, 2017*

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

OPERATIONAL ANALYSIS DEPARTMENT

FINANCIAL ANALYSIS UNIT

REBUTTAL TESTIMONY

OF

DAVID MURRAY

UNION ELECTRIC COMPANY,
d/b/a Ameren Missouri

CASE NO. ER-2016-0179

Jefferson City, Missouri
January 2017

*** Denotes Proprietary Information ***

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REBUTTAL TESTIMONY

OF

DAVID MURRAY

UNION ELECTRIC COMPANY,
d/b/a Ameren Missouri

CASE NO. ER-2016-0179

Q. Please state your name.

A. My name is David Murray.

Q. Are you the same David Murray who prepared the Capital Structure subsection of the Rate of Return Section of the Staff's Cost of Service Report ("Staff Report")?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the direct testimony of Ryan J. Martin. Mr. Martin sponsored capital structure testimony on behalf of Ameren Missouri.

Q. What capital structure did Mr. Martin recommend for purposes of setting Ameren Missouri's allowed rate of return?

A. Mr. Martin recommends the use of Ameren Missouri's expected actual capital structure as of December 31, 2016. Mr. Martin indicates the expected equity ratio is approximately 51.80% as of December 31, 2016, which is slightly lower than the 52.00% equity ratio as of March 31, 2016, but almost exactly the same as the 51.76% ratio as of December 31, 2014, which was the equity ratio approved by the Commission in the 2014 rate case.

Q. Why would Ameren Missouri's equity ratio be nearly identical to that which was approved by the Commission in the 2014 rate case?

A. Because Ameren Missouri is managing its capital structure for ratemaking purposes. In his direct testimony, Mr. Martin indicates that Ameren Missouri's common equity ratio is projected to be 51.80% because Ameren Missouri expects to retain approximately $133 million of common equity between the test year ending, March 31, 2016, and the true-up period ending, December 31, 2016. Consequently, for this nine-month period, assuming Ameren Missouri's 2016 fourth quarter earnings are similar to its 2015 fourth quarter earnings of approximately $11 million, Ameren Missouri would need to pay a dividend of approximately $377 million for all of 2016. This compares to $575 million of dividends paid in 2015, $340 million paid in 2014, and $460 million in 2013.

Q. How do Ameren Missouri's dividend payments compare to the net income it generated over these same periods?

A. Dividend payments have usually been well over 100% of the net income earned. In 2015, Ameren Missouri's Statement of Cash Flows indicated it paid Ameren $575 million in dividends even though it generated net income of $355 million. This amounts to a dividend payout ratio of approximately 162% in 2015.

Q. What amount of dividends did Ameren pay to its shareholders in 2015?

A. $402 million.

Q. Do you know if the entire $575 million of dividends Ameren Missouri paid to Ameren was available for distribution to Ameren's shareholders?

A. No. In response to Staff Data Request No. 0407, Ameren Missouri indicated that approximately * * of the distribution to Ameren was for purposes of a tax allocation agreement.

Q. Is it possible to determine from Ameren's publicly-reported financial statements that this amount was for purposes of the tax allocation agreement?

A. No.

Q. If Ameren did not have the entire amount of the dividend it received from Ameren Missouri available to it to fund the $402 million of dividends distributed to Ameren's shareholders, how would Ameren have been able to finance the shortfall?

A. I presume they would have had to issue short-term debt because neither Ameren Illinois nor ATXI paid any dividends to Ameren in 2015. However, it is not possible to discern the specific source from Ameren's financial statements.

Q. Because Ameren is not managing any of its subsidiaries' dividend payout ratios as if they were stand-alone subsidiaries, does this support the use of Ameren's consolidated capital structure to set Ameren Missouri's rate or return?

A. Yes, this illustrates the extent of the commingling of funds of Ameren and its companies, which supports the use of a consolidated capital structure.

Q. What amount of dividends has Ameren Missouri distributed to Ameren for the first three quarters of 2016?

A. $285 million.

Q. How much did Ameren pay to its shareholders for the first three quarters of 2016?

A. $309 million.

Q. How did Ameren fund the additional $24 million of dividends paid to its shareholders?

A. Ameren Illinois distributed $95 million of dividends to Ameren. Therefore, Ameren received $370 million of dividends from its subsidiaries, which was more than sufficient to cover the dividend paid to its shareholders.

