Q1 2016 Earnings Call

Company Participants

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

Other Participants

- Andrew Levi, Avon Capital/Millennium Partners
- Ashar Hasan Khan, Visium Asset Management LP
- Brian J. Russo, Ladenburg Thalmann & Co., Inc. (Broker)
- Julien Dumoulin-Smith, UBS Securities LLC
- Paul Patterson, Glenrock Associates LLC
- Paul T. Ridzon, KeyBanc Capital Markets, Inc.
- Steve Fleishman, Wolfe Research LLC

MANAGEMENT DISCUSSION SECTION

Operator

Greetings, and welcome to the Ameren Corporation's First Quarter 2016 Earnings Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, 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. 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 two 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 yesterday, and the Forward-Looking Statements and Risk Factors sections in our filings with the SEC.

Warner will begin this call with comments on first quarter financial results, full year 2016 earnings guidance and a business update. Marty will follow with a more detailed discussion of first quarter results and an update on financial and regulatory matters. We'll 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's Warner, who will start on page four of the presentation.

Warner L. Baxter {BIO 1858001 <GO>}

Thanks, Doug. Good morning, everyone, and thank you for joining us. Yesterday afternoon, we announced first quarter 2016 earnings of $0.43 per share, compared to $0.45 per share in last year's first quarter. The earnings decline reflected lower electric and natural gas sales volumes, which were primarily due to milder winter temperatures. These milder temperatures lowered earnings by an estimated $0.10 per share compared to 2015.

The year-over-year earnings comparison was also reduced as a result of lower electric sales to Noranda Aluminum, historically, Ameren Missouri's largest customer. In early January 2016, Noranda announced that production have been idled at two of its three smelter potlines, as a result of an operational failure. And, in mid-March, Noranda idled its remaining smelter potline. The impact of these unfavorable items was partially offset by a decrease in the effective income tax rate, which was primarily due to tax benefits associated with share-based compensation.

The earnings comparison also benefited from increased earnings on FERC-regulated transmission in Illinois electric and natural gas delivery service, resulting from infrastructure investments made under modern, constructive regulatory frameworks, in order to better serve our customers. Overall, our first quarter results were solid, and we remain on track to deliver within our 2016 earnings guidance range of $2.40 per share to $2.60 per share.

Turning now to page five, here we reiterate our strategic plan. We remain focused on executing this strategy and continue to strongly believe that we'll deliver superior long-term value to both our customers and shareholders. I would like to highlight some of our year-to-date efforts and accomplishments towards this end.

These include our continued strategic allocation of significant amounts of capital to those businesses whose investments are supported by regulatory frameworks that provide fair, predictable, and timely cost recovery, and also deliver long-term benefits to our customers. This capital allocation is illustrated in the graphic on the right side of this slide.

As you can see, we invested more than $300 million of our first quarter capital expenditures in jurisdictions with these supportive regulatory frameworks. This represented almost two-thirds of our first quarter 2016 investments and included approximately $170 million of capital spend on FERC-regulated projects.

The largest of these is ATXI's $1.4 billion Illinois Rivers Transmission Project. Construction of the first of this project's nine line segments is now complete, with construction of three other segments, and two of three river crossings expected to be completed later this year. Further, two of the projects 10 substations are already in service with construction well underway on the remaining ones.

For ATXI's Spoon River project in Northwestern Illinois, we are currently acquiring right-of-way and plan to began line construction later this year. In addition, the project's new substation is under construction and should be completed by the end of the year. Finally, I am pleased to note that the Missouri Public Service Commission approved a Certificate of Convenience and Necessity for the Mark Twain project late last month.

Moving forward, we plan to obtain assents from the five counties that Mark Twain will cross, and to begin right-of-way acquisition soon. All three of these transmission projects, Illinois Rivers, Spoon River and Mark Twain are MISO approved multi-value projects. When completed, these projects will deliver significant customer benefits, including improved reliability and access to cleaner generation, including wind power from the Western and Northern parts of the MISO region.

Turning to page six of our presentation, let me update you on the execution of our strategic plan at Ameren Illinois. We invested approximately $145 million in Illinois electric and natural gas delivery infrastructure projects in the first quarter of this year. These investments made under the company's Modernization Action Plan, which was enabled by Illinois Energy Infrastructure Modernization Act. This work remains on track to meet or exceed its investment, reliability, and advanced metering goals.

Ameren Illinois customers are experiencing fewer and shorter power outages as a result of electric grid upgrades. Since the program began in 2012, installation of storm-resilient utility poles, advanced meters, outage detection technology, and stronger power lines has resulted in 17% improvement in reliability. And when customers do experience an outage, the Ameren Illinois is restoring power 18% faster on average than in previous years.

Further, installations of advanced electric meters are ahead of schedule. In 2016, Ameren Illinois plans to deploy at least 148,000 electric, and 103,000 gas meters at customer locations in Central and Southern Illinois.

Also, from the beginning of 2012 through 2015, Ameren Illinois added more than 400 employees and more than 1,100 contractor personnel in support of electric system projects under its Modernization Action Plan. These benefits are being driven by the forward thinking and constructive regulatory frameworks that support investment in Illinois.

Turning now to Missouri, where modernizing the regulatory framework has been a key area of focus. As we speak today, House Bill 2689, 21st Century Grid Modernization and Security Act, remains on the Missouri Senate Calendar and is available for further debate. Informed by extensive outreach, collaboration and input from key stakeholders, this legislation has received unprecedented statewide support, including that from major Chambers of Commerce, individual businesses, labor, suppliers, Missouri Farm Bureau and many other key stakeholders.

In addition, this process has resulted in significant and constructive dialogue with policymakers regarding the extent to which regulatory lag discourages investment in grid modernization. Unfortunately, the Bill is subject to a filibuster by a small group of state senators during debate last week. It was not advanced at that time. Time is short for passage of this legislation, as this year's General Assembly Session ends Friday. As a result, I do not believe that comprehensive Performance Based Ratemaking legislation will be enacted this session. However, despite the short window, we continue to work with key stakeholders to find other constructive paths forward this session.

In addition, we will remain focused on enhancing energy policies to address regulatory lag and support investment in aging infrastructure through both the regulatory and legislative processes. As a result, and, at this time, I do expect that we would support another legislative initiative next year. I am convinced that those efforts are in the best long-term interest of our customers and the entire State of Missouri as we seek to modernize the grid to meet our customers future energy needs and expectations, