Q3 2015 Earnings Call

Company Participants

- Douglas Fischer
- Martin J. Lyons
- Maureen A. Borkowski
- Michael L. Moehn
- Warner L. Baxter

Other Participants

- David A. Paz, Wolfe Research LLC
- Greg Gordon, Evercore ISI
- Gregg Gillander Orrill, Barclays Capital, Inc.
- Julien Dumoulin-Smith, UBS Securities LLC
- Michael Jay Lapides, Goldman Sachs & Co.
- Paul Patterson, Glenrock Associates LLC
- Paul T. Ridzon, KeyBanc Capital Markets, Inc.

MANAGEMENT DISCUSSION SECTION

Operator

Greetings and welcome to the Ameren Corporation Third Quarter 2015 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Mr. Doug Fischer, Senior Director of Investor Relations for Ameren Corporation. Thank you. You may begin.

Douglas Fischer {BIO 1498560 <GO>}

Thank you and good morning. I'm Doug Fischer, Senior Director of Investor Relations for Ameren Corporation. On the call with me today are Warner Baxter, our Chairman, President and Chief Executive Officer; and Marty Lyons, our Executive Vice President and Chief Financial Officer; as well as other members of the Ameren management team.

Before we begin, let me cover a few administrative details. This call is being broadcast live on the Internet and the webcast will be available for one year on our website at ameren.com. Further, this call contains time-sensitive data that is accurate only as of the date of today's live broadcast and redistribution of this broadcast is prohibited.

To assist with our call this morning, we have posted on our website a presentation that will be referenced by our speakers. To access this, please look in the Investors section of our website under Webcasts & Presentations and follow the appropriate link.

Turning to page three of the presentation, I need to inform you that comments made during this conference call may contain statements that are commonly referred to as forward-looking statements. Such statements include those about future expectations, beliefs, plans, strategies, objectives, events, conditions, and financial performance.

We caution you that various factors could cause actual results to differ materially from those anticipated. For additional information concerning these factors, please read the Forward-Looking Statements section in the news release we issued today and the Forward-Looking Statements and Risk Factors sections in our filings with the SEC.

Warner will begin this call with comments on third quarter financial results, full year 2015 earnings guidance and the business update. Marty will follow with a more detailed discussion of third quarter results and an update on financial and regulatory matters including 2016 earnings considerations. We will then open the call for questions.

Before Warner begins, I would like to mention that all per share earnings amounts discussed during today's presentation, including earnings guidance, are presented on a diluted basis unless otherwise noted.

Now, here is Warner, who will start on page five of the presentation.

Warner L. Baxter {BIO 1858001 <GO>}

Thanks, Doug. Good morning, everyone, and thank you for joining us. Today, we announced solid third quarter 2015 earnings of $1.41 per share, compared with earnings of $1.20 per share in the prior period. The earnings advance reflected higher retail electric sales volumes, resulting from warmer summer temperatures that were near normal for the quarter. The warmer weather raised earnings by an estimated $0.09 per share compared with 2014.

Consistent with our strategic plan, year-over-year earnings comparisons are also benefiting from the significant investments we are making to better serve our customers. These investments continue to be weighted toward our Illinois transmission and electric and gas delivery businesses that operate under framework supportive of infrastructure investment.

Further, a seasonal rate redesign and variances in the timing of revenue recognition, and the formula ratemaking for our Illinois electric delivery business, positively affected the comparisons for the quarter, as did a lower effective income tax rate. These positive variances were offset in part by lower recognized allowed ROEs for our electric transmission and delivery businesses, regulated by the FERC and ICC.

I am also pleased to report that our core earnings were $2.44 per share for the first nine months of 2015, which reflects a strong increase from $2.21 per share for the year ago period. These results exclude certain items we discussed with you during our second quarter conference call.

Based on these solid results, today, we also narrowed our 2015 core earnings guidance to a range of $2.55 to $2.65 per share, which is at the upper half of our prior core earnings guidance of $2.45 to $2.65 per share.

Turning now to page six, here, we reiterate our strategic plan. Simply put, the execution of this strategy delivered the solid results I just reported to you, and I strongly believe, it will deliver superior long-term value to both our customers and shareholders.

I'd like to highlight some of our year-to-date efforts and accomplishments towards this end. Overall, I am very pleased with our team's performance through September, as we continue to deliver strong value to our customers across all of our businesses. In particular, we continue to allocate significant amounts of capital to those businesses that are supported by modern constructive regulatory frameworks to enhance good reliability and allow customers to better manage their energy usage among other things.

As you can see, we invested $886 million or about two-thirds of our $1.3 billion of year-to-date capital expenditures in jurisdictions with these modern constructive regulatory frameworks. This was a 17% increase over the amount invested in these jurisdictions during the same period last year. Approximately $475 million was invested in FERC-regulated electric transmission projects, including the ongoing construction of ATXI's $1.4 billion Illinois Rivers transmission project.

Construction is well along on the first of nine line segments of this project, with wires being strung across all 132 erected pole structures. Further, foundation work is underway on three additional line segments, as is construction of all 10 substations.

In addition, I am pleased to note that, in September, the Illinois Commerce Commission issued a Certificate of Public Convenience and Necessity for the approximately $150 million Spoon River Project.

We are now proceeding with right-of-way acquisition, and line construction in this project is expected to begin late next year. We also have a request pending at the Missouri Public Service Commission for Certificate of Public Convenience and Necessity for their approximately $225 million Mark Twain project in northeastern Missouri and we expect a decision early next year.

All three of these transmission projects, Illinois Rivers, Spoon River and Mark Twain, are MISO-approved multi-value projects.

Regarding the cases pending at the FERC challenging MISO's base allowed ROE of 12.38% for electric transmission services, we expect a FERC administrative law judge to issue an initial decision in the first of two complaint cases later this month.

However, the final FERC orders are not expected until 2016 in the first case, and 2017 in the second case. We continue to advocate for an ROE level that is fair and one that will incentivize the transmission investment needed to ensure a robust grid for our nation.

Turning to page seven of my presentation, let me provide an update on the execution of our strategic plan at Ameren Illinois. Here we invested approximately $410 million in electric and natural gas delivery infrastructure projects in the first nine months of this year, including those that are part of Ameren Illinois' Modernization Action Plan. This work, enabled by the state's Energy Infrastructure Modernization Act, continues to provide significant value to our customers and the state of Illinois. Notably, our work remains on track to meet or exceed the investment, the liability, advanced metering and job creation goals of the Act.

We have also been focused on achieving positive resolutions of our pending Illinois electric delivery formula rate update proceeding and natural gas delivery rate case. Earlier this week, we received a constructive proposed order from the administrative law judges in our natural gas delivery case.

In a few weeks, we expect an order from the ALJ in our electric delivery case, where the differences between the parties have been narrowed to $4 million or less. At the end of the day, based on the progress to-date between the parties in both of these cases, we are optimistic that we will receive constructive decisions from the ICC in December.

Moving to Missouri electric service, here the regulatory framework is not as constructive as those of FERC or Illinois. Nonetheless, it is our goal to earn at or close to our allowed rate of return in all our jurisdictions. Of course, this objective is more challenging in Missouri given the use of a historical test year and a lengthy regulatory approval process among other things.

As we have done in the past, we are working hard to mitigate this lag by leveraging ongoing enterprise-wide lean continuous improvement efforts while aggressively pursuing cost reductions throughout our operating and support organizations. And when necessary, we will seek adjustments to our Missouri rates to address regulatory lag and to earn a fair return on the investments we are making for the benefit of our customers.

One area where Missouri had historically been a leader in terms of a constructive regulatory framework was in energy efficiency. Since 2013, Ameren Missouri has been executing on a comprehensive three year energy efficiency plan under the Missouri Energy Efficiency Investment Act or MEEIA. The MEEIA has provided electric utilities with the appropriate incentives to make investments in energy efficiency for the benefit of our customers.

I am pleased to say that Ameren Missouri's first three year plan has been even more successful than we anticipated which has resulted in substantial benefits for our customers. Earlier this year, we made a filing with the Missouri Public Service Commission, which sought to extend these energy efficiency programs for another three years, utilizing a similar structure as well as incorporating best practices learned from our first program.

Unfortunately, last month the Missouri Commission issued an order rejecting our proposed plan. This is disappointing because we believe our proposal provided clear benefits to customers while balancing the interests of shareholders. Under MEEIA, proposing an energy efficiency plan is voluntary and we are evaluating our next steps.

Finally, I should note, we continue our relentless advocacy efforts with Missouri's policymakers and key stakeholders to enhance the existing regulatory framework to address regulatory lag and support investment.

While we continue to make appropriate investments in Missouri to ensure safe and adequate service, Missouri is falling behind other states in modernizing its energy policies and energy infrastructure. That is why we continue to relentlessly advocate for better policies to support investment in Missouri.

Our message to Missouri policymakers and stakeholders remains simple and straightforward. Modernizing the state's regulatory framework is essential to spur needed investments to upgrade aging electric utility infrastructure in a timely manner and to create jobs.

We continue to communicate that such modernization will yield benefits similar to those that the state of Illinois and many other states around the country are realizing today, and is clearly in the best long-term interests of our customers and the economic vitality of Missouri as a whole. And while no final decisions have been made, we continue to look very closely at potential legislative solutions to address this matter during the upcoming 2016 Legislative Session.

Turning now to page eight and our long-term growth outlook. In February of this year, we outlined our plan to grow rate base at a solid 6% compound annual rate over the 2014 through 2019 period.

As the graphics on this page illustrate, and in line with our strategic plan, this growth is being driven by the allocation of significant amounts of capital, the FERC-regulated electric transmission and Illinois electric and natural gas delivery services, because these jurisdictions provide constructive regulatory frameworks, and the investment benefits all of our customers.

To that end, on our second quarter call, we noted that we have identified $500 million to $1 billion of potential investments in our Illinois transmission and electric and gas delivery businesses, which would be incremental to those included in the 2014 through 2019 rate base growth plan we outlined in February and illustrated on this page.

We are evaluating these incremental investments as part of our normal annual planning process. These incremental Illinois investments would be directed to the modernization, reconstruction and replacement of aging electric and natural gas delivery infrastructure, such as transmission and distribution lines, breakers, transformers and underground network facilities. They would sustain and improve reliability for our customers and would primarily occur after 2016. We will provide an update on our year-end call in February when we roll forward our long-term investment outlook.

Turning now to page nine. In addition to the progress we are making in executing our plans for the current five-year period, we are focused on creating and capitalizing on additional opportunities beyond 2019. With the support of constructive Illinois rate making, we expect to continue making significant investments to enhance the reliability and safety of our electric and natural gas delivery systems in the state.

Further, we expect to continue to invest in local electric transmission projects, which maintain and enhance reliability in our service territory, including projects to meet NERC requirements.

In addition, our transmission development team continues to pursue FERC-regulated regional electric transmission projects focusing on projects in MISO, the PJM Interconnection and the Southwest Power Pool.

