Q2 2018 Earnings Call

Company Participants

- Douglas Fischer, Senior Director of Investor Relations
- Martin Lyons, Chief Financial Officer
- Michael Moehn, Chairman and President, Ameren Missouri
- Warner Baxter, Chairman, President and Chief Executive Officer

Other Participants

- Andrew Levi, Analyst, ExodusPoint Capital Management
- Ashar Khan, Analyst, Verition.
- Greg Gordon, Analyst, Evercore
- Julien Dumoulin Smith, Analyst, Bank of America Merrill Lynch
- Paul Patterson, Analyst, Glenrock Associates
- Stephen Byrd, Analyst, Morgan Stanley

Presentation

Operator

Greetings, and welcome to the Ameren Corporation's Second Quarter 2018 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Mr. Doug Fischer, Senior Director of Investor Relations for Ameren Corporation. Thank you. Mr. Fischer, you may begin.

Douglas Fischer {BIO 1498560 <GO>}

Thank you, and good morning. 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. Warner and Marty will discuss our earnings results and guidance as well as provide a business update, then we will open the call for questions.

Before we begin, let me cover a few administrative details. 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 a presentation on the amereninvestors.com homepage that will be referenced by our speakers. As noted on page two of the presentation, 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 section in our filings with the SEC. Lastly, all our per share earnings amounts discussed today -- during today's presentation, including earnings guidance, are presented on a diluted basis unless otherwise noted.

Now here's Warner, who will start on page four of the presentation.

Warner Baxter {BIO 1858001 <GO>}

Thanks, Doug. Good morning, everyone, and thank you for joining us.

Earlier today, we announced second quarter 2018 earnings of $0.97 per share, compared to earnings of $0.79 per share in the second quarter of 2017. Year-over-year increase was driven by higher Ameren Missouri electric retail sales, primarily due to extremely warm early summer temperatures compared to near normal temperatures in the year-ago period. In addition, the comparison benefited from earnings on increased infrastructure investments made at Ameren Transmission, Ameren Illinois Electric Distribution and Ameren Illinois Natural Gas. These favorable factors were partially offset by higher Ameren Missouri other operations and maintenance expenses, primarily reflecting higher-than-normal scheduled nonnuclear plant outages. Marty will discuss these and other factors driving the quarterly results in more detail in a moment.

We continue to focus on executing our strategic plan, which includes operating our businesses safely, while strategically investing capital to serve our customers, achieving constructive outcomes in our regulatory proceedings and exercising disciplined cost management. As a result of higher electric sales due to the extremely warm weather and solid execution of our strategy, we have raised our 2018 guidance range from $3.15 to $3.35 per share, up from our prior range of $2.95 per share to $3.15 per share.

Moving now to page five. Here, we reiterate our strategic plan, which we have been executing very well over the last several years. That plan is expected to continue to result in strong long-term investment and earnings growth. The first pillar of our strategy stresses investing in and operating our utilities in a manner consistent with existing regulatory frameworks. The result of that strategy has been our multiyear focus on investing in energy infrastructure for the long-term benefit of customers and jurisdictions that are supported by modern, constructive regulatory frameworks that provide fair, predictable and timely cost recovery. I'm very pleased to say that, with the recent enactment of constructive legislation in Missouri through Senate Bill 564, all four of our business segments now have constructive regulatory frameworks, in which we can now allocate significant amounts of capital to support much-needed investment for the benefit of our customers and the communities that we serve.

I will cover the Missouri legislation in more detail in a moment. Of course, another important element of the first pillar of our strategy is achieving constructive outcomes in regulatory proceedings. As Marty will cover in more detail later, we have been very busy in Illinois in managing our electric and natural gas regulatory proceedings. We have been making solid progress in settling important issues with key stakeholders, including an agreement in late July with the ICC staff on all issues in our pending natural gas distribution rate view. We expect final decisions from the ICC in these proceedings later this year.

In Missouri, we recently reached a settlement with all parties to reduce electric rates associated with passing to customers savings from the lower federal income tax rate, and the Missouri Public Service Commission subsequently approved this settlement. Finally, another important element of the first pillar of our strategy has been, and remains, our relentless focus on continuous improvement and disciplined cost management to keep rates affordable and keep -- and returns close to allowed returns in all of our jurisdictions.

Turning now to page six on the second pillar of our strategy: enhancing regulatory frameworks and advocating for responsible energy and economic policies. Over the years, we've been successful in executing this element of our strategy through extensive collaboration with key stakeholders in all of our regulatory jurisdictions. I am pleased to report that these efforts paid off again in the second quarter when a Missouri legislator passed Senate Bill 564 with strong bipartisan support in both chambers, and which was later signed by the governor. I view the passage of Senate Bill 564 is a win-win for our shareholders, our customers and the entire State of Missouri, just as I did with the passage of grid modernization legislation in Illinois several years ago.

Notably, this legislation enhances the Missouri regulatory framework to support investments in energy infrastructure as well as cybersecurity and digital technologies which benefits all stakeholders. In particular, beginning later this month, Senate Bill 564 will improve our ability to earn a fair return on all qualifying capital investments made between rate cases by allowing us to defer for future recovery 85% of the depreciation expense and return on rate base related to plant placed in service between rate cases. This provision applies to all qualifying plant placed in service after August 28, including plant related to investments that we outlined during our year-end conference call in February.

As a result, this change in the regulatory framework will now enable Ameren to move forward with approximately $1 billion in incremental investment through 2023 to modernize Missouri's electric grid, including the installation of smart meters and deployment of other advanced technologies. These investments are expected to be largely additive to the five-year capital expenditure plan we outlined in February. For our shareholders, these incremental investments are expected to add to the already strong projected rate base growth of 7% annually from 2018 to 2022 that we outlined in February. We are well under way and plan to produce significant capital projects and expect to provide an update to our capital investments, rate base and earnings growth plans either on our third quarter earnings conference call in November, or during our year-end conference call next February. Senate Bill 564 will also deliver significant benefits to our customers.

In fact, it already has. In particular, it has enabled Ameren to begin to flow back to customers the benefits of the federal tax reform. Effective August 1, customers received a 6.1% rate reduction due to tax reform. Customers also wanted greater rate certainty, and Senate Bill 564 delivers on this as well. Under the legislation, electric rates are frozen until April 1, 2020, and average overall rate increases are capped at 2.85% compounded annually through 2023. We believe that we will be able to stay under this rate cap as we work to effectively manage costs throughout our business, including those associated with coal and related transportation costs, operations and maintenance, taxes and financing costs. Importantly, customers want an electric grid that is more reliable and secure, and they want to have a greater ability to manage their energy costs. The incremental $1 billion of investment I described earlier is targeted at projects that will deliver on all of these fronts.

Of course, Senate Bill 564 maintains continued strong Missouri PSC oversight and consumer protections. For the State of Missouri, this incremental investment will clearly create good paying jobs just as our incremental investment in Illinois has. In addition, this legislation includes new and meaningful economic development incentives for certain incremental electric sales to large energy users. These tools will help attract new companies to the state as well as enable existing companies to expand, all of which will drive economic growth and give us the ability to spread our fixed cost over a larger sales base over time. Bottom line is that Senate Bill 564 is a win-win for all stakeholders.

Moving now to page seven, for an update on our wind generation investment plans, which is directly tied to the third pillar of our strategy, creating and capitalizing on opportunities for investment for the benefit of our customers and shareholders. We continue to make progress on Ameren Missouri's proposed investment in at least 700 megawatts or approximately $1 billion of wind generation to achieve compliance with Missouri's Renewable Energy Standard. We entered into an agreement with Terra-Gen to acquire, after construction, a 400-megawatt wind farm to be located in Northeast Missouri, the largest ever in the state. Subsequently, in late May, we filed for a certificate of convenience and necessity with the Missouri PSC.

This filing included a request to use the Renewable Energy Standard rate adjustment mechanism, provided it provides cost recovery between rate cases. A decision on this CCN request is expected by January 2019. Further, we continue to hold discussions with other wind developers and expect to file for certificates of convenience and necessity for ownership of the balance of our wind generation needs later this year.

And finally, regional transmission organization interconnection studies are under way for all sites under consideration. We look forward to executing this important component of Ameren Missouri's Integrated Resource Plan, because we believe that will deliver clear benefits to our customers, the environment and the communities we serve.

Turning now to page eight. In February, we rolled forward our five-year growth plan, which included our expectation of 5% to 7% compound annual earnings per share growth for the 2017 through 2022 period, using 2017 core earnings per share as a base. This earnings growth outlook was primarily driven by expected 7% compound annual rate base growth over the same period. Importantly, our five-year rate base growth projections do not include the approximately $1 billion of incremental Ameren Missouri capital expenditures through 2023 associated with the enactment of Senate Bill 564, or the potential incremental Ameren Missouri investment of approximately $1 billion of wind generation by 2020. These incremental investments are expected to be largely additive to Ameren's overall five-year plan outlined in February.

In closing, we accomplished a great deal during the second quarter. Our operations were solid, which contributed to improved reliability and customer satisfaction. Our earnings were strong, and we increased our 2018 earnings guidance. We entered into an agreement to acquire, after construction, a 400-megawatt wind farm, which is the largest in the State of Missouri, and will help us continue to diversify our generation portfolio.

Further, we achieved a major strategic milestone with the passage of the constructive legislation in Missouri, which we expect will strengthen our already strong infrastructure investment plans and rate base growth outlook. Simply put, we are doing what we said we would do. We are executing on our strategic plan across all of our businesses, which is driving our strong long-term earnings growth outlook and when combined with our solid dividend yield, which is currently about 3%, we believe results in a very attractive total return opportunity for shareholders compared to our regulated utility peers. The bottom line is that we are delivering superior long-term benefits for our customers with communities we serve and our shareholders.

Again, thank you all for joining us today, and I'll now turn the call over to Marty.

Martin Lyons {BIO 4938648 <GO>}

Thanks, Warner. Good morning, everyone.

Turning now to page 10 of our presentation. As Warner mentioned, today, we reported second quarter 2018 earnings of $0.97 per share compared to earnings of $0.79 per share for the year-ago quarter. The key factors that drove the overall $0.18 per share increase are highlighted by segment on this page. Ameren Missouri, our largest segment, and also the largest driver of the year-over-year earnings improvement, reported an increase of $0.20 per share, up from $0.49 per share in 2017 to $0.69 in 2018. As Warner mentioned, this improvement was driven by higher electric retail sales primarily due to near-record temperatures compared to near-normal temperatures experienced in the year-ago period. For additional perspective, based on data for St. Louis going back to the late 1800s, April was the fourth coldest; May, the hottest; and June, the eighth hottest on record. Bottom line, this was quite an unusual quarter for weather. This favorable impact of higher sales was partially offset by an expected increase in other operations and maintenance expenses primarily reflecting higher-than-normal scheduled nonnuclear plant outages.

Turning to the other segments, earnings for Ameren Transmission were up slightly, reflecting increased infrastructure investments. Earnings for Ameren Illinois Natural Gas were comparable as the increased investment qualifying for the infrastructure rider was offset by a partial reversal of first quarter 2018 federal income tax rate benefit. Finally, earnings for Ameren Illinois Electric Distribution were also comparable, as increased investments in infrastructure contributed about $0.01 per share, but this was offset by higher-than-normal nonrecoverable cost. In summary, we had a strong second quarter that contributed to increased first half earnings across each of our 4 operating segments. Details on the year-to-date results are provided in the appendix of this presentation.

Before moving on, let me briefly cover electric sales trends for Ameren Missouri and Ameren Illinois Electric Distribution for the first 6 months of this year compared to the first 6 months of last year. Weather-normalized kilowatt-hour sales to Missouri residential and commercial customers, on a combined basis, increased 2%, excluding the effects of our energy efficiency plan under MEEIA. We exclude MEEIA effects because the program provides rate recovery to ensure that earnings are not affected by reduced electric sales resulting from our energy efficiency efforts. Weather-normalized kilowatt-hour sales to Illinois residential and commercial customers, on a combined basis, increased 1%. Recall that changes in electric sales in Illinois, no matter the cause, do not affect our earnings since we have full revenue decoupling.

Moving to page 11 of our presentation, I would now like to briefly touch on key drivers impacting our 2018 earnings guidance. As Warner stated, we raised our 2018 guidance range to $3.15 per share to $3.35 per share, up from our prior range of $2.95 per share to $3.15 per share. This updated guidance assumes normal temperatures for the second half of this year. Select earnings considerations for the balance of the year are listed on this page. These considerations are largely self-explanatory and consistent with the 2018 earnings drivers and assumptions initially discussed on our February earnings call. I'd like to note the last item on this page. As we pass to customers the benefit of the lower federal tax rate, we expect a difference between the recognition of revenue and income tax expense to cause quarterly variations for the balance of this year. However, this is not expected to impact full year results.

Moving now to page 12 for a discussion of select regulatory matters. For Ameren Transmission, there has been no change in the status of the second complaint case pending at the FERC that seeks to reduce the base allowed ROE for MISO transmission owners. We continue to expect that the FERC commissioners will consider the court ruling in the New England ROE case as well as the MISO transmission owners motion to dismiss the second MISO ROE complaint case, as both may influence the future MISO allowed ROE.

Moving to Ameren Illinois Electric Distribution regulatory matters. In April, we made our required annual electric distribution rate update filing. Under Illinois' formula ratemaking, our utility is required to file annual rate updates to systematically adjust cash flows over time for changes in cost of service and to true up any of prior period over or under recovery of such costs. In late June, the ICC staff issued its recommendation, and it was comparable to Ameren Illinois' request. A decision is expected in December, with new rates expected to be effective in January 2019.

Moving to page 13 into Ameren Illinois Natural Gas regulatory matters. Earlier this year, we filed with the ICC for an annual increase in gas distribution rates using the 2019 future test year. In late July, we updated our request to incorporate an agreement with the ICC staff on all issues, including a 9.87% ROE, a 50% equity ratio and $1.6 billion of rate base. A decision is expected in December, with new rates expected to be effective in January of 2019.

Turning now to Missouri regulatory matters. As Warner mentioned, in July, pursuant to Senate Bill 564, the Missouri PSC approved passing the savings from the lower federal income tax rate to customers effective August 1. This reduced customer rates 6.1% or $167 million annually, and includes the flowback of excess deferred income taxes. In addition, consistent with the Missouri PSC order, we have accrued $47 million as of June 30, 2018, representing tax benefits realized year-to-date, which will be flowed to customers following our next rate review. Recall that our earnings guidance for 2018 assumes that the benefits of federal tax reform would be fully passed on to customers.

Finally, turning to page 14, I will summarize. We are on track to deliver strong earnings growth in 2018 as we successfully execute our strategy. As we look over the longer term, we continue to expect strong earnings per share growth driven by a rate base growth and disciplined financial management. Further, we expect this growth to compare favorably with the growth of our regulated utility peers. The combination of our growth outlook and attractive dividend yield provides total shareholder return potential that we believe compares very favorably to our peers.

Finally, I'd like to share one last point of recognition. After a 37-year career, either covering Ameren and other utilities as an investment analyst or as our Senior Director of Investor Relations, Doug Fischer is retiring effective mid-August. I know Doug has many friends in the investment community, as he does here at Ameren, as a result of his hard work, knowledge, dedication and personality. I know that I'm going to personally miss working closely with Doug, which I have enjoyed for these past 10 years. I would like to thank him and wish him, Cindy, and his family well in the next chapter of his life. Thanks, Doug.

With that, I'd like to let you know that Andrew Kirk, our new Director of Investor Relations, will be leading our efforts in this important area going forward. Andrew has been with Ameren for 17 years, including over 4 years in Investor Relations, and he'll be a great asset along with our newest IR team member, Megan McPhail. Megan has been with Ameren for 10 years supporting our Corporate Modeling and Treasury groups.

I will now turn it back over to Warner for some closing remarks.

Warner Baxter {BIO 1858001 <GO>}

Thanks, Marty. Look, I simply want to echo Marty's comments about Doug. As many of you know, for decades -- let's leave it at decades, Doug was a respected industry analyst. And he was always thoughtful, always prepared and certainly, always steady. And we're very fortunate that Doug joined the Ameren team some 10 years ago. And he continued to be that thoughtful and respected voice to me, Marty and certainly to those in the investor community. And frankly, in so doing, meaningfully enhanced our investor relations program. So Doug, thank you for your contributions to our company and our industry. You will certainly be missed.

And so in closing, I wish you, Doug and your family the very best in health and happiness in your retirement.

That concludes our prepared remarks. We now invite questions.

Questions And Answers

Operator

Thank you. We will now be conducting a question-and-answer session. (Operator Instructions). Our first question comes from the line of Julien Dumoulin Smith with Bank of America Merrill Lynch. Please proceed with your question.

Q - Julien Dumoulin Smith {BIO 20008787 <GO>}

Hey, good morning everyone.

A - Warner Baxter {BIO 1858001 <GO>}

Good morning Julien. How are you doing?

Q - Julien Dumoulin Smith {BIO 20008787 <GO>}

Good. Well, I want to echo the last two comments here and I want to also send my congratulations to Doug, Andrew. You guys have been great. Thank you very much and all the best. Just to kick it off with a quick question here, if I can. In terms of the legislation and what it means in Missouri, just talking about sort of the meat and potatoes of lag expectations. Can you talk about the depreciation deferral accounting and just to what extent, a, this could eventually change your capital budget spending sort of independent of the two factors that are out there that are not reflected? And then secondly, just as you think about sort of structural expectations, particularly given a longer period in between the next rate case, how do you think about ROE lag over the next few years as well in Missouri?

A - Warner Baxter {BIO 1858001 <GO>}

Thanks. Marty, why don't you perhaps take that, talk about some of the structural things around SB 564, and then perhaps Michael Moehn, the President of our Missouri operations, can sort of chime in. Marty?

A - Martin Lyons {BIO 4938648 <GO>}

Yes, sure Julien. Appreciate the question. The biggest impact I would say of Senate Bill 564 over the next several years is going to be our expectation of deploying about $1 billion of additional capital relative to the capital expenditure plan we've put forward in December. And -- or as announced in February. The driver of that really is the ability to defer depreciation and return on those projects that go into service in between rate cases. When I say defer, it's more specifically about 85% -- is 85% of those impacts on depreciation and return over time. So that should really help us to mitigate the impact we've had on regulatory lag of capital expenditures. As Warner mentioned in his talking points, that accounting and that regulatory treatment applies to the vast majority of our capital expenditures, not just the incremental $1 billion as we move forward. So look, we're not giving a specific guidance here today on the future.

As we roll those capital expenditures and additional capital expenditures associated with wind into our longer-term capital expenditure plans and our rate base plans. We'll update our overall earnings growth guidance. And we'll tell you that a key part of our strategy is to continuously improve our operating performance and earn close to our allowed returns. That will continue to be sort of the hallmark of our plans going forward, is the work to be able to deploy the incremental capital, while still earning close to our allowed returns. In terms of rate cases, we do have a moratorium for some time, and then we'll begin to have the opportunity to have rate reviews going forward. The earliest we can file our next rate case is in May of 2019, with rates going into effect in April of '20. And the latest we can file our next rate review is May of '20, with rates then going into effect after an 11-month review process, in approximately April of '21. So those are the next sort of the goalposts, if you will, for the timing of our next rate case.