Q. What did Ameren do with the extra $61 million of dividends it received from its subsidiaries?

A. I don't know. Again, this further supports the use of a consolidated capital structure because the amount of dividends paid by Ameren's subsidiaries are not a function of funds needed for distribution to Ameren shareholders, but simply an internal allocation of capital, which is controlled by Ameren's management.

Q. If Ameren Missouri were a true stand-alone entity, could its capital structure support even more leverage than that of its parent company, Ameren, which is the basis for your recommended ratemaking capital structure in this case?

A. Yes. Ameren Missouri has very strong financial metrics that are a direct result of its operations generating a significant amount of cash flow. This cash flow supports Ameren's ability to issue significant amounts of debt at the Ameren holding company level for purposes of investing in its transmission projects held by ATXI.

Q. What ratings level do Ameren Missouri's credit metrics support?

A. According to S&P Capital IQ, Ameren Missouri has consistently had a Funds from Operations to Debt ratio ("FFO/Debt") of approximately 26% over the most recent three years. Its Debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("Debt/EBITDA") has been approximately 3x over the most recent three years.

Its FFO/Interest coverage ratio has been approximately 6x in the last few years.[1] All of these ratios are consistent with an 'A+' to 'A' credit rating, yet Ameren Missouri is assigned a 'BBB+' credit rating due to its affiliation with Ameren and the additional leverage employed by Ameren as it relates to its consolidated cash flows.[2]

Q. How have Ameren's credit metrics compared to Ameren Missouri's credit metrics over the last three years?

A. Ameren's FFO/debt ratio, Debt/EBITDA ratio and FFO/Interest coverage ratios have been approximately 23%, 3.6x, and 6x, respectively. Ameren's consolidated financial ratios are more consistent with S&P's "Significant" financial risk profile ("FRP") as compared to Ameren Missouri's lower FRP of "Intermediate."[3]

Q. How much additional debt could Ameren Missouri's capital structure contain and still be within the benchmark credit metrics consistent with Ameren's FRP?

A. Ameren Missouri's business risk profile could support its current credit rating if its capital structure had an amount of debt consistent with an FFO/debt range of 20% to 23% for 2016 and 2017 based on S&P's projections shown in its December 6, 2016 report on Ameren.[4] If Ameren Missouri targeted this FFO/debt ratio, and Ameren Missouri's operations continue to generate FFO of approximately $1.1 billion, then Ameren Missouri could carry an approximate additional $1 billion of debt and still meet the benchmarks consistent with its current credit rating.

Q. If Ameren Missouri issued this much additional debt, how much leverage would its operations be able to support at its current FFO of approximately $1 billion?

[1] S&P Global Ratings, Union Electric Company, CreditStats Direct, Select Stats and Ratios.
[2] S&P Global Ratings, General: Corporate Methodology, November 19, 2013, Paragraph 123, Table 18.
[3] S&P Global Ratings, Ameren Corporation, CreditStats Direct, Select Stats and Ratios.
[4] S&P Global Ratings, Ameren Corporation, December 6, 2016

A. At Ameren Missouri's current FFO of approximately $1 billion, its capital structure could support a debt ratio of around 60%, meaning its equity ratio would only need to be around 40% to meet the benchmark FFO/debt ratios consistent with a 'BBB+' credit rating.

Q. How would this levered of a capital structure affect Ameren Missouri's revenue requirement in this case?

A. In order to provide this estimate, Staff made the simplifying assumption that the embedded cost of debt would remain the same. The pre-tax rate of return using this capital structure would cause Ameren Missouri's annual revenue requirement to be approximately $83 million lower as compared to using the actual capital structure (*see* Schedules DM-r1 through DM-r5).