Finally, we expect to pursue local and regional transmission opportunities to connect renewable energy sources and natural gas-fired generation, expected to be built to comply with the Clean Power Plan.

Turning to page 10. In Missouri, we have numerous opportunities for additional investment. These include the installation of advanced meters and replacement of aging transmission and distribution infrastructure. We also expect that our plan for complying with the Clean Power Plan will provide incremental investment opportunities, including those in renewable energy sources and natural gas-fired generation.

The impact of the final Clean Power Plan on our operations, infrastructure investment plans and customers' rates in Missouri and Illinois will be driven by those states' implementation plans, which may not be finalized until 2018.

While this rule will face legal challenges, we are committed to working constructively with state agencies, energy providers and other stakeholders in each state to develop implementation plans that provide customers with electric service that is reliable and reasonably priced. And as we have stated previously, we expect any compliance investments to be recovered in rates. The bottom line is that, we believe that the investment opportunities I just described across all of our companies, have the potential to provide significant benefits to our customers and shareholders.

Turning now to page 11. I am pleased to note that last month, our board of directors increased our quarterly dividend to $0.425 per share, reflecting confidence in the outlook for our regulated businesses and our ability to achieve our long-term earnings plans. This is a 3.7% increase from the prior quarter's dividend resulting in an annualized equivalent rate of $1.70 per share.

Looking ahead, we continue to expect our dividend payout ratio to be between 55% and 70% of annual earnings. Of course, future dividend increases will be based on consideration of, among other things, earnings growth, cash flows and economic and other business conditions.

Turning now to page 12, let me conclude my comments by reiterating that we are successfully executing our strategy and delivering strong earnings results. Looking forward, we have a superior long-term earnings growth outlook, driven by above average rate base growth that is focused on investments in jurisdictions with constructive rate making.

In addition, our shares provide a current yield of about 3.9%, which is also superior to the average of our peers. We believe this earnings growth outlook and dividend provide a very attractive total return potential for investors. We are committed to executing the strategy I have discussed with you today, and we believe we will deliver superior long-term value to both our customers and shareholders.

Again, thank you all for joining us on today's call. We'll now turn the call over to Marty to cover some of the matters I discussed in greater detail.

Martin J. Lyons {BIO 4938648 <GO>}

Thank you, Warner. Good morning, everyone.

Turning now to page 14 of our presentation. Today, we reported third quarter 2015 earnings of $1.41 per share, compared with earnings of $1.20 per share for the prior year period. There were no adjustments to GAAP earnings for these third quarter periods.

Moving to page 15. Here we highlight factors that drove the $0.21 per share increase in third-quarter 2015 results. Key factors included higher retail electric sales volumes driven by warmer summer temperatures, which increased earnings by an estimated $0.09 per share. Third quarter 2015 temperatures were near normal, compared with the cooler than normal summer temperatures experienced in the prior year period.

So, for the year-to-date period, weather remains an estimated $0.05 favorable, compared to normal, primarily driven by the colder winter temperatures.

Before I leave this subject of electric sales volumes, I would like to briefly report on these for the year-to-date period. We estimate that weather normalized kilowatt hour sales to Illinois residential and commercial customers increased by approximately 0.75%, while such sales to Missouri residential and commercial customers decreased by approximately 0.75%.

The increase in Illinois sales volumes was driven by the commercial sector, while the decrease in Missouri sales was driven by the residential sector. It is important to note that Ameren Missouri's current energy efficiency plan compensates for the negative earnings effects of reduced electric sales volumes resulting from the plan's programs.

Excluding the effects of these programs, we estimate that sales to Missouri residential and commercial customers would have increased by 0.25%. For the first nine months of 2015, kilowatt hour sales to Illinois' and Missouri's industrial customers decreased about 1% and 1.5% and about 4% respectively, reflecting lower sales to a large low-margin Illinois agricultural customer and lower sales to our largest Missouri customer, Noranda Aluminum, due to a reduction in consumption at its aluminum smelter.

Moving back then to a discussion of the quarter's results. The third quarter earnings comparison was also positively affected by increased investments in electric transmission and delivery infrastructure, using formulaic ratemaking, which increased earnings by $0.05 per share compared with the year ago quarter.

In addition, the third quarter earnings comparison benefited by $0.06 per share due to a seasonal rate redesign and the timing of revenue recognition under formula ratemaking, each related to Ameren Illinois electric delivery service. Year-to-date, these two timing-related items had a $0.02 per share net favorable impact on results, and we continue to expect they will have no net effect on the full-year 2015 earnings. Finally, third quarter earnings benefited by $0.02 per share from a lower effective income tax rate.

Moving to factors that had an unfavorable effect on the third quarter earnings comparison, the contributions from electric transmission and delivery investments at ATXI and Ameren Illinois were reduced by a total of $0.03 per share because of lower recognized allowed ROEs.

Transmission earnings for the year-ago quarter incorporated the current MISO base allowed ROE of 12.38%. However, since the fourth quarter of last year, our transmission earnings have been reduced by a reserve to reflect the potential for a lower allowed ROE as a result of the pending complaint cases at the FERC.

Regarding third quarter 2015 Illinois electric delivery earnings, these incorporated an 8.67% allowed ROE compared with 9.25% in the year-ago period. This decline was due to a decrease in the assumed annual average 30-year treasury rate from 3.45% to 2.87%. Of course, full year 2015 Illinois electric delivery earnings will incorporate the actual 2015 average 30-year treasury rate.

Turning now to page 16. First, as Warner highlighted, we now expect our 2015 core earnings to be in a range of $2.55 to $2.65 per share, which is at the high-end of our previous guidance range.

On this page, we list select items for you to consider as you update your earnings outlook for the remainder of the year. I will comment on a few of these items. First, let me remind you that last year we earned $0.19 per share in the fourth quarter. Of course, we had a Callaway Energy Center refueling and maintenance outage in the fourth quarter of last year. The absence of the Callaway refueling outage this year is expected to boost fourth quarter 2015 earnings by approximately $0.08 per share compared with that year ago period.

Second, over the balance of this year, we also expect increased earnings from our FERC-regulated electric transmission and Illinois electric delivery services as we continue to make significant infrastructure investments under formula rate making.

Moving to factors that are anticipated to negatively affect the fourth quarter 2015 earnings comparison, these include a higher effective tax rate, reflecting an unusually low rate in the year ago period. This is expected to reduce earnings by approximately $0.04 per share.

In addition, the absence of the 2014 benefit resulting from a regulatory decision authorizing Ameren Illinois to recover previously disallowed debt redemption costs will reduce earnings by $0.03 per share.

Before we leave our discussion of this year, I would like to mention that we now expect to issue long-term debt at the Ameren parent company and Ameren Illinois during the fourth quarter to repay a substantial portion of their short-term debt.

We believe now is a prudent time to reduce short-term borrowings we have been making, primarily to help fund our capital investments, including our investments in FERC-regulated transmission.

Turning to page 17, I will now update you on select pending regulatory matters. As Warner mentioned, our annual Illinois electric delivery formula rate update filing is pending at the ICC. This filing supports an increase in 2016 electric delivery service rates of $109 million. The ICC staff supports an annual increase of $107 million and other parties are recommending a $105 million increase. An ICC administrative law judge recommendation in this case is expected next week with an ICC final decision in December and new rates effective in January.

Moving then to page 18. We also have a natural gas delivery rate case pending in Illinois, in which we have requested a $45 million annual rate increase based on a future test year ending in December 2016. Earlier this week, the ICC administrative law judges hearing the case recommended a rate increase amount that was consistent with our request based on a future test year and incorporating a 9.6% ROE, up from the current 9.08% ROE.

The ALJ has also recommended approval of our request for a volume balancing adjustment for residential and small commercial customers. This would ensure that changes in natural gas sales volumes did not result in the over or undercollection of revenues from these classes. We expect the ICC to issue a decision in December with new rates effective in January.

Turning now to page 19. As previously mentioned, there are two complaint cases pending at the FERC seeking to reduce the base allowed ROE for MISO transmission owners, including Ameren Illinois and ATXI. The anticipated schedules for these cases are outlined on this page.

Moving now to page 20. We plan to provide 2016 earnings guidance and update our longer-term rate base and earnings growth outlook when we release fourth quarter 2015 earnings in February.

However, here we list select items to consider as you think about our earnings outlook for next year. I'll highlight some of the more noteworthy ones. Earnings from our FERC-regulated electric transmission activities are expected to benefit under forward-looking formula ratemaking, from higher rate base, from investments in projects at Ameren Illinois and ATXI.

For Ameren Illinois electric delivery service, we also anticipate increased earnings in 2016 compared with 2015, again reflecting additional infrastructure investments made under formula ratemaking. The allowed ROE will be, of course, the average 2016 30-year treasury yield plus 5.8%. For Ameren Illinois gas delivery service, we expect new rates to be in effect in order to reflect rate base levels and increased cost contained in our 2016 forward test year rate case filing.

Moving to a comparatively unfavorable item. Ameren Illinois electric delivery service earnings will reflect the absence in 2016 of $0.04 per share of 2015 earnings related to an ICC order approving the recovery of power usage costs. For Missouri, the 2016 earnings comparison is expected to be negatively affected by about $0.09 per share for the Callaway nuclear refueling and maintenance outage scheduled for the spring of 2016, as, again, there is no refueling outage in 2015.

In addition, we expect increases in depreciation, transmission and property tax expenses.

Next, as Warner noted, the Missouri Commission recently rejected a new proposed three-year energy efficiency plan, which would have begun in January 2016.

We are studying the order and evaluating whether to file another proposed plan with the Missouri Public Service Commission. Regardless, we do expect to see continuing reduced load from Ameren Missouri's highly successful 2013 to 2015 MEEIA energy efficiency program bleed into 2016.

Given that we haven't finished the 2015 program year, it's premature to estimate what the carryover impact of the current programs will be on 2016. We'll provide an update on our sales expectations in February. A portion of the impact of this load reduction will be offset by a performance incentive expected to be recognized in 2016 from the 2013 to 2018 program, subject to commission approval.

Finally, for Missouri, we expect 2016 earnings will benefit from a decline in operations and maintenance expenses not subject to riders or regulatory tracking mechanisms, excluding of course Callaway refueling outage expenses.

This expectation is the result of our lean continuous improvement and disciplined cost management actions and is consistent with our ongoing efforts to align our spending with the Missouri regulatory framework and decisions as well as economic conditions.

Finally, turning to page 21, I will summarize our comments this morning. As Warner discussed, we continue to successfully execute our strategy. We have delivered strong earnings year-to-date and expect our 2015 core earnings per share to be in a range of $2.55 to $2.65 per share, at the high-end of our previous guidance range.

In addition, we have a superior long-term earnings growth outlook, driven by an above peer group average rate base growth plan that is focused on utility infrastructure investments in jurisdictions with modern, constructive ratemaking.

In addition, and as we discussed during our second quarter conference call, we expect to finance our growth through 2019 without the need for equity. When you combine our superior earnings growth outlook with Ameren's recently increased dividend, which now provides investors with an above peer group average yield of approximately 3.9%, we believe our common stock represents a very attractive total return potential for investors.

That concludes our prepared remarks. We now invite your questions.

Q&A

Operator

Thank you. At this time, we'll be conducting a question-and-answer session. Our first question comes from the line of Julien Dumoulin-Smith with UBS. Please proceed with your question.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Hi. Good morning. Can you hear me?

A - Warner L. Baxter {BIO 1858001 <GO>}

We can, Julien. Thank you.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Excellent. Well, congratulations on the results. I wanted to first ask you, on parent debt issuances, can you elaborate given the upcoming issuance, how much you're thinking and how you think about general target there?

A - Martin J. Lyons {BIO 4938648 <GO>}

Good question, Julien. I don't want to get into specifics in terms of the amount at this point. But if you take a look at the balance sheet, we have about $783 million, I believe of short-term debt that's outstanding. And as you look through the K, you'll see – or Q, you'll see that that balance really resides up at the parent and its money that we've been borrowing on a short-term basis to fund these long-term investments we're making in transmission assets. So, we feel now it's a good time. As we said on the call expect to refinance a substantial portion of that with long-term debt, but – and don't want to get into specifics on amount here yet.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

All right. Great. And then secondly, you've talked a lot about transmission, but I would be curious to hear your thoughts following the Wood River announcement yesterday and potential for Clinton retirements. What does that mean for transmission? And perhaps more broadly, how do you think about the transmission CapEx budgets in light of MISO planning? And also, should you get an ROE reduction, how does that drive your thinking into this 4Q update on transmission?

A - Warner L. Baxter {BIO 1858001 <GO>}

So, Julien. This is Warner. Lot of questions in there. So, I think to kick that off, we'll let Maureen Borkowski, who is the President of our Transmission Operations, give you sort of a general sense on some of your initial questions.

A - Maureen A. Borkowski {BIO 7081192 <GO>}

Hi, Julien. Thanks for the questions. First of all, with regard to either Wood River or Clinton which Clinton has not at this point in time definitively said anything, we work with MISO to define what additional transmission investment is needed to maintain the system reliably. And then we would move out on developing any projects or making any upgrades that were necessary. I would point out that any of those would be reliability investments and therefore would not be subject to FERC Order 1000, but we would make those investments ourselves. I'm not sure about the rest of your questions, could you kind of repeat what else you were asking?

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Yeah. I mean, I was just thinking more broadly. Where do we stand on the MISO planning process in light of, say, CPP and just in light of getting the FERC Order 1000 processes going? How do you think about the transmission budget? And then, perhaps also a related question would be, if you do get an ROE reduction, does that negatively impact your CapEx budget?

A - Maureen A. Borkowski {BIO 7081192 <GO>}

So, this is Maureen again. With regard to the Clean Power Plan, and with regard to FERC Order 1000, we don't currently have anything reflected in our current CapEx to address either of those issues. We do believe that MISO may be having a very small FERC Order 1000 project approved this year, which would then go out with an RFP next year.

And with regard to the Clean Power Plan, MISO is actively working on developing a transmission expansion plan to address what they believe would be some of the impacts of the state plans. Again, we would expect to see more of that later next year or even into 2017. With regard to the ROE, all I can say is we still firmly believe that FERC understands the need for continued transmission development, and they also understand that the ROE that they set does impact the capital allocation of utilities, and if they want that investment to continue, they need to keep the ROE healthy.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

All right. Excellent. Well, thank you guys for the time.

A - Warner L. Baxter {BIO 1858001 <GO>}

Thanks, Julien.

Operator

Thank you. Our next question comes from the line of Paul Patterson with Glenrock Associates. Please proceed with your question.

Q - Paul Patterson {BIO 1821718 <GO>}

Good morning.

A - Warner L. Baxter {BIO 1858001 <GO>}

Good morning, Paul.

Q - Paul Patterson {BIO 1821718 <GO>}

With respect to the legislative outlook, can you give us a flavor as to what may have changed there that might make you feel more optimistic about something happening if anything has changed? And just give us a little bit of a flavor for what we might be seeing in spring?

A - Warner L. Baxter {BIO 1858001 <GO>}

Yeah Paul, this is Warner. I'll comment, and then Michael Moehn if he has additional comments, I'll ask him to join. But in terms of what's different, I think there are a couple things just to be mindful of. None of these things ultimately guarantee success, but there are some differences. I think number one, as we've said before, we have seen very clearly the constructive outcomes that are resulting from the changes in the Illinois framework, constructive outcomes which are benefiting customers and clearly benefiting the entire State of Illinois. And so, it isn't just one year, we're seeing several years of those constructive outcomes, and those are certainly notable.

I think the second thing to be mindful of is that earlier this year, the governor issued his comprehensive energy plan, that included a host of things, but also incorporated in there was the recognition for the need to modernize the framework to support investment. So, I think that too is something that will be – I'm sure a subject of discussion during the upcoming session. Certainly, I think when you look around the nation and as you follow, I think it's becoming clear as part of our conversations with key stakeholders across the state. The Missouri is lagging behind in terms of their framework, their policies and their investment.

So, you put all those things together, I think those two are differences, coupled with the fact that we do have new leaders, both in the House and the Senate, and we look forward to working very closely with those new leaders not just next year, but in the years ahead. So, all those things I think are certainly you asked for what were some of the differences those are just some of the highlights I would put out there.