Q - Julien Dumoulin Smith {BIO 20008787 <GO>}

It just sounds -- just to clarify that, it sounds as if you can earn your allowed returns through that, perhaps, extended period?

A - Martin Lyons {BIO 4938648 <GO>}

That's going to be our goal, is to earn very close to our alloweds in the next period. Look, Senate Bill 564, to be clear, is not formulaic rate-making. There is still the impacts of things like O&M expense or variations in interest or other factors that could move earnings up or down relative to the allowed return coming out of a rate review. So -- but, as we've said many times, the things that the 564 addressed: the depreciation, the return on investment, those were the things that were significant driver of regulatory lag as we deployed incremental capital. So 564 is on point to address those things, and it's going to allow us to deploy that incremental billion. But we'll still have to have financial discipline, strong financial management in order to continue to earn close to our allowed.

A - Warner Baxter {BIO 1858001 <GO>}

Which is certainly a key part of our strategy, not a new one. It's one that we've been executing on. Michael, any final comments?

A - Michael Moehn {BIO 5263599 <GO>}

The only thing I was going to mention is I think we've said previously with respect to that $1 billion of capital, think about it ratably over the next five years. There's going to be some variability in it, but we're busy working to flesh out what those plans are going to be over the next one and five years and put that in front of the commission.

A - Warner Baxter {BIO 1858001 <GO>}

Julien, thank you for your question and we appreciate your kind comments as well about Doug and Andrew.

Operator

(Operator Instructions) Thank you. Our next question comes from Paul Patterson with Glenrock Associates. Please proceed with your question.

Q - Paul Patterson {BIO 1821718 <GO>}

Good morning. How are you?

A - Martin Lyons {BIO 4938648 <GO>}

Good morning Paul. How are you?

Q - Paul Patterson {BIO 1821718 <GO>}

Congratulations, Doug. You must be excited. So I wanted to just follow up on a few things. One was, with respect to the Noranda start-up -- it's not Noranda anymore, but the smelter, I think it's expected to start up now again, is that correct?

A - Michael Moehn {BIO 5263599 <GO>}

It is. I think they're scheduled to start, I believe, two of the three pot lines. And we are not really involved in that at this point. They've entered into an agreement with the municipal co-op down there to supply that power at this point.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay, fair enough. And then just sort of just to follow up on all the activity that you mentioned, and you mentioned of course that the $1 billion associated with the wind and the $1 billion associated with the other -- the grid mod is not in there. I was just wondering, are you thinking that -- are there any other opportunities that you guys are seeing, maybe, that we should maybe be thinking about? I know you guys are going to be updating the capital expense maybe in the third or perhaps fourth quarter, but just sort of wondering if there's anything more we should be thinking about there.

A - Warner Baxter {BIO 1858001 <GO>}

Paul, this is Warner. As you step back, I think our rate base growth is not just a five-year plan. We believe we have a robust infrastructure plan beyond really through 2022. And it isn't just in Missouri. We talked about grid modernization there, which is meaningful. We've talked about renewable energy investments, which, too, are meaningful and could be more in the future. But when you look at the investments that we still have in Illinois, and we're executing the grid modernization plan there. But we've talked in the past about the potential incremental investments we have to do in the gas business. We continue to deploy capital there because there's a need, but also because there's a great regulatory framework over there. And of course, in transmission, we look at not just the multi-value projects, which we're executing very well, but look, there are a number of projects that we have to continue to execute there in terms of just system expansion when you think about NERC requirements. And so when we look at our overall infrastructure pipeline, it's robust across all of our businesses. And so our objective is to now execute on the projects that we have in front of us over the next five years, but also to create and capitalize on infrastructure pipeline opportunities in the future. That has been our focus and it will continue to be.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. And then just a clarification, I apologize I didn't get it completely. The sales growth numbers, I think you said, in Missouri, weather-adjusted was 2% before the MEEIA. Could you clarify a little bit of that? I apologize, I'm just not picking up on it quick enough.

A - Martin Lyons {BIO 4938648 <GO>}

That's okay, Paul. This is Marty. We talked about this in Missouri, the residential and commercial were up about 2%, excluding the energy efficiency programs under MEEIA. Industrial was also up about 1.2%, and this is in the second quarter. Illinois residential and commercial customers were -- sales were up about 1%, industrial was up about 3% there. And we reminded folks on the -- in the prepared remarks of course, in Illinois, we have decoupling. So while sales were up, and that's great, there's no effect on earnings in Illinois because of the decoupling. So those are the statistics that we've provided overall for the second quarter.

Q - Paul Patterson {BIO 1821718 <GO>}

What do you make of the 2%, though? I mean, is that -- I mean that's before energy efficiency. I'm just wondering, your energy efficiency efforts, I realize that you can collect them or what have you, but what would the impact be without it, I guess? Do you follow? What was the impact of it, I guess? Do you follow me? In other words...

A - Martin Lyons {BIO 4938648 <GO>}

We have to look back. My recollection is we were up maybe 0.5%-or-so, excluding the MEEIA impact. So it's still up even including, I should say, the MEEIA impacts. And I think overall, what I make of it is, it's good trends. We've been seeing on -- those are all -- actually, the numbers I gave I think Q2. those were all year-to-date numbers that I gave. And if you look across all of that, we were up for residential, commercial, industrial in those states. And I think it reflects some of the good underlying data too. We've seen good growth in terms of residential and customer accounts year-over-year. In Missouri, those were up about 0.8%. They're a little more flattish in Illinois. But we've seen good growth in those customer accounts in Missouri. Our unemployment has been tracking well. We've seen job growth over the past year in both states. In Missouri -- in our area in Missouri, the unemployment's around 3.6% versus nationally around 4%. And in our service territory in Illinois, it's right about that national average, where we're sitting at about a 4.1%. So I think the trend data and customer accounts look good and weather-normalized sales look good. And I'd say overall, we feel like the economic conditions in both states are stable. I think going forward, Paul, we're still thinking more about flat in terms of the sales growth and these are nice trends year-to-date, but we'll continue to monitor things long term. For our longer-term planning purposes, we've been thinking more about flattish in terms of the sales growth because while we are seeing positive underlying economic data, we do have these energy efficiency plans and therefore net, we expect about flat.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay, great. And once again congratulations.

Operator

Thank you. Our next question comes from -- I'm sorry. Our next question comes from the line of Andrew Levi with Exodus Point Capital Management. Please proceed with your question.

Q - Andrew Levi {BIO 17235317 <GO>}

Hey guys, good morning.

A - Warner Baxter {BIO 1858001 <GO>}

Good morning. How are you?

Q - Andrew Levi {BIO 17235317 <GO>}

Glad to see another good quarter. You guys are racking it up, becoming like CMS and (inaudible). Very impressive. And then Doug, for you, we spoke already, so I'll just say you did a great job, as always, for 25 years. Actually, I've known you for 25 years so.

A - Warner Baxter {BIO 1858001 <GO>}

Pretty amazing.

A - Douglas Fischer {BIO 1498560 <GO>}

It is pretty amazing.

Q - Andrew Levi {BIO 17235317 <GO>}

Pretty scary, actually, for all of us.

A - Warner Baxter {BIO 1858001 <GO>}

We won't go into storytelling about Doug. Let us move on.

Q - Andrew Levi {BIO 17235317 <GO>}

Anyway, so back to the Q&A. Can we just, timing-wise, just to understand as far as the wind and as far as the grid-mode relative to Missouri, new disclosures, CapEx, growth rate guidance, all that. When will that all be disclosed? Is that going to be at EI or how should we think about that?

A - Warner Baxter {BIO 1858001 <GO>}

Marty, why don't you touch -- I hit on some of this in our talking points, but why don't you touch on some of the things we're thinking about either the third quarter or early next year? And then, Michael, perhaps you'd briefly touch on some of the things you're doing to prepare to move forward on those projects. So Marty?

A - Martin Lyons {BIO 4938648 <GO>}

Sure. As Warner just said, we're thinking either at the earliest on our third quarter conference call, which we'll obviously lead in the EI, as you mentioned, or as we have done more traditionally on our year-end call, which is in February. So that's the way to think about it. In terms of the spend in Missouri, the incremental $1 billion of grid modernization, that would be expected to kick in beginning in 2019 and it'll be fairly ratable, but I'd say build some over the five-year period. And -- but that's how we see that laying out as we mentioned on the call. In terms of the wind, while we have filed a certificate of convenience and need request with the commission for the first 400, we're still working with developers on the remainder. We expect to have those done and filed by the end of the year. And all of that planning and execution work will factor into our thoughts in terms of when we update our longer-term guidance. Michael, any additional thoughts?

A - Michael Moehn {BIO 5263599 <GO>}

Yeah. I think the only thing to add in addition to what you said about the wind would just be around the grid modernization. So we have some filings that we were going to -- we'll put in front of the commission early in '19 that will lay out the $1 billion. It has to be on a great deal of detail for one year and a little less detail for the subsequent four years. But we're very focused on that today, and be able to tell the story and the benefits for our customers.

A - Warner Baxter {BIO 1858001 <GO>}

So Andy, all of those factors, as Marty said, will go into the overall timing. And so this is why we haven't made a specific choice. If we're ready to do it in November, we will do so. If not, we'll provide the update during our February conference call.

Q - Andrew Levi {BIO 17235317 <GO>}

Okay. And just to make sure that I understand what you were saying, that your current kind of forecast of 5% to 7%, kind of everything that's in the handout, doesn't include any of --

A - Warner Baxter {BIO 1858001 <GO>}

That's correct. It does not include the $1 billion associated with grid modernization or the potential $1 billion associated with the wind generation.

Q - Andrew Levi {BIO 17235317 <GO>}

All right, thank you very much.

A - Warner Baxter {BIO 1858001 <GO>}

You are welcome.

Operator

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

Q - Greg Gordon {BIO 1506687 <GO>}

Thanks. Doug, I think obviously it goes without saying, you've been fantastic. You've been a great peer as well as superbly professional. And we'll miss you, and I'll be jealous of all the free time you're going to have.

My question is with regard to -- well, presumption that when you give us the updated capital expenditure forecast, you're also going to tell us how you're going to need to finance that spending, right? So is it right to assume a base case of sort of $0.50 of every $1 of incremental capital is funded -- needs to be funded with equity, and the rest can be funded with utility subsidiary debt, which is roughly equivalent to the cap structure or can you walk us through your credit metrics -- current credit metrics, where they stand and how that will frame up the use of the balance sheet to fund the growth?

A - Martin Lyons {BIO 4938648 <GO>}

Yeah. Greg, this is Marty. As it relates to the credit metrics and where we stand there. With S&P right now, of course, we're at BBB+. They've set an FFO-to-debt threshold of 13%, they've got a positive outlook there. At Moody's, we've got Baa1 at Ameren overall; and then at Missouri and Illinois, A3; FFO-to-debt threshold there for all of those entities at 19%. And we don't typically disclose our exact metrics in terms of where we're at. But we feel comfortable as we sit here today with our current plan that we'd be able to achieve metrics at or above those levels. We like the ratings we have today. As you know, we've worked hard to improve our business risk profile over time and to maintain good credit metrics and so we do like where they sit today.

And as you also know, when we updated our guidance at February, which we had not a lot of capital expenditure plans, but the incremental cash flows and rate base impacts of tax reform, we did decide at that time to begin to issue some equity under the dividend reinvestment and employee benefit plans, really with the goal of maintaining a strong balance sheet, maintaining good financial flexibility and good credit metrics. And those dividend reinvestment and employee benefit plans are expected to generate anywhere from $75 million to $100 million a year in equity proceeds. As you mentioned, when we update our capital expenditure outlook, our rate base growth plans for the incremental grid modernization and wind investments, at that point, we will step back and take a look at our overall plans with respect to financing that, and we'll be taking into account the things I just talked about: maintaining the strong balance sheet, credit metrics, credit ratings, all of that. Thinking about what's prudent in terms of financing relative to those things. And then also, making sure we think through how best to maximize shareholder value as we pursue putting those investments into rate base and earning good returns for the shareholders.

Q - Greg Gordon {BIO 1506687 <GO>}

Okay. So I should think about it more around -- if I could theoretically come up with a reasonably good estimate of what I think your current FFO-to-debt metrics are, and assuming that they're at or above the targets that I put myself into your -- put my Treasury hat on, that I would look to manage to maintain those metrics whilst trying to maximize the value for shareholders and build the financing plan that way?

A - Martin Lyons {BIO 4938648 <GO>}

I think you've exactly got it right. I mean, I think from a finance treasury perspective, we're balancing all of those things, making sure we've got good balance -- good, strong balance sheet, solid credit metrics relative to our existing ratings and being thoughtful about how to position these things as we move through the regulatory process.

Q - Greg Gordon {BIO 1506687 <GO>}

Okay, thanks guys.Take care.

A - Douglas Fischer {BIO 1498560 <GO>}

Thanks for your kind comments.

Operator

Thank you. Your next question comes from the line of Stephen Byrd with Morgan Stanley. Please proceed with your question.

A - Warner Baxter {BIO 1858001 <GO>}

Good morning, Stephen.

Q - Stephen Byrd {BIO 15172739 <GO>}

Good morning. I mostly just wanted to congratulate Doug and Andrew. Doug, I wish you many, many happy years of retirement. And Andrew, a very well-deserved promotion.

A - Douglas Fischer {BIO 1498560 <GO>}

Thank you, Stephen. We appreciate that.

A - Warner Baxter {BIO 1858001 <GO>}

We appreciate that.

Q - Stephen Byrd {BIO 15172739 <GO>}

I did have a couple of questions, though. This is stepping, I guess, way back and just building a little bit on Greg's and Andy's question. The regulatory and legislative wins that you've had clearly provide some incremental opportunities, and I guess, that could be thought of as tactically beneficial, sort of a tactical win, or it could be thought more of as a structural movement upward in your ability to grow your earnings power, grow your investment and with that, a proportionate increase in kind of longer-term growth expectations. So I guess, philosophically, when you think about where you are now in terms of looking out at your growth potential, do you think this is heading towards a structural shift upwards in your longer-term growth potential and is that something that you can address when you do give us that update?

A - Warner Baxter {BIO 1858001 <GO>}

So Steven, this is Warner. Look, I don't know if you can call it -- whatever you want to call it, I call it a significant strategic win. And it's a strategic win for shareholders, our customers and in the states that we operate in. So when I step back and I look at where we're at today, we now have all four of the operating segments that we operate in with constructive regulatory frameworks that support investment, important investment for the benefit of our customers, the communities that we serve and serving our shareholders. And so as a result, I -- we have said and we will put more capital to work in the State of Missouri, just like we did in Illinois, when they passed constructive legislation. And just like we have been in our transmission business, when they have constructive jurisdictions there. And just like we did in our Illinois natural gas distribution businesses. So whether you call that a structural uplift or not, I call it an uplift, period, and I think it's strategic and I think it's a win-win, as I said during my talking points, really for all stakeholders.

Q - Stephen Byrd {BIO 15172739 <GO>}

Makes sense. And then on thinking about your insulation against rising interest rates or ways to address that. Illinois has got a very efficient mechanism. Let's just assume for the moment that interest rates did rise significantly. Could you just talk to potential ways to enhance the allowed return on equity outside of Illinois in terms of mechanisms? I know there's an extended transmission process, but I'm trying to kind of think through other ways that, that could be sort of -- you could use that in an offensive way in terms of readjusting upward the allowed ROE?

A - Warner Baxter {BIO 1858001 <GO>}

Stephen, this is Warner, I'll start, and then maybe Marty, you can add. Certainly, you pointed out, and rightly so, Illinois has a very unique and constructive mechanism to address a rising interest rate environment. It's one of the few like it in the country, and when they put that together, it was to mitigate this risk. But obviously, with this low interest rate environment, customers in Illinois have benefited immensely. But it is a mechanism that obviously adjusts immediately, which we think is terrific, should the need arise. And of course, you think about the other jurisdictions where we have the ability to go in for rate cases when we deem it appropriate. So while in Missouri, we have a rate freeze through April 2020, obviously, we will respect that. We'll have to come in by 2021 and we have the ability to file rate cases when we believe it's appropriate. Just as we do in Illinois for our natural gas business to file rate cases, we have a forward test year there. And so we can be mindful of those types of things to try and make sure that we match our cost of capital with changes in the interest rate environment. Transmission, a little bit different mechanism to get that. But we think, too, should the need arise, we could go in there -- if interest rates rise sharply, we can get there in a timely fashion to address those types of issues. So I think under our existing frameworks, we have the ability to address that potential risk. And then as I said before, with Illinois, we have really a unique mechanism to doing better.

Marty, anything else you would comment on?

A - Martin Lyons {BIO 4938648 <GO>}

No. I think I'd just note that as it relates to updating the rate cases, we talked on the call about a settlement in our gas case in Illinois, where we've agreed with the staff in terms of the settlement, moving the ROE there up from 9.6% to about 9.87%, so there is that opportunity as we go through these regulatory rate reviews. I'd also mention more on the cost side, too. We've done a lot over the past several years to take advantage of the lower interest rate environment to refinance debt. And as we've been doing that, have been really pushing out the maturity terms and the average tenor of our financings to provide some assurance there in terms of the interest cost we see over time. So I know that wasn't the exact point of your question, I think Warner answered your question head on, but I thought I would add that point.

Q - Stephen Byrd {BIO 15172739 <GO>}

It's very helpful. Thank you very much.

A - Warner Baxter {BIO 1858001 <GO>}

Thanks, Stephen.

Operator

Thank you. (Operator Instructions) Our next question comes from the line of Ashar Khan with Verition. Please proceed with your question.

Q - Ashar Khan {BIO 19979997 <GO>}

Good morning, congrats on good results. And I just wanted to also add -- thank you, Doug, for all your work and help during this time period. Marty, can I just ask, as you review your stuff for the update on the CapEx plan, can we expect that, right now, if I'm right, the base of the CAGR is based on from 2017 to 2022? Well, now you've raised the guidance for, I guess, weather purposes, but can we assume that you would update the base also when you provide -- as we look forward? Or I'm just trying to better understand the parameters to change?

A - Martin Lyons {BIO 4938648 <GO>}

No. I think we would logically update the base, and we'll decide what that'll be. I mean, you're right, the current 5% to 7% compound annual EPS growth expectations that we have out there, which are 2017 through 2022, are based off of a core EPS number in 2017 of $2.83. So as we roll forward our CapEx and rate base growth assumptions, as we update our expectations on EPS growth, logically, we would establish a new base for that going forward.

Q - Ashar Khan {BIO 19979997 <GO>}

Okay. Thank you so much.

Operator

Thank you. There are no further questions at this time, I would like to turn the call back over to Mr. Fischer for any closing remarks.

A - Douglas Fischer {BIO 1498560 <GO>}

Thank you. And thank you for participating in this call and thank you to Warner and Marty for your kind remarks earlier. Thanks also to Andrew and his predecessor, Matt Thayer for their hard work and insight in helping execute Ameren's IR program over the last 10 years. And I also want to especially thank you, analysts and investors, for your friendship and for teaching me so much over the years. I will miss interacting with you.

Let me remind you again that a replay of the call will be available for 1 year on our website. If you have questions, you may call the contacts listed on our earnings release. Financial analyst inquiries should be directed to me, at least for the next few days, and to Andrew thereafter and also today as well. Media should call Erin Davis. Our contact numbers are on the 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, and have a wonderful day.