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MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. ER-2022-0337

REBUTTAL TESTIMONY

OF

DARRYL SAGEL

ON

BEHALF OF

UNION ELECTRIC COMPANY

D/B/A AMEREN MISSOURI

St. Louis, Missouri
February, 2023

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REBUTTAL TESTIMONY

OF

DARRYL SAGEL

FILE NO. ER-2022-0337

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Darryl Sagel. My business address is One Ameren Plaza, 1901 Chouteau Ave., St. Louis, Missouri.

Q. Are you the same Darryl Sagel that submitted direct testimony in this case?

A. Yes, I am.

II. PURPOSE OF TESTIMONY

Q. To what testimony or issues are you responding?

A. I am responding to the direct testimony of David Murray on behalf of the Office of Public Counsel ("OPC") submitted in this proceeding as it relates to OPC's recommended capital structure for Ameren Missouri (the "Company").

Q. Are you sponsoring any schedules in connection with your testimony?

A. Yes, I am sponsoring, and have attached to my rebuttal testimony, the following schedules, which have been prepared under my direction:

- Schedule DTS-R1 – Ameren Corporation Stock Price Performance Versus Electric Utility Peers (May 31, 2018 – December 31, 2022)
- Schedule DTS-R2 – Ameren Corporation NTM P/E Multiples Versus Electric Utility Peers (May 31, 2018 – December 31, 2022)

- Schedule DTS-R3 – Authorized Common Equity Ratio – Electric Proxy Group Utility Operating Companies

III. SUMMARY RESPONSE TO OPC WITNESS DAVID MURRAY'S TESTIMONY RECOMMENDATION

Q. Mr. Murray states that "the most objective and practical measure of the capital structure that captures the debt capacity of Ameren Corp's regulated utility assets, is that of Ameren Corp. on a consolidated basis."[1] Do you agree with his position?

A. I strongly disagree with Mr. Murray's position. Ameren Missouri's actual capital structure is appropriate, objective and reasonable for purposes of setting rates in the proceeding for the following reasons, each of which I will specifically address later in my rebuttal testimony:

- Ameren Missouri's financial profile, including its capital structure, is independently evaluated, developed and managed over time in a manner that appropriately considers its stand-alone financial health and risk profile, while ensuring timely access to both equity and debt capital at reasonable costs.
- Ameren Missouri's capital structure specifically and exclusively finances Ameren Missouri's rate base, with parent company common equity infusions sourced from actual third-party common equity raised by Ameren Corporation, and long-term debt issued by Ameren Missouri and secured by Ameren Missouri assets.

[1] File No. ER-2022-0337, Direct Testimony of David Murray, p. 48 l. 26 and p. 49 ll. 1-2.

- Despite Ameren Corporation having employed more parent company debt over the past several years to fund its business activities, this has been balanced by significant equity issuance to maintain consolidated capitalization ratios and credit strength. Specifically, Ameren Corporation's capital allocation strategy and its funding approach across each of its regulated utility businesses have assisted in maintaining Ameren Corporation's consolidated credit profile and, perhaps more pertinent to this proceeding, have not resulted in any negative impact on Ameren Missouri's stand-alone credit profile.
- Recent improvements in Missouri's regulatory framework, specifically the election of partial plant-in-service accounting ("PISA") in 2018, have had no demonstrable positive impact on the Company's credit ratings, its credit profile or its access to, and cost of, debt and equity capital.
- Ameren Missouri's common equity ratio for ratemaking purposes of **_____** as of December 31, 2022, is consistent with common equity ratios maintained by its utility peers and consistent with the Company's actual common equity ratios over the past several years.
- Ameren Missouri's capital structure supports strong and stable investment grade credit ratings, allowing the Company to access debt capital at a competitive cost through various market cycles, to the benefit of Ameren Missouri customers. The arbitrary use of Ameren Corporation's capital structure would weaken the Company's credit profile, including cash flows and key credit metrics, thereby increasing the likelihood of Ameren

Missouri suffering a ratings downgrade and experiencing the impact of stock price pressure on Ameren Corporation's shares, both of which would increase the Company's cost of capital and potentially result in higher customer rates.

Q. What rationale does Mr. Murray provide for disregarding Ameren Missouri's actual capital structure?

A. Mr. Murray justifies his proposed capital structure that consists of approximately 43% common equity as the capital structure that "… best represents the amount of debt capacity Ameren Corp. considers reasonable and appropriate for its regulated utility assets, including Ameren Missouri."[2] To the contrary, Ameren Corporation's consolidated capital structure, net of short-term debt, is not reasonable or appropriate for the regulated utilities owned by Ameren Corporation, including Ameren Missouri. Each of the capital structures of Ameren Corporation and its regulated subsidiaries, including the Company, are managed independently in a manner that supports an appropriate balance between financial stability and customer affordability and considers discrete business, operational, regulatory and financial issues specific to the legal entity. My direct testimony in this proceeding, as well as the rebuttal testimony herein, explicitly support the use of Ameren Missouri's actual capital structure for the purpose of establishing rates in this proceeding.

In addition, Mr. Murray seems to conveniently ignore the risk that utilizing Ameren Corporation's capital structure, which contains lower equity content than Ameren Missouri's actual capital structure, could actually result in an increase to the Company's cost of capital and by consequence, its customer rates. I discuss this concept later in my testimony.

[2] File No. ER-2022-0337, Direct Testimony of David Murray, p. 39, ll. 20-22,

IV. AMEREN MISSOURI'S CAPITAL STRUCTURE IS INDEPENDENTLY MANAGED AND EXCLUSIVELY FINANCES AMEREN MISSOURI RATE BASE

Q. Mr. Murray suggests that Ameren Corporation is "… managing its regulated utility subsidiary capital structures primarily for purposes of ratemaking."[3] How do you respond?

A. I struggle to understand what Mr. Murray means or insinuates by suggesting that Ameren Corporation manages the capital structure of Ameren Missouri "for the purposes of ratemaking." Perhaps he is implying that the Company's capital structure is controlled exclusively for the benefit of Ameren Corporation shareholders, which could not be further from the truth. To respond to this assertion, however, I will reiterate that Ameren Missouri's capital structure is independently evaluated, developed and managed over time in a manner that appropriately considers its stand-alone financial health and risk profile, while ensuring timely access to both equity and debt capital at reasonable costs. This independent management supports the continued use of Ameren Missouri's actual capital structure for the purpose of setting rates in this proceeding. Contrary to Mr. Murray's assertion, Ameren Corporation's and Ameren Missouri's financing decisions and objectives do not "… primarily concentrate on the amount of leverage Ameren Corp. can carry on a consolidated basis."[4] Because Ameren Corporation does not expressly dictate Ameren Missouri's capital structure, but rather works mutually with Ameren Missouri to identify objective considerations for establishing a prudent capital structure (as discussed below), there is no conflict of interest between Ameren Corporation and Ameren Missouri, as Mr. Murray insinuates.

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[3] File No. ER-2022-0337, Direct Testimony of David Murray, p. 39, Lines 26-27.
[4] *Id.* at p. 51, ll. 9-10.

Mr. Murray points to the fact that Ameren Missouri's capital structure having remained in close proximity to its authorized ratemaking capital structures over time (e.g., "Ameren Missouri's common equity ratios for rate cases since 2010 have been in the range of 51.26% to 52.30%...")[5] as evidence that Ameren Corporation is managing the Company's capital structure for the benefit of Ameren Corporation shareholders. Such historical balance sheet performance reflects prudent capital management, taking into consideration appropriate financial, operational and regulatory factors.

Q. How does Ameren Missouri independently manage its capital structure?

A. The Company's capital structure is independently managed through an approach that supports maintaining the Company's financial strength and integrity at a reasonable cost to its customers. Ameren Missouri finances itself through its own public issuances, maintains its own credit ratings and produces separate filings for the Securities and Exchange Commission ("SEC"). Evaluation and management of a suitable Ameren Missouri capital structure over time involves sensible consideration of Ameren Missouri-specific business and financial risk, including key rating agency-defined credit metrics required to support its strong and stable investment grade credit ratings. Despite Ameren Corporation's owning and financing other regulated businesses not directly related to Ameren Missouri, Ameren Missouri's capital structure is specifically managed over time to ensure continued financial strength, as well as to maintain a credit profile that provides the Company timely access to required capital to fund Ameren Missouri operations and to support its obligation to provide safe and adequate service to all customers in its service territory, at a competitive cost for the benefit of Ameren Missouri customers.

[5] File No. ER-2022-0337, Direct Testimony of David Murray, p. 46, ll. 23-25.

Mr. Murray states that Ameren Corporation's "… subsidiaries do not have the capability to manage their own capital needs"[6] as they rely in part on Ameren Services Company, which provides various corporate support services to Ameren's subsidiaries related to certain accounting, financial, treasury and legal services. This structure was put in place to take advantage of economies of scale available through centralized functions – with such efficiencies passed on to Ameren Missouri and other subsidiaries' customers in the form of lower costs that in turn result in lower rates. Just because Ameren Corporation has established a support services organization does not mean that Ameren Missouri and other subsidiaries lack discrete financial capabilities or independence.

From a governance standpoint, Ameren Missouri has in place a separate Board of Directors currently comprised of five individuals, two of whom are officers of Ameren Missouri and three of whom are officers of Ameren Corporation. The Board of Directors of Ameren Missouri meets at least quarterly and exerts oversight of key regulatory, legal, managerial, and financial matters. As part of its responsibilities for financial oversight and fiscal discipline, the Board of Directors of Ameren Missouri approves the Company's capital budget and financings, as well as all cash distributions (i.e., dividends) from Ameren Missouri to Ameren Corporation. Through the exercise of the subsidiary Board's fiduciary duties, the Company exerts significant independent control of its capital structure.

Q. Why is the actual capital financing Ameren Missouri's rate base relevant?

A. Ameren Missouri's actual capital structure is relevant and appropriate for ratemaking purposes because it is the *only* capital that is financing Ameren Missouri's

[6] File No. ER-2022-0337, Direct Testimony of David Murray, p. 48, l.2.

jurisdictional rate base to which the overall rate of return set in this proceeding will be applied. In contrast, the hypothetical capital structure proposed by Mr. Murray contains capital that does not finance Ameren Missouri's jurisdictional rate base and is not available for investment in Ameren Missouri by Ameren Corporation. Thus, Ameren Missouri should be evaluated as a stand-alone entity, including with regard to its capital structure. To do otherwise violates the basic financial principle that the use of funds invested gives rise to the risk of the investment. It is fundamental that individual investors expect a return commensurate with the risk associated with where their capital is invested. In this proceeding, that capital is both provided by and invested in Ameren Missouri. Therefore, Ameren Missouri must be viewed on its own merits, including the actual capital structure financing its rate base.

Q. Can you specifically identify the sources of Ameren Missouri's independently-managed capital?

A. Ameren Missouri's capital structure represents the actual dollars that are financing the jurisdictional rate base to which the rate of return authorized in this proceeding will be applied. In contrast, the hypothetical capital structure proposed by Mr. Murray contains capital that does not finance Ameren Missouri's jurisdictional rate base. Ameren Missouri's entire long-term debt balance consists of long-term debt marketed and issued by Ameren Missouri to third-party investors. Ameren Missouri's long-term debt is secured exclusively by its own assets and not the assets of Ameren Corporation or the other Ameren Corporation utility subsidiaries, Ameren Illinois and Ameren Transmission Company of Illinois ("ATXI"). In addition, Ameren Missouri's assets do not guarantee Ameren Corporation's, Ameren Illinois', or ATXI's long-term debt. Moreover, whenever

Ameren Missouri seeks to raise long-term external capital, it must navigate a defined process to achieve financing authority from the Commission, whereby the Company must demonstrate that such financing is being utilized to fund long-term assets and the regulated operations of the business.

Similarly, Ameren Missouri's entire preferred stock balance consists of preferred stock marketed and issued by Ameren Missouri to third-party investors. Ameren Missouri's common equity balance consists of common equity contributions from Ameren Corporation and retained Ameren Missouri earnings. The common equity invested over time by Ameren Corporation into Ameren Missouri has been specifically financed with common equity raised by Ameren Corporation from third-party investors. For example, in August 2019, Ameren Corporation issued 7.5 million common shares under a forward sale agreement. Upon settlement of the shares sold forward, which occurred at two distinct times in December 2020 and February 2021, Ameren Corporation received net proceeds of $538 million. That amount was entirely and immediately contributed to Ameren Missouri and Ameren Missouri, in turn, used it to finance a portion of the Company's 700 mega-watt ("MW") wind generation investment.

Furthermore, all of Ameren Missouri's capital supports Ameren Missouri's rate base, and no portion of the Company's rate base is supported by capital outside of Ameren Missouri. Mr. Murray suggests that "… there is no way to trace the capital once Ameren Corp. receives it and redeploys it as it deems consistent with its organizational objectives..."[7] That statement is false, because the capital that Ameren Missouri receives

[7] ER-2022-0337, Direct Testimony of David Murray, p. 45, ll.3-4.

from Ameren Corporation is quite easily traceable as it is sourced exclusively from common equity raised by Ameren Corporation from third-party investors.

Q. Are any of Ameren Missouri's assets pledged to support obligations of Ameren Corporation or any of Ameren Corporation's other subsidiaries, or does Ameren Missouri rely on Ameren Corporation to support any Ameren Missouri long-term debt obligations?

A. As discussed above, Ameren Missouri's assets are not used in any way to provide support for, or guarantee obligations of, Ameren Corporation, Ameren Illinois or ATXI, and Ameren Missouri does not rely upon any balance sheet support of Ameren Corporation to satisfy its debt obligations.

Q. Mr. Murray calls into question Ameren Missouri's capital structure having remained relatively constant in recent years. Does the fact that Ameren Missouri has maintained a capital structure with approximately 52% common equity over the last several years, and in this proceeding has filed to preserve this common equity ratio, provide evidence that Ameren Corporation is managing Ameren Missouri's capital structure for the benefit of Ameren Corporation's shareholders?

A. No. It only evidences the fact that Ameren Missouri believes that the approximately 52% common equity ratio has been, and continues to be, the appropriate amount of equity content to preserve its healthy financial profile while ensuring timely access to both equity and debt capital at reasonable costs.

Q. Mr. Murray suggests that Ameren Missouri's lack of a dividend policy, similar to Ameren Corporation's targeted dividend payout ratio, supports the fact that Ameren Missouri's capital structure is not managed independently. How do you respond?

A. Ameren Missouri's failure to individually adhere to Ameren Corporation's published dividend policy over time further evidences Ameren Missouri's independent financial management. As previously indicated, Ameren Missouri's Board of Directors exercises discretion over the amount of dividends paid to Ameren Corporation over time, considering, among other factors, its own capital reinvestment needs and maintaining a prudent capital structure. Prior to 2020, Ameren Missouri distributed a significant portion of its earnings to Ameren Corporation, which Ameren Corporation used in large part to support its dividend payments to common shareholders. However, subsequent to the passage of Senate Bill 564 ("SB 564") in 2018 and the related implementation of PISA, Ameren Missouri significantly increased its annual capital deployment to support its Smart Energy Plan (with investments to effectuate a modernized energy grid that will be more reliable, resilient and secure, to the benefit of Missouri families and businesses) and its energy transition investments. With the accelerated capital spending, the Company's cash flow position changed meaningfully, and Ameren Missouri determined, in consideration of its distribution policy (a responsibility of the Ameren Missouri Board of Directors) that it would be financially imprudent and detrimental to the Company's financial position to continue to distribute a material portion of its earnings to Ameren Corporation. In fact, in 2020 and 2021, Ameren Missouri did not dividend any funds to Ameren Corporation. Rather, during those two years, the Company received net over $600 million of capital infusions from Ameren Corporation to support its capital investment program and the acquisition of wind generation, sourced exclusively from common equity capital Ameren Corporation issued in 2020 and 2021. Because Ameren Missouri ceased to provide material dividends to Ameren Corporation during 2020-2022, Ameren Corporation had to lean more on parent company debt issuance to support its common dividend requirements and fund parent company debt service. The result of this phenomenon, as I will cover later in my testimony, was the incursion of slightly higher Ameren Corporation leverage levels in recent years. The very fact that Ameren Missouri has taken actions to alter its dividend policy in recent years in order to address the changing cash needs of the Company (though, to the detriment of Ameren Corporation's cash position), is persuasive evidence of Ameren Missouri's financial independence. Specifically, Ameren Missouri's independent financial oversight has allowed the Company to manage its capital structure in a responsible and prudent manner even as its cash flow position has profoundly changed.

V. AMEREN CORPORATION'S CAPITAL STRUCTURE IS INDEPENDENTLY MANAGED AND HAS NOT NEGATIVELY IMPACTED AMEREN MISSOURI'S FINANCIAL AND CREDIT POSITION

Q. Why does Ameren Missouri's capital structure contain a higher equity ratio than Ameren Corporation's capital structure?

A. As noted previously in my testimony, Ameren Missouri's capital structure is independently managed, based on consideration of Ameren Missouri-specific business and financial risks, with the objective to maintain Company financial health and integrity at a reasonable cost of capital. In addition to Ameren Missouri, Ameren Corporation also owns and operates other regulated businesses, principally Ameren Illinois and ATXI. Therefore, Ameren

Corporation's consolidated capital structure is meaningfully influenced by the respective capital structures of each of Ameren Corporation's regulated subsidiaries and their respective funding approaches. Like Ameren Missouri's capital structure, the capital structure of Ameren Corporation is managed independently based on the relevant business and financial risks applicable to the consolidated enterprise, while also supporting the earnings per share ("EPS") growth and total return objectives of Ameren Corporation's common shareholders. In the case of Ameren Corporation's capital structure, specific consideration is given to common shareholder dividend requirements, anticipated cash distributions from operating subsidiaries, holding company debt obligations, and financial support of Ameren Illinois' and ATXI's capital investment programs, while maintaining targeted credit ratings and strong stock price performance that support access to debt and equity capital on attractive terms.

Q. Mr. Murray also suggests that the capital structures of Ameren's other subsidiaries, Ameren Illinois and ATXI, are managed for ratemaking purposes. How do you respond?

A. Though the capital structures of ATXI and Ameren Illinois are not subject to this Commission's jurisdiction, nor are ATXI's and Ameren Illinois' management of their respective capital structures a matter for this Commission's scrutiny, I feel compelled to correct Mr. Murray's erroneous assertions. Similar to Ameren Missouri and Ameren Corporation, both ATXI's and Ameren Illinois' capital structures are managed independently based on consideration of their respective business and financial risks and objectives, while considering distinct regulatory motivations (e.g., the Federal Energy Regulatory Commission ("FERC") has historically attempted to incent new transmission investment, supporting renewable energy development and regional electricity grid reliability, through authorization of returns and equity ratios that are relatively higher than state-regulated utility assets). And, importantly, in managing their capital structures, both ATXI and Ameren Illinois support an appropriate balance between financial stability and customer affordability while considering discrete business, operational, regulatory and financial issues specific to the legal entity.

Mr. Murray references some of the history in Illinois regarding the regulation of capital structure in recent electric and gas rate proceedings, and in certain respects, his description does not exactly align with reality. But, more importantly, Mr. Murray ignores a couple of key considerations.

First, Mr. Murray does not account for some of the salient differences in business activities and business risks between Ameren Missouri and Ameren Illinois – namely that Ameren Missouri operates a fully integrated electric utility business, including ownership of coal-fired and nuclear generation, while Ameren Illinois is principally involved in energy delivery activities. Energy delivery activities are viewed by the broad financial community (rating agencies and investors), as well as by Ameren management, as being less risky in nature than generation activities (particularly coal and nuclear, but also generation in general), which, all else being equal, supports a higher level of financial leverage. For instance, in Moody's Investors Service ("Moody's") most recent (October 19, 2022) credit opinion of Ameren Corporation, the rating agency states:

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Second, while the passage of the Future Energy Jobs Act ("FEJA") in 2016 codified a prior agreement with the Illinois Commerce Commission ("ICC") Staff and the Illinois

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Industrial Energy Consumers stipulating that an equity ratio up to and including 50% is deemed reasonable for ratemaking purposes, Ameren Illinois has not been precluded from filing for capital structures that apply an equity ratio greater than 50% if Ameren Illinois were able to justify such a capital structure. Thus, in order to preserve that important balance between financial stability and customer affordability, Ameren Illinois has some flexibility to manage its capital structure with equity content above 50%, a capability that Ameren Illinois has taken advantage of recently, as discussed next. And, third, Ameren Illinois recently has received authorization to increase its equity ratio above that 50% threshold level in both its gas and electric operations. For instance, as part of Ameren Illinois's most recent natural gas rate proceeding (Docket 20-0308), the ICC authorized a 52.0% equity ratio, an increase from the previously-authorized 50.0% (Docket 18-0463). In its order in Docket 20-0308, the ICC "agree[d] with Ameren Illinois that it needs a stronger capital structure than the 50% that was approved in the Company's last gas rate case. The ICC note[d] that Ameren Illinois requires a strong capital structure to maintain its financial strength and credit ratings to adequately serve Illinois customers.".[8] Also, as Mr. Murray highlights in his direct testimony, the ICC also approved in the 2021 Formula Rate Update proceeding a common equity ratio for Ameren Illinois' electric distribution operations that is above the aforementioned 50% threshold level. Specifically, in Docket 21-0365, the ICC found "that the 51% common equity ratio proposed in the Partial Stipulation between Ameren Illinois and the ICC Staff is reasonable and should be approved".[9] However, in a subsequent proceeding, the 2022 Formula Rate Update (Docket 22-0297), the ICC decided to apply a 50% common equity ratio.

[8] Illinois Commerce Commission Order, Docket 20-0308, p. 129, January 13, 2021.
[9] Illinois Commerce Commission Order, Docket 21-0365, p. 61, December 13, 2021.

I would highlight one other important element that is consistent in the regulatory oversight of ATXI's and Ameren Illinois' capital structure – neither the FERC nor the ICC employ the use of Ameren Corporation's capital structure for ratemaking purposes.

VI. PASSAGE OF SENATE BILL 564 HAS NOT DIRECTLY IMPACTED THE COMPANY'S CREDIT RATINGS, ITS KEY RATING AGENCY CREDIT METRIC THESHOLDS, OR ITS RELATIVE COST OF CAPITAL

Q. Does Ameren Missouri's business risk position factor into the Company's independent management of its capital structure?

A. Ameren Missouri's overall business risk position does influence how the Company manages its capital structure. For example, the Company may support a change to its proposed capital structure to the extent any actual or perceived change in its business risk impacts the Company's financial position, its credit ratings and credit profile, and its cost of accessing debt and equity capital.

Q. Are there objective ways to determine whether a change in the Company's business risk has impacted the Company's financial position and credit profile?

A. Perhaps the most transparent way to determine whether a perceived change in the Company's business risk impacts its financial position and credit profile is to review how the rating agencies have reacted to the perceived change in business risk. Specifically, have the rating agencies: (1) changed their ratings of the Company; (2) changed their ratings outlook on the Company; or (3) changed the Company's downgrade thresholds of key credit metrics? As a secondary, and perhaps less determinate, measure, we can look at the performance of Ameren Corporation common stock over time as well as the change to the stock's price-to-earnings ("P/E") ratio, both relative to Ameren Corporation peers, to determine whether the equity investor universe has disproportionately rewarded Ameren Corporation, and by result, its cost of equity, for any perceived change in its business risk position.

Q. How are credit ratings determined?

A. The two primary credit rating agencies are Moody's and Standard & Poor's Ratings Services ("S&P"). In assessing a company's ability to meet its financial obligations, Moody's and S&P generally – but each to varying degrees – consider both qualitative factors affecting the company's business risk and quantitative factors affecting its financial risk.

Q. Why do credit ratings matter?

A. Credit ratings have a significant effect on a company's ability to attract debt capital, and in extreme cases, whether the company can access debt capital at all. Credit ratings also impact the pricing and contractual terms at which a company may issue debt securities. This affects the cost of capital and, in Ameren Missouri's case, the rates customers must pay for utility service. In general, stronger credit ratings typically enable a utility to obtain debt capital at a lower cost, to the benefit of customers.

Q. How does a company's credit metrics affect its credit ratings?

A. Certain financial metrics factor significantly into the credit rating agencies' evaluations of a company's credit profile and the rating agencies' assignment of credit ratings.

Q. What credit metrics do the rating agencies rely upon in assignment of credit ratings for regulated electric and gas utilities?

A. The rating agencies evaluate a number of financial credit metrics in order to determine a regulated utility's financial strength. However, the financial metric that receives the most weight by both of the rating agencies is a company's funds from operation ("FFO") to debt ratio.[10] The FFO to debt ratio measures a company's ability to pay its debts using its operating cash flow alone, with lower ratios signifying a weaker credit position. This metric is of particular significance because it is perhaps the most common cause of downgraded credit quality for regulated utilities.

Q. Does Ameren Missouri target credit ratings when it maintains its capital structure?

A. Yes. As previously discussed, access to sufficient capital is critical to Ameren Missouri's financial health and stability and, in turn, to the service its customers receive and the rates customers pay for that service. Therefore, in my opinion, Ameren Missouri's issuer credit ratings should be securely investment grade (at least two notches stronger than Moody's and S&P's weakest investment grade issuer credit rating) to continue to support the financial integrity of the utility and ensure its access to necessary capital at a reasonable cost and on reasonable terms in both strong and weak markets.

Q. What are Ameren Missouri's current issuer credit ratings?

A. Currently, Ameren Missouri's issuer credit ratings at Moody's and S&P are Baa1 and BBB+, respectively, each two notches stronger than Moody's and S&P's weakest investment grade issuer credit ratings. Both credit ratings agencies report stable outlooks for Ameren Missouri credit ratings.

[10] S&P specifically evaluates the FFO to debt ratio while Moody's evaluates a similar metric – cash flow from operations pre-working capital to debt ratio. For simplicity, I will refer to each as the FFO to debt ratio.

Q. What are Ameren Corporation's current issuer credit ratings?

A. Currently, Ameren Corporation's issuer credit ratings at Moody's and S&P are Baa1 and BBB+, respectively, the same issuer ratings as Ameren Missouri. Both credit ratings agencies report stable outlooks for Ameren Corporation's credit ratings.

Q. What are Ameren Missouri's and Ameren Corporation's current FFO to debt ratio downgrade thresholds at Moody's and S&P?

A. In its most recent September 29, 2022 credit opinion on Ameren Missouri, Moody's indicated that ** ______________________________ ** For Ameren Corporation, Moody's most recent October 19, 2022 credit opinion cited an FFO to debt ratio downgrade threshold of 17%. Due to its "family" approach to rating Ameren Corporation and its regulated utilities, including Ameren Missouri, S&P does not distinguish between the FFO to debt ratio downgrade thresholds at Ameren Missouri and Ameren Corporation. Rather, S&P only cites the metric downgrade threshold of Ameren Corporation, which under its "family" approach, would also result in a downgrade of Ameren Missouri. In its most recent April 28, 2022 credit opinion on Ameren Corporation, S&P cited an FFO to debt ratio downgrade threshold of 13%.

Q. Mr. Murray states that "Ameren Missouri's business risk profile declined after Missouri passed SB 564 … Ameren's reduced business risk profile allows for greater debt capacity…"[11] Do you agree with his assessment?

A. I believe that SB 564 enhanced Missouri's electric regulatory framework, providing support for incremental investment in the state. Yet, Mr. Murray alludes to an ability

[11] File No. ER-2022-0337, Direct Testimony of David Murray, p 3, ll. 8-9 and 11-12.

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for the Company to "carry more leverage"[12] and benefit from a "lower cost of capital"[13] resulting from a reduced business risk position, which are just not supported by the facts.

Q. Since the passage of SB 564 in May 2018, have either of the rating agencies changed the ratings or ratings outlook of either Ameren Missouri or Ameren Corporation?

A. No. Neither Moody's nor S&P have taken any action on Ameren Missouri's or Ameren Corporation's ratings or ratings outlook since the passage of SB 564. In fact, the rating agencies have taken a relatively balanced (rather than purely constructive) stance in their credit opinions on Ameren Missouri and Ameren Corporation regarding the PISA framework, particularly due to the rate cap that is in place.

Q. What have the rating agencies communicated recently about Ameren Missouri's regulatory framework?

A. Moody's continues to believe that Ameren Missouri operates within a supportive legislative and regulatory environment in Missouri following the passage of SB 564. However, the agency has also reflected its concerns about some of the limiting features of the framework. In its September 29, 2022 credit opinion, Moody's states:

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Similarly, S&P, in its April 30, 2021 credit opinion notes:

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[12] *Id.* at p 41.
[13] *Id.*

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While Mr. Murray wants to characterize the rating agency reaction following passage of SB 564 as being entirely supportive, in practice the rating agencies have taken a more neutral view of the regulatory mechanism.

Q. Since the passage of SB 564 in May 2018, have the rating agencies changed the FFO to debt ratio downgrade thresholds of Ameren Missouri or Ameren Corporation?

A. Since the passage of SB 564, S&P has taken no action to change the FFO to debt downgrade threshold of Ameren Corporation (and by extension under its family ratings approach, Ameren Missouri) of 13%. Similarly, Moody's has not changed its FFO to debt ratio downgrade threshold for Ameren Missouri of 19%. This suggests that, in spite of any perceived reduced business risk, Ameren Missouri cannot incur incremental debt to fund its operations without having negative implications on its credit ratings and its cost of capital.

However, and as indicated by Mr. Murray, in its March 29, 2019, credit opinion, Moody's did reduce the FFO to debt ratio downgrade threshold for Ameren Corporation from 19% to 17%. While Moody's did not cite the specific factors that led to a modest relaxation of this credit metric, I believe (counter to Mr. Murray's implication that it was due solely to improvements in Missouri's regulatory environment) it was based in part on the improvements to the Missouri regulatory framework and in part due to a strong track record of strategy execution within the supportive regulatory frameworks of Ameren Corporation's Ameren

Illinois and ATXI subsidiaries. ** ** Yet, in his entire line of argument, Mr. Murray ignores the fact that the reduction of Ameren Corporation's metric downgrade threshold at Moody's has limited practical implications on Ameren Missouri's access to debt capital or its cost of capital, since Ameren Missouri issues its own debt (with Ameren Missouri debt investors looking exclusively at Ameren Missouri's credit profile) and, as previously indicated, does not rely upon Ameren Corporation for balance sheet support of the Company's financial obligations. To clarify, the reduction of Ameren Corporation's FFO to debt ratio downgrade threshold at Moody's in 2019 improved Ameren Corporation's financing flexibility, permitting more financial leverage within the current rating category, but it did not directly impact Ameren Missouri financing flexibility, since the Company's metric downgrade threshold was not changed.

Q. How would you define Ameren Missouri's debt capacity?

A. I would characterize Ameren Missouri's debt capacity as the maximum amount of debt that the Company could theoretically carry without adversely impacting its current credit ratings. I believe the most objective approach to identifying Ameren Missouri's debt capacity is imputing the level of debt at which the Company equals its FFO to debt downgrade threshold at each of Moody's and S&P.

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Q. What was Ameren's Missouri's FFO to debt ratio for 2021 and for the latest 12 months ended June 30, 2022 as calculated by Moody's?

A. In Moody's September 29, 2022 credit opinion of Ameren Missouri, Moody's cites a 2021 FFO to debt ratio of 18.4%. In that same report, Moody's calculates an FFO to debt ratio for the latest 12 months ("LTM") ended June 30, 2022 at 16.6%. Interestingly, the agency indicates that the Company's financial metrics ** ** This decline in the FFO to debt ratio metric over the past several years (it was 22.3% in 2019 and 18.9% in 2020) evidences some of the issues and limiting features of the PISA framework that the rating agencies have specifically identified.

Q. Based on Ameren Missouri's 2021 and LTM ended June 30, 2022 FFO to debt ratios as calculated by Moody's, does the Company have additional debt capacity?

A. By virtue of the fact that Ameren Missouri's 2021 FFO to debt ratio of 18.4% and its LTM ended June 30, 2022 of 16.6% were below Moody's downgrade threshold of 19%, I could argue that the Company has no additional debt capacity without facing significant risk of a ratings downgrade at Moody's. That said, Moody's does believe, as indicated in its September 29, 2022 credit opinion and based on financial guidance from the Company that assumes retention of current capitalization ratios, that by the end of 2023, ** ** I would also note that it is financially prudent to maintain some degree of financial cushion above its FFO to debt ratio downgrade threshold so as to be able to withstand any unanticipated negative impact to its financial performance without risk of an immediate negative reaction by Moody's. Therefore, Ameren Missouri would not be a proponent of maintaining its capital structure at its maximum calculated debt capacity (i.e., its FFO to debt ratio downgrade threshold). Just as it may be true that an individual family could "afford" to borrow more money to buy a bigger home if certain common metrics exist (e.g., the percentage of housing costs to overall income) does not mean that borrowing the absolute highest amount of money the metric suggests is possible is a sound financial decision.

Q. Do you believe that Mr. Murray's proposed capital structure which includes 56.31% long-term debt falls within your definition of Ameren Missouri's debt capacity?

A. No, the capital structure proposed by Mr. Murray contains an excessive amount of debt and would place the Company at significant risk of a credit ratings downgrade, particularly at Moody's. As an illustration, we have calculated what Ameren Missouri's FFO to debt ratio in 2021 would have been had the Company (including both its electric and natural gas businesses) utilized Mr. Murray's proposed capital structure, including 56.31% long-term debt. ** ______ ** This financial weakening, along with potential rating agency concerns about the supportiveness of the regulatory environment should the Commission apply a hypothetical capital structure for ratemaking purposes (which I will discuss later), would put the Company at meaningful risk of credit rating downgrades.

Q. Mr. Murray suggests that because Ameren Missouri's business risk has declined, it is afforded a lower debt cost of capital that should be passed on to customers in the form of a lower authorized common equity ratio. Do you agree?

A. Mr. Murray offers no supporting evidence that Ameren Missouri's debt cost of capital has declined since the passage of SB 564. While Ameren Missouri's cost of capital arguably dropped during the 2018-2021 timeframe, this phenomenon was due predominantly to a decline in both U.S. Treasury rates and the credit spread to U.S. Treasury rates that dictates the cost of newly issued debt for the Company. Such reduction in the cost of capital during those years has already been shared with the Company's customers as the Company has issued long-term debt in recent years. However, in no way can we directly trace any incremental reduction in the debt cost of capital to the passage of SB 564 and any perception of reduced business risk. As stated above, there has been no change to Ameren Missouri's credit ratings and credit outlooks since May 2018. Therefore, there is no objective basis to suggest that Ameren Missouri's debt cost of capital was reduced in that timeframe as a result of the passage of SB 564. I would also note that, during the course of 2022 and early 2023, the Company experienced higher costs for debt capital, primarily as a result of the rising long-term interest rate environment. In fact, in its 2023 outlook for the U.S. Regulated Electric and Gas Utilities sector published on November 10, 2022, Moody's revised its outlook on the sector to Negative from Stable, citing ** ** Such macroeconomic pressures highlighted by Moody's make it increasingly important for the Company to retain its financial strength and credit profile, another factor in support of applying the Company's actual capital structure in this proceeding.

Q. Are there any other material factors that have influenced Ameren Missouri's credit quality over the past several years since the passage of SB 564?

A. Yes. I would specifically point to the negative credit quality implications of the change in the federal corporate tax rate in the Tax Cuts and Jobs Act ("TCJA") that became effective on January 1, 2018. The TCJA brought significant benefits to Ameren Missouri's customers in the form of reductions in current taxes and excess deferred taxes that they received and are continuing to receive through new base rates established in the Company's subsequent ratemaking proceedings. However, realization of these benefits by customers carries with it certain potentially significant adverse financial impacts to Ameren Missouri. Because of the change in the federal corporate tax rate, Ameren Missouri collects a lower amount of tax from its customers, resulting in reduced cash flows and, consequently, a lower prospective FFO to debt ratio. The TCJA also excluded public utility property from bonus depreciation eligibility, which further reduced cash flow contributions from deferred taxes. In addition, since the passage of SB 564, the Company has significantly increased its annual capital expenditures to support its Smart Energy Plan, a credit challenge that Moody's specifically highlighted in its September 2022 credit opinion. Furthermore, I would call out the Company's revised plan to manage carbon transition risk as underscored by its most recent integrated resource plan filing in the state, which includes accelerating the retirement date of the Company's Rush Island coal-fired energy center and hastening investment in additional renewable generation as the Company transitions to a cleaner energy portfolio. These corporate strategies have resulted in incremental near-term operating and financial risks, though the Company views these as prudent measures to address and mitigate longer-term operating and financial risks associated with climate change.

Q. Did Mr. Murray consider these additional factors that have influenced Ameren Missouri's credit quality over the past several years?

A. Not to my knowledge. He certainly did not reference any of these material factors in his direct testimony.

Q. Mr. Murray stated that, as result of the passage of SB 564, equity investors view Ameren Corporation as a "premium utility."[14] How do you respond?

A. Mr. Murray is apparently attempting to correlate Ameren Corporation's stock price trading levels relative to corporate peers to its underlying equity cost of capital. Yet Mr. Murray does not provide any compelling evidence to support his assertion that Ameren Corporation's stock performance, and by implication, Ameren Missouri's equity cost of capital, has been meaningfully impacted by the lower business risk environment in Missouri following passage of SB 564. How Ameren's stock trades relative to its peers is based on a multitude of comparative factors, including its relative earnings-per-share and dividend growth rate, the quality of its earnings and cash flow, the investor community's perception of Ameren management's track record of execution, and the investor community's perception of Ameren's regulatory frameworks as supportive of the company's growth objectives. To justify a "premium" trading position (i.e., a higher relative P/E multiple), the investor community must view Ameren Corporation, on average across all of its business lines, as better positioned with respect to these discrete factors (and others) relative to its comparable peer companies. So, for Mr. Murray to claim that "these market signals are clear indications that Ameren Missouri has both a reduced business risk profile through legislative support for increased investment … ,"[15]

[14] File. No. ER-2022-0337, Direct Testimony of David Murray, p. 43, l. 14.
[15] *Id.* at p. 43, ll. 18-20.

he must demonstrate not that the stock trading premium is due to Ameren Missouri's regulatory risk having changed after implementation of a cost recovery mechanism, but rather that the regulatory risk profile of Ameren Missouri is comparably superior to the peer group against which Ameren's common stock is benchmarked.

Q. Did Mr. Murray discuss the relative regulatory risk profile of Ameren Missouri versus other comparable utilities to support his theory that the availability of the PISA mechanism facilitates higher corporate leverage and a premium stock trading multiple?

A. No, he did not. The comparable return standards established in *Hope* and *Bluefield* require that the overall return for the subject company be comparable to the return that could be obtained on alternative investments of comparable risk. Mr. Murray's conclusion that increased leverage is reasonable because Ameren Missouri has implemented PISA, without consideration of the relative risk profile of proxy peer companies, is inconsistent with the fundamental principle of comparability established in *Hope* and *Bluefield*, and therefore should be rejected. If Mr. Murray had considered the regulatory risk profile of the Company, including rate design, capital cost recovery mechanisms and overall regulatory supportiveness, he would be hard pressed to conclude that Ameren Missouri possesses a lower regulatory risk profile than comparable utility companies.

Q. Can you share how Ameren's stock price and P/E multiple have performed since the passage of SB 564 and the implementation of the PISA mechanism?

In Schedule DTS-R1, I compare Ameren Corporation's stock price performance versus a group of identified corporate peers from May 31, 2018 (the day before SB 564 was signed into law) to December 31, 2022. Over the designated period of time, Ameren Corporation's stock price did outperform the peer group average by 19.1%. I would not necessarily characterize such outperformance over a 55-month timeframe as statistically significant as compared to the peer regulated utility market performance and would further highlight that Ameren Corporation's outperformance really has occurred since the spring of 2020, well after the point at which SB 564 was passed and presumably factored into Ameren Corporation's stock price. This suggests that factors other than the PISA framework have contributed to the stock price outperformance over the identified period.

In Schedule DTS-R2, I compare Ameren Corporation's forward year P/E multiple versus the same corporate peer group from May 31, 2018 to December 31, 2022. While Ameren Corporation's common stock has recently traded at a next-12-months ("NTM") P/E multiple premium to the median of the identified peer regulated companies (20.4x vs. 18.1x as of December 31, 2022), it also happened to trade at a NTM P/E multiple premium at the time of (19.0x for Ameren Corporation versus 17.9x for peers as of May 31, 2018), and in the months prior to, passage of SB 564. Similar to its stock price performance, Ameren Corporation's NTM P/E multiple notably expanded versus the peer group since the spring of 2020, well after the passage of SB 564. Therefore, it is not reasonable to suggest that investors are placing a premium on Ameren Corporation's common stock due specifically to the passage of SB 564 and its impact on business risk.

Q. In summary, do you believe that the lower business risk environment in Missouri following passage of SB 564 supports reducing Ameren Missouri's regulatory common equity ratio below its actual equity ratio?

A. No. The change in Ameren Missouri's business risk following passage of SB 564 has had no demonstrable positive impact on the Company's financial position, its credit profile and its access to, and cost of, debt and equity capital. Furthermore, as I mentioned before, there have been other market and operational factors that have negatively influenced Ameren Missouri's credit profile in recent years. As a result, a reduction of Ameren Missouri's regulatory equity ratio below its actual level is certainly not justified on this basis. In addition, any action to reduce Ameren Missouri's common equity ratio in this proceeding, in combination with the recent degradation of credit metrics due to the customer rate reductions culminating from the TCJA and the regulatory lag associated with Ameren Missouri's PISA framework, would serve to significantly reduce Ameren Missouri's credit quality, potentially negatively impacting its credit ratings and increasing the cost of serving Missouri customers. I discuss this concept further in the next section of my testimony.

VII. THE USE OF A PARENT COMPANY OR HYPOTHETICAL CAPITAL STRUCTURE FOR AMEREN MISSOURI IN THIS PROCEEDING IS NOT JUSTIFIED

Q. Mr. Murray proposes using a parent company/hypothetical capital structure with common equity ratios that are lower than Ameren Missouri's actual common equity ratio. Is using a parent company/hypothetical capital structure in this proceeding appropriate?

A. No.

Q. Are there ever situations when it would be appropriate to use a parent company/hypothetical capital structure to set rates for a regulated subsidiary?

A. There may be situations under which it would be more appropriate to use a parent/hypothetical capital structure, but this case is not one of those situations.

Q. What factors should typically be considered when determining whether to use a regulated subsidiary's or parent company's hypothetical capital structure for ratemaking purposes for the regulated subsidiary?

A. The factors typically considered in determining whether the use of a regulated subsidiary's actual capital structure or a parent company's capital structure for ratemaking are provided by David C. Parcell in <u>The Cost of Capital – A Practitioner's Guide</u> ("CRRA Guide") prepared for the Society of Utility and Regulatory Financial Analysts ("SURFA") and provided as the study guide to candidates for SURFA's Certified Rate of Return Certification Examination. The CRRA Guide notes that these factors will "help determine whether the utility vs. parent capital structure is appropriate."[16] They are:

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

Mr. Murray specifically recommends using Ameren Corporation's approximate capital structure for purposes of this proceeding. Consequently, the CRRA Guide factors are relevant for consideration of Mr. Murray's recommendations.

[16] David C. Parcell, <u>The Cost of Capital – A Practitioner's Guide</u>. Prepared for the Society of Utility and Regulatory Financial Analysts, 2010 Edition.

Q. Does the application of these factors to Ameren Missouri support the use of Ameren Missouri's actual capital structure for ratemaking purposes?

A. Yes. Application of the factors highlighted in the CRRA Guide listed above to Ameren Missouri supports the use of Ameren Missouri's actual capital structure for ratemaking purposes. As previously discussed, Ameren Missouri does not obtain any long-term debt or preferred stock from Ameren Corporation, but rather issues its own long-term debt and preferred stock to outside investors. In addition, Ameren Missouri's long-term debt is secured by its own assets and not the assets of Ameren Corporation. Ameren Missouri and its issued debt securities and preferred stock securities have separate and distinct credit ratings from Ameren Corporation, as provided by both Moody's and S&P. Double leverage cannot be said to exist since no proceeds of Ameren Corporation long-term debt issuances have been used as an equity infusion into Ameren Missouri. Finally, Ameren Corporation is not meaningfully diversified into non-utility operations.

In view of the foregoing, Ameren Missouri has an independently determined capital structure. Therefore, the only conclusion to be drawn is that Ameren Missouri's stand-alone capital structure is appropriate for ratemaking purposes.

Q. Mr. Murray also suggests that Ameren Corporation's short-term debt and construction work in progress ("CWIP") balances should be used to determine Ameren Missouri's allowance for funds used during construction ("AFUDC") rate. How do you respond?

A. For the very same reasons that I suggest using Ameren Corporation's capital structure, rather than Ameren Missouri's actual capital structure, is inappropriate for purposes of ratemaking, I contend it would be inappropriate to use Ameren Corporation's short-term debt and CWIP balances for purposes of establishing Ameren Missouri's AFUDC rate. Rather, the Commission should continue to exclusively consider Ameren Missouri's actual short-term debt and CWIP balances to calculate the AFUDC rate. My colleague, Mitch Lansford, separately addresses why applying a short-term debt rate to all CWIP balances, as Mr. Murray proposes, is similarly objectionable and runs counter to FERC-prescribed methodology and decades of Commission practice in this regard.

VIII. AMEREN MISSOURI'S PROPOSED COMMON EQUITY RATIO IS CONSISTENT WITH UTILITY PEERS AND SUPPORTS STRONG AND STABLE CREDIT RATINGS

Q. How does Ameren Missouri's common equity ratio of **_______, as of December 31, 2022, compare to the common equity ratios recently authorized by comparable utilities?**

A. Ameren Missouri has gathered information on fully integrated electric utility companies' authorized common equity ratios effective between 2014 and 2022. Ameren Missouri's December 31, 2022 common equity ratio is consistent with those authorized, on balance, by the regulated fully integrated electric operating subsidiaries of publicly-traded utilities in that identified peer group. As highlighted in Schedule DTS-R3, the median authorized effective common equity ratio[17] for the Company's identified peer set in 2022 was 52.00%, within a range between 42.50% and 56.00%. Expanding the data set to include 2020-2022 provides similar results, as does the data dating back to 2014.

[17] The authorized effective common equity ratio is the authorized regulatory common equity ratio in place for an operating utility for a particular year, even if the underlying party did not have a rate proceeding outcome in that year. For instance, if a peer utility was authorized a 50.0% equity ratio in 2014 and later authorized a 52.0% equity ratio in 2017, our analysis is assumes that utility has an equity ratio of 50.0% in 2015 and 2016.

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The median authorized effective common equity ratio, rather than the mean (50.63% in 2022), is the appropriate comparison measure because the median has the effect of muting certain proceedings (e.g., in Kentucky, Tennessee and Texas) in which authorized equity ratios were aberrantly low. Ameren Missouri's common equity ratio of **_______** as of December 31, 2022, is just below the median (52.00%) derived by the data set.

Q. Does this consistency support the reasonableness of Ameren Missouri's proposed capital structure for purposes of setting rates in this proceeding?

A. Yes. I'd call specific attention to a citation from Charles Phillip's <u>The Regulation of Public Utilities – Theory and Practice</u>[18], which suggests "a hypothetical capital structure is used only where a utility's actual capitalization is clearly out of line with those of other utilities in its industry or where a utility is diversified." Ameren Missouri meets neither of these criteria: the Company's capital structure is in line with those of its peers and the Company (as well as its parent company, Ameren Corporation) is not meaningfully diversified into non-regulated activities or businesses.

Q. Mr. Murray highlights the fact that Ameren Corporation has incurred additional parent company debt over the past several years resulting in an increase of Ameren Corporation parent debt as a proportion of consolidated debt. For what purposes were the proceeds of recent Ameren Corporation parent debt issuances used?

A. Proceeds from recent parent company debt issuance were used for a number of purposes, including:

- Paying dividends to its common shareholders over the past several years at levels that are well in excess of dividend distributions received from regulated

[18] Charles F. Phillips, Jr., <u>The Regulation of Public Utilities – Theory and Practice</u>, 1993, Public Utility Reports, Inc., Arlington VA, at 391.

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subsidiaries, including Ameren Missouri. This is a function of the regulated subsidiaries reinvesting significant operating cash flow and retained earnings into their long-term regulated assets. In particular, and as I covered earlier in my testimony, Ameren Missouri has significantly reduced its cash distributions to Ameren Corporation since 2019, requiring Ameren Corporation to replace such cash sources in part through parent company debt issuance.

- Paying increasing amounts of debt service on Ameren parent long-term debt, which has been issued with more frequency in recent years given the lower distributions derived from Ameren Missouri.
- Ameren Corporation funding increasing investment to support Ameren Illinois equity needs and, to a lesser degree, ATXI equity needs.

While Ameren Corporation has raised debt capital in recent years to support the initiatives highlighted above, the parent company has also raised significant equity capital in order to support these same initiatives while retaining a strong consolidated financial profile and balance sheet. I would note here, as I did previously, that no proceeds from the issuance of Ameren Corporation parent long-term debt were used to infuse capital into Ameren Missouri.

Q. Earlier, you discussed Ameren Missouri's debt capacity. Has Ameren Corporation's debt capacity increased in recent years?

A. Previously, I suggested a concept that the debt capacity is the maximum amount of debt that a business could carry without adversely impacting its current credit ratings, with an objective approach to identifying the debt capacity as being the level of debt at which the company equals its FFO to debt ratio downgrade threshold at each of Moody's and S&P. With this concept in mind, I would suggest Ameren Corporation's debt capacity did increase in early

2019 when Moody's (in its March 29, 2019, credit opinion) reduced the FFO to debt ratio downgrade threshold of Ameren Corporation from 19% to 17%.[19] This change has permitted Ameren Corporation more flexibility to take on additional leverage or better absorb negative changes to the operating cash flow profile of its utility subsidiaries without negatively impacting its credit rating at Moody's.

Q Has the implied increase in debt capacity at Ameren Corporation impacted Ameren Missouri's debt capacity?

A. No. As previously referenced, Ameren Missouri's FFO to debt downgrade threshold has remained at 19% for quite some time, so the additional financial flexibility afforded to Ameren Corporation by virtue of its lower FFO to debt ratio downgrade threshold at Moody's as of March 2019 does not translate into additional financial flexibility for Ameren Missouri.

Q Has Ameren Missouri's financial health or access to debt and equity capital been adversely impacted by Ameren Corporation's recent incurrence of parent long-term debt?

A. No. Ameren Missouri's financial health, as evidenced by its credit ratings, which have been maintained at strong levels in recent years, provides timely access to both debt and equity capital at reasonable costs.

Q. Is Ameren Corporation's parent debt as a percentage of consolidated debt out of line with identified peer holding companies?

[19] S&P's FFO to debt ratio downgrade threshold is at a lower 13% level, so Ameren Corporation's debt capacity did not increase with respect to the S&P credit rating when Moody's took its action in March 2019.

A. Per the table below, Ameren Corporation's parent debt as a percentage of consolidated debt based on September 30, 2022 reported figures actually is in line with the adjusted mean and median of the identified peer group.

	Holding Company Debt as a % of Consolidated Debt[1]
ALLETE	95.8%
Alliant Energy	22.6%
American Electric Power	27.0%
Duke Energy	33.8%
Entergy	17.9%
Evergy	32.9%
IDACORP	0.0%
NextEra	54.2%
Northwestern	100.0%
OGE	12.1%
Otter Tail	9.7%
Portland General	100.0%
Southern Company	29.6%
Xcel	18.7%
Ameren	**25.4%**
Peer Mean[2]	**22.7%**
Peer Median[2]	**22.6%**

[1]Data as of September 30, 2022, except for ALLETE which is as of December 31, 2021. Debt includes short-term debt.