In terms of solutions, look – that the bottom line is that there are lot of solutions that are being – that there are out there that we've talked about in the past, but also ones that are being used, utilized across the country. So, I think these are things that we look at. But more importantly we discuss with stakeholders. Because whether there is any legislative initiate that goes forward, it will be informed by those conversations with the key stakeholders across the state. So, Michael, I'll ask you to – if there is anything else to add.

A - Michael L. Moehn {BIO 5263599 <GO>}

Well said, Warner. I mean, I certainly wouldn't want to overstate the importance of the comprehensive state energy plan, but I mean, really it was a thoughtful document, it was a collaborative process, really brought together through both utilities as well as environmental groups and others. And there are a number of recommendations in there about modernizing the electric infrastructure, enacting legislation that provides for accelerated grid modernization, performing Missouri's utility ratemaking process. And so I think there really is a framework I think to bring forth these discussions, there are a number of interested parties and trying to see that happen, because there is a number of things in there. They would like to get done as well. And so, I think it really does provide a catalyst to try to put something forward.

Q - Paul Patterson {BIO 1821718 <GO>}

Well, did notice it as well. But, I guess, what I'm wondering is, I mean outside of an actual legislative change, what should we think would be the timing for the next Missouri rate case?

A - Warner L. Baxter {BIO 1858001 <GO>}

I would say – yeah, Paul, this is Warner again. Look, I think as we discussed during our last call, there've been no decisions on the next Missouri rate case. And as we've said in our talking points, we'll be mindful of regulatory lag and the need to file a rate case to make sure that we earn a fair return on those investments. So, no decisions have been made, but we have to file a rate case within four years. And so, generally speaking, that takes – under the fuel adjustment clause provisions. And so that takes you out sometime until 2018 where we would have to file, but up until then it is one of those things that we continue to study.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. And then on energy efficiency, if you could just elaborate a little bit more on the rejection of your plan. And you mentioned you were thinking about perhaps re-filing it, just any more you could tell us about that?

A - Michael L. Moehn {BIO 5263599 <GO>}

Yeah, sure. This is Michael Moehn. I think it was unfortunate. We thought we were addressing the commission's concerns. We had a number of parties that had actually signed on supporting our plan, but ultimately it came down to a couple of things. Really the commission desire to apply and utilize an after-the-fact evaluation and measurement and verification process that really prevented us from recording the revenues associated with those lost sales. And there was also – they are very focused on reducing demand, and our programs are really designed on reducing energy, and so those are a couple of things that we have to go back and think about and see if there is a solution forward. These are important programs. They really have worked well. I think everybody has benefited from them, shareholders, customers. And so we'd love to see them come back and so we're trying to be very thoughtful about that process and think about what the next steps would be here in the very near future.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. But sales growth after 2016, I mean, you mentioned that there is a lag effect in terms of, you still expected to impact usage in 2016, but we should expect – what do you think the impact in 2017? If there is no new plan to replace it, how should we think about your projections for sales growth in 2017 and beyond?

A - Martin J. Lyons {BIO 4938648 <GO>}

Yeah, Paul, this is back to Marty again. Yes, we did talk about in the call, they're expected to have some bleed over into 2016, and largely I think that will be a function of how 2015 programs wrap up. So it's premature to really talk about how much that maybe in 2016, but we wouldn't expect meaningful impacts on sales from the current programs beyond 2016, in fact, never really even when we did envision additional energy efficiency programs going forward, never really expected a meaningful impact on earnings when you look out to, say, like a 2018 time period.

So short answer to your question, expect an impact in 2016, expect that to be diminished as we get into 2017, and again never expected really a meaningful impact overall in 2018. One thing while you are on that, the energy efficiency, Paul, that I do want to clarify. I'm told that earlier in the call I talked about the performance incentive we would receive in 2016, and I may have misspoke and said that related to the 2013 to 2018 period. What I meant to say is it relates to 2013 to 2015 program that we'll be wrapping up later this year.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. Great. Thanks a lot.

A - Martin J. Lyons {BIO 4938648 <GO>}

Thanks.

Operator

Thank you. Our next question comes from the line of Paul Ridzon with KeyBanc Capital Markets. Please proceed with your question.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

I just had – one of the big drivers in the quarter you said was some rate design timing issues. Kind of, I guess, what quarters did you borrow that from to make this quarter strong and will have a fourth quarter impact?

A - Martin J. Lyons {BIO 4938648 <GO>}

Yeah, I get your question. This is Marty again. So yeah, we did have a seasonal rate redesign that did affect the timing of margins and earnings recognition through the year. Mentioned that it was a $0.06 positive in the quarter. However, it's mostly, I'll call it, repayment from prior period.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

Okay.

A - Martin J. Lyons {BIO 4938648 <GO>}

So, on a year-to-date basis, it's a positive $0.02. And then we expect that $0.02 to go away through the fourth quarter so that by the end of the year, it's flat with no net impact on margins or earnings.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

Thank you. That helps. And then what was weather like in the fourth quarter of 2014 relative to normal?

A - Martin J. Lyons {BIO 4938648 <GO>}

Let's see, I think we've got that. If you look on slide 16 where we give our fourth quarter earnings guidance, you'll see down at the very bottom that we expect it to be a slight negative impact on earnings in the fourth quarter, about negative $0.01. So we had about $0.01 of positive weather last year and expect...

Q - Paul T. Ridzon {BIO 1984100 <GO>}

Okay. Thank you.

A - Martin J. Lyons {BIO 4938648 <GO>}

Yeah, you got it.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

And then when you issue – it sounds like you're going to issue most of the long-term debt to pay down short-term at parent and less so in Illinois.

A - Martin J. Lyons {BIO 4938648 <GO>}

Didn't really comment on that. What we said was that we plan to do long-term debt issuance at both the Ameren parent company level at this point as well as at Ameren Illinois here in the fourth quarter.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

And that would get picked up in your next formulaic rate resetting?

A - Martin J. Lyons {BIO 4938648 <GO>}

That is correct. The cost of long-term debt, whatever that may be at Ameren Illinois, would get picked up in the next regulatory filing.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

And when is that filing?

A - Martin J. Lyons {BIO 4938648 <GO>}

I think that filing would be next spring, April and May of next spring.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

So there might be a little bit of lag there in getting those higher debt costs in?

A - Martin J. Lyons {BIO 4938648 <GO>}

Well, the way it works again formulaically is we'll true up our revenues this year based upon our actual costs of service this year, our year-end rate base. And so we'll factor that into whatever true-up that we do reflect.

And then the filing we would make next April with the commission would be to seek recovery of any differential or a refund to customers if that was appropriate. But again, the whole program is designed that there would be no lag. The revenues we reflect in each year are a function of that year's costs and that year's rate base and cost of capital. So there is really no lag in Illinois in terms of an earnings perspective.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

So it will get picked up in the true-up. Thank you very much.

Operator

Thank you. Our next question comes from the line of Greg Gordon with Evercore ISI. Please proceed with your question.

Q - Greg Gordon {BIO 1506687 <GO>}

Thanks. Good morning, gentlemen. The way that the energy efficiency program worked, were you getting an incentive for performance that was on a one-year lag, so you would get sort of 2014 and 2013, 2015 and 2014, et cetera, or are you getting a – or is this a payment that you're getting for the cumulative impact of the program, and so it happens sort of once every several years?

A - Martin J. Lyons {BIO 4938648 <GO>}

Yes, Greg. This is Marty. So the incentive that we expect to recognize in 2016 is really for that full period 2013, 2014 and 2015.

Q - Greg Gordon {BIO 1506687 <GO>}

Got you. So if I think about the moving parts here – and we could talk more about this on Monday (48:03), there'll be some offset to top line revenue from the incentive payment. Are those the only two moving parts to this or is there something else that gets into the mix in terms of understanding the net impact of the energy efficiency program, or is it just those two pieces?

A - Martin J. Lyons {BIO 4938648 <GO>}

Well, as you look into 2016, that is correct. Those would be the two moving pieces, absent the new energy efficiency program put in place. There would be the bleed over impact into 2016 of the prior year's programs partially offset by the expectation of this incentive payment. So as you look into 2016, those are the moving parts. If you look back historically, it's been a function of not only the reduction in sales, but the net shared benefits that we've received. But once the three year program ends, those go away. So it's really, as you look into 2016, you do have the two components.

Q - Greg Gordon {BIO 1506687 <GO>}

Okay. So what was this net shared benefits component, and was that calculated on a sort of contemporaneous year basis or was that calculated on a lag?

A - Martin J. Lyons {BIO 4938648 <GO>}

It was calculated on, I guess, a contemporaneous year basis, not exactly sure what you mean by that. But basically...

Q - Greg Gordon {BIO 1506687 <GO>}

Meaning that (49:22) the calculation of the benefit happened in the same year as the calculation of the savings.

A - Martin J. Lyons {BIO 4938648 <GO>}

Yeah. So it was actually calculated based upon the programs and what incentives were actually provided to the customers and the expected benefits that were to be received from the customers as a result of those programs. So I think it was contemporaneous. What you'd do is you'd provide the customer an incentive, there'd be an expected benefit there in terms of energy use savings and then a percentage of that was reflected in that year in terms of net shared benefits. And as we've shown in the slides, it was basically a present value of the expected benefits to be received from the customer from those programs offered in that year.

Q - Greg Gordon {BIO 1506687 <GO>}

Okay. I get it. So, in 2016 over 2015, you won't be getting any – you won't be having – you won't have any programs, so you won't be getting that revenue. There will be a bleed over effect of the impact of the prior year's programs, but then you will get the bonus which happens every several years and then we move on from there.

A - Martin J. Lyons {BIO 4938648 <GO>}

You got it.

Q - Greg Gordon {BIO 1506687 <GO>}

Thank you. I'll see you in a few days.

A - Warner L. Baxter {BIO 1858001 <GO>}

Thanks, Greg.

Operator

Thank you. Our next question comes from the line of Michael Lapides with Goldman Sachs. Please proceed with your question.

Q - Michael Jay Lapides {BIO 6317499 <GO>}

Hey, guys. Quick one here. You mentioned the positive impact of lower O&M next year. How material is that? How should we think about that relative to the slight year-over-year headwind due to the, having a Callaway outage, like which one's bigger or smaller, do they offset et cetera?

A - Warner L. Baxter {BIO 1858001 <GO>}

Michael, obviously we're not giving guidance today. We wanted to give you some of the overall moving pieces. So I don't think I really want to get into quantifying the overall magnitude. We continue to work hard, as we said on the call, to leverage our continuous improvement efforts, to be disciplined in our management of cost, to be disciplined in our management of our capital, and we'll continue to do those things. But, I think pre-mature at this point to really get into quantifying the pluses and minuses on 2016.

Q - Michael Jay Lapides {BIO 6317499 <GO>}

Where do you see is the biggest opportunities to realize cost savings?

A - Warner L. Baxter {BIO 1858001 <GO>}

Yeah. Michael Moehn will again jump in on that one.

A - Michael L. Moehn {BIO 5263599 <GO>}

Hi, Michael, it is Michael Moehn. I think as we think about the program, we've had conversations about this in the past. It really is across the entire business. I mean I think that it's anywhere from generation to the distribution side, to the overhead as well. And so, we're probably three years, two and a half years into this five-year program. We're making great progress. I mean it's really based on two things; work force productivity and deploying technology to drive efficiency. There are obviously bigger areas based on where some of the spend is within energy delivery and some of the power plants, but it is equally being deployed throughout the organization.

A - Warner L. Baxter {BIO 1858001 <GO>}

So, Michael, I would just add, this is Warner, that – two things. We talk a lot about Missouri, but as Michael said, it isn't just at Missouri, it's across our entire organization which includes our business and corporate services. And I'll tell you, we have a disciplined approach across all of our businesses; both in Illinois as well as in transmission. So this is something we work together as a team and something that we will continue to work together as a team going forward.

Q - Michael Jay Lapides {BIO 6317499 <GO>}

Got it. Thanks, guys. Much appreciated.

A - Warner L. Baxter {BIO 1858001 <GO>}

Thank you, Michael.

Operator

Thank you. Our next question comes from the line of Gregg Orrill with Barclays. Please proceed with your question.

Q - Gregg Gillander Orrill {BIO 1532939 <GO>}

Yes. Thank you. How much of you reserved year-to-date for the transmission ROE? And is that just at ATXI?

A - Martin J. Lyons {BIO 4938648 <GO>}

Gregg, this is Marty. I think we'll definitely – when we file our Q, which we expect to do later today, we'll have that number. I believe the number is about $36 million. But check the Q4 to be sure. And really that's being reflected both at ATXI as well as at Ameren Illinois. So, it's basically proportionate to the rate base that we've got in those two jurisdictions or to...

Q - Gregg Gillander Orrill {BIO 1532939 <GO>}

And that would be pre-tax?

A - Martin J. Lyons {BIO 4938648 <GO>}

To legal entities I should say.

Q - Gregg Gillander Orrill {BIO 1532939 <GO>}

That's pre-tax, I assume?

A - Martin J. Lyons {BIO 4938648 <GO>}

Yes.

Q - Gregg Gillander Orrill {BIO 1532939 <GO>}

Okay. Thank you.

A - Martin J. Lyons {BIO 4938648 <GO>}

Thank you.

Operator

Thank you. Our next question comes from the line of David Paz with Wolfe Research. Please proceed with your question.

Q - David A. Paz {BIO 16573191 <GO>}

Hey, good morning.

A - Warner L. Baxter {BIO 1858001 <GO>}

Good morning.

A - Martin J. Lyons {BIO 4938648 <GO>}

Good morning.

Q - David A. Paz {BIO 16573191 <GO>}

Can you quantify the potential investments associated with the NERC requirements on ballpark?

A - Martin J. Lyons {BIO 4938648 <GO>}

David, I don't think we can. I mean I think that in terms of exactly what those are, we've certainly given, as you well know, our planned rate base growth through 2019, it's got transmission investments in there. Some of those are for NERC projects, especially those that are within Ameren Illinois. But, we don't call them out separately. There is certainly NERC related projects happening in Missouri as well.

And then also, as we've mentioned, while we've got that 6% rate base growth out through 2019, it doesn't yet – hasn't yet been updated to reflect any of the $500 million to $1 billion of incremental projects that we're evaluating. As you know, it's a third-to-third-to-third between Illinois distribution, electric distribution, gas distribution, and FERC regulated transmission. Portion of those moneys too could go towards NERC reliability projects. But, David, I can't really breakout within the current disclosed program or the $500 million to $1 billion specifically how much is NERC related.

Q - David A. Paz {BIO 16573191 <GO>}

Okay. But so when you talk about the potential investment from those, it's really embedded in that $500 million to $1 billion or already in other aspects of your plan.

A - Martin J. Lyons {BIO 4938648 <GO>}

Right, David.

Q - David A. Paz {BIO 16573191 <GO>}

Okay. And then on your consolidated – looking at the consolidated balance sheet, what is your target equity ratio and where did you end the quarter?

A - Martin J. Lyons {BIO 4938648 <GO>}

Yeah. So if you actually look at the last page of our attachments to our press release, you will see a stats page and we're right around 50-50 debt in equity at the end of the quarter, and over time that's approximately where we want to be from a debt-to-equity perspective.

Q - David A. Paz {BIO 16573191 <GO>}

Got you. Got you. Okay. And just on customer growth, have you provided what you're seeing in terms of the level of growth particularly in Missouri, not sales growth, the customer growth?

A - Martin J. Lyons {BIO 4938648 <GO>}

No, we didn't comment on that earlier. In Missouri, this year year-to-date, we've seen some growth, but it's been modest. I think their residential customer count is up about 0.3%, commercial customer count up about 0.7%. The Illinois or excuse me, the industrial customer count unfortunately is down about 0.8%. But we have been seeing a little bit of growth in the residential and commercial areas in Missouri.

Q - David A. Paz {BIO 16573191 <GO>}

Okay. Great. Thank you.

A - Martin J. Lyons {BIO 4938648 <GO>}

Very good.

Operator

Thank you. Mr. Fischer, there are no further questions at this time. I'd like to turn the floor back to you for any final concluding remarks.

A - Douglas Fischer {BIO 1498560 <GO>}

Thank you for participating in this call. Let me remind you again that a replay of the call will be available for one year on our website. If you have questions, you may call the contacts listed on today's release. Financial analyst inquiries should be directed to me, Doug Fischer or my associate, Andrew Cook. Media should call Joe Muehlenkamp. Our contact numbers are on today's news release. Again, thank you for your interest in Ameren and have a great day.

Operator

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.