Q. Would this reduce Ameren Missouri's FFO?

A. Yes. Because this would lower Ameren Missouri's FFO, this would require a corresponding reduction in the amount of additional debt capacity. The main point of Staff's analysis is to show the Commission the extent that Ameren Missouri's current FFO is helping Ameren's credit metrics. Because of the significant amount of attention that is given to the qualitative issues concerning Missouri's regulatory environment, it is important to consider the quantitative aspect of the significant cash flow support Ameren Missouri provides to Ameren and its other investments.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

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 Increase Its Revenues for Electric Service	))))	Case No. ER-2016-0179

AFFIDAVIT OF DAVID MURRAY

STATE OF MISSOURI COUNTY OF COLE	)))	ss.

COMES NOW DAVID MURRAY and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Rebuttal Testimony; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

David Murray

DAVID MURRAY

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 18th day of January, 2017.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2020
Commission Number: 12412070

D Suzie Mankin

Notary Public

Union Electric Company d/b/a Ameren Missouri
Case No. ER-2016-0179

Hypothetical Capital Structure as of March 31, 2016
Assuming Additional Debt Capacity Realized Based on
Benchmark FFO/Debt Percentage of 21.5%

Capital Component		Dollar Amount	Percentage of Capital
Common Stock Equity	$	2,875,406,203	38.58%
Preferred Stock	$	81,827,509	1.10%
Long-Term Debt	$	4,495,023,533	60.32%
Short-Term Debt	$	-	0.00%
Total Capitalization	**$**	**7,452,257,245**	**100.00%**

Source: Page 11 of Company Witness Ryan J. Martin's Direct Testimony.

Union Electric Company d/b/a Ameren Missouri
Case No. ER-2016-0179

Actual Capital Structure as of March 31, 2016

Capital Component		Dollar Amount	Percentage of Capital
Common Stock Equity	$	3,875,406,203	52.00%
Preferred Stock	$	81,827,509	1.10%
Long-Term Debt	$	3,495,023,533	46.90%
Short-Term Debt	$	-	0.00%
Total Capitalization	**$**	**7,452,257,245**	**100.00%**

Source: Page 11 of Company Witness Ryan J. Martin's Direct Testimony.

Union Electric Company d/b/a Ameren Missouri
Case No. ER-2016-0179

Hypothetical Capital Structure as of December 31, 2016
Assuming Additional Debt Capacity Realized Based on
Benchmark FFO/Debt Percentage of 21.5%

Capital Component	**Dollar Amount**	**Percentage of Capital**
Common Stock Equity	$ 3,008,376,639	38.88%
Preferred Stock	$ 81,827,509	1.06%
Long-Term Debt	$ 4,647,651,680	60.06%
Short-Term Debt	$ -	0.00%
Total Capitalization	**$ 7,737,855,828**	**100.00%**

Source: Page 11 of Company Witness Ryan J. Martin's Direct Testimony.

Union Electric Company d/b/a Ameren Missouri
Case No. ER-2016-0179

Rate of Return for Union Electric Company
based on Union Electric Company's Debt Capacity

Capital Component	Percentage of Capital	Cost	After-Tax ROR	Pre-Tax ROR
Common Stock Equity	38.58%	8.750%	3.38%	**5.43%**
Preferred Stock	1.10%	4.180%	0.05%	**0.07%**
Long-Term Debt	60.32%	5.450%	3.29%	**3.29%**
Total	**100.00%**		6.71%	**8.79%**

Staff Rate Base as of 3-31-2016	$7,144,966,449
Revenue Requirement	**$628,296,854**
Acutual Capital Structure Revenue Requirement	**$711,031,328**
Difference	**-$82,734,474**

Union Electric Company d/b/a Ameren Missouri
Case No. ER-2016-0179

Rate of Return for Union Electric Company
based on Union Electric Company's Debt Capacity

Capital Component	**Percentage of Capital**	**Cost**	**After-Tax ROR**	**Pre-Tax ROR**
Common Stock Equity	52.00%	8.750%	4.55%	**7.32%**
Preferred Stock	1.10%	4.180%	0.05%	**0.07%**
Long-Term Debt	46.90%	5.450%	2.56%	**2.56%**
Total	**100.00%**		7.15%	**9.95%**

Staff Rate Base as of 3-31-2016	$7,144,966,449
Revenue Requirement	**$711,031,328**

SCHEDULE DM-r5