[2]Mean and median excludes NextEra, since unregulated operations are financed at the holding company, as well as ALLETE, Northwestern and Portland General, who fund all or essentially all operations at the holding company. Also excludes IDACORP, which finances all operations at the subsidiary level.

Q. What would be the consequence to Ameren Missouri's credit profile and credit ratings of approving common equity content that is consistent with Ameren Corporation's consolidated equity ratio for ratemaking purposes and below Ameren Missouri's actual equity ratio, as suggested by Mr. Murray?

A. Applying a common equity ratio that is consistent with Ameren Corporation's consolidated common equity ratio to establish rates in this proceeding would significantly weaken Ameren Missouri's credit metrics, including key metrics evaluated by the rating agencies for purposes of assigning credit ratings. While it is difficult to predict the ultimate impact of weaker credit metrics on the Company's credit ratings, as such ratings are a function of a number of qualitative and quantitative factors, it is without a doubt that weaker credit metrics would contribute to increased financial risk and higher likelihood of a ratings downgrade. Additionally, rejection by the Commission of Ameren Missouri's actual capital structure, absent compelling evidence that the actual capital structure is inappropriate or unreasonable, could deepen rating agency concerns regarding the supportiveness of the Missouri regulatory environment, which would pressure Ameren Missouri's credit ratings. To the extent that Ameren Missouri's credit ratings were downgraded, Ameren Missouri's access to required debt capital to finance its operations could become more challenging and likely more expensive, which would be harmful to Ameren Missouri customers.

Q. What would be the impact on Ameren Missouri's FFO to debt ratio at Moody's if Mr. Murray's recommended equity ratio of 43% were adopted?

A. Mr. Murray claims that Ameren Missouri's capital structure does not reflect its true debt capacity. Yet, as previously discussed, Ameren Missouri's FFO to debt ratios have trended down in recent years, diminishing its credit quality and curtailing incremental debt capacity at its current credit ratings. For instance, Moody's has calculated Ameren Missouri's 2021 FFO to debt ratio at 18.4%, lower than its ratio of 18.9% in 2020, which places the Company's performance below its established 19% downgrade threshold for that metric over the past several years. **

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** Consequently, I have serious concerns that using the parent company equity ratio proposed by Mr. Murray, with or without an associated reduction in the allowed ROE, would place Ameren Missouri at significant risk of a rating downgrade at Moody's.

Q. Do you have any evidence that the rating agencies would view Commission acceptance and approval of a capital structure consistent with the parent company for ratemaking purposes as a credit negative outcome?

A. Yes. I would specifically highlight a credit opinion written by Moody's on February 5, 2018, shortly after the Commission conducted an initial discussion in the Laclede Gas and Missouri Gas Energy (collectively, "Spire Missouri") rate proceedings (File Nos. GR-2017-0215 and GR-2017-0216) suggesting that parent company Spire Inc.'s ("Spire") equity ratio should be used for ratemaking purposes rather than the actual equity ratio of Spire Missouri. In the report, Moody's stated that the Commission's use of Spire's capital structure in the rate cases would be **"

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Moody's further added that **____
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Furthermore, following the February 21, 2018 order in the Spire Missouri rate cases, in which the Commission ultimately approved the use of Spire Missouri's actual capital structure rather than Spire's (the parent's) capital structure, Moody's, in a March 1, 2018 credit opinion, stated that **____
____
____
______________________________________** Moody's negative reaction to both the initial discussion and the positive reaction to the final Commission order in Spire Missouri's rate cases demonstrates that the rating agencies would likely view Commission approval of a hypothetical equity ratio below Ameren Missouri's actual equity ratio as a credit negative outcome.

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Q. What would be the consequence on Ameren Corporation's stock price and inherent cost of equity of using an equity ratio consistent with Ameren Corporation's consolidated equity ratio for ratemaking purposes that is below Ameren Missouri's actual equity ratio, as suggested by Mr. Murray?

A. Using the approximate parent company common equity ratio that is below Ameren Missouri's actual common equity ratio to establish rates in this proceeding would likely place pressure on Ameren Corporation's share price. A lower relative share price makes it more challenging and expensive for Ameren Corporation to deploy equity capital to fund operations at Ameren Missouri, with such higher cost of equity capital ultimately passed along to Ameren Missouri customers in the form of higher rates.

Q. Do you have any evidence that Ameren Corporation's stock price would face pressure if the Commission approved the targeted parent company equity ratio below Ameren Missouri's actual equity ratio?

A. Yes. On January 31, 2018, the date that the Commission initially discussed the Spire Missouri rate cases, suggesting that parent company Spire's equity ratio should be used for ratemaking purposes rather than the actual equity ratios of Spire Missouri, Spire's share price declined 3.3% as compared to a 1.0% increase in the PHLX Utility Sector Index (the "UTY"). On the following day, February 1, 2018, Spire's stock price declined an additional 5.0% as compared to a 1.6% decline in the UTY.

The stock price decline during that period was in part a response to commentary published by several prominent Wall Street equity analysts that was negative in tone. For instance, Wells Fargo analysts Sarah Akers and Neil Kalton stated in a report published on February 1, 2018 that "we view this stance by the Commission as somewhat punitive considering customers are benefitting from deal-related cost savings, which may not have been possible absent Spire's ability to use leverage to make the acquisitions economically viable." Another equity analyst from Guggenheim Securities, Shahriar Pourreza, wrote on February 1, 2018 that "MoPSC's deliberations on the pending rate case sent a concerning message. Investors likely expected management to send a stronger message to MoPSC that they would not hesitate to direct capital elsewhere if they are not afforded the mechanisms to necessitate adequate recovery of that capital."

The negative share price reaction to the initial Commission discussion in Spire Missouri's rate cases demonstrates that Ameren Corporation's stock price could face similar pressure if the Commission approves the parent company equity ratio below Ameren Missouri's actual equity ratio. The effect of a lower relative share price is a more challenging and expensive outlook for Ameren Corporation to deploy equity capital to fund operations at Ameren Missouri.

Q. In recommending that the Commission utilize the parent company capital structure for ratemaking purposes, Mr. Murray alludes to Ameren Missouri's "commitment to investing significant amounts of capital" and posits that his recommended hypothetical capital structure is the more efficient capital structure for Ameren Missouri. How does Mr. Murray's position line up with your discussion regarding potential negative credit ratings and stock price consequences in the event the Commission approved an equity ratio below Ameren Missouri's actual equity ratio?

A. Mr. Murray ignores the fact that arbitrarily utilizing the parent company capital structure, and the potential for negative rating agency reactions and stock price pressure, could actually result in an increase to the Company's cost of capital, and by consequence, higher customer rates. Furthermore, taking such action to arbitrarily alter the Company's capital structure as it executes a significant capital expenditure program, creates risk around the financing costs of the capital program to enhance customer service and reliability, with Ameren Missouri's customers ultimately bearing those risks.

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

AFFIDAVIT OF DARRYL T. SAGEL

STATE OF MISSOURI)
) ss
CITY OF ST. LOUIS)

Darryl T. Sagel, being first duly sworn states:

My name is Darryl T. Sagel, and on my oath declare that I am of sound mind and lawful age; that I have prepared the foregoing *Rebuttal Testimony*; and further, under the penalty of perjury, that the same is true and correct to the best of my knowledge and belief.

/s/ Darryl T. Sagel
Darryl T. Sagel

Sworn to me this 15th day of February, 2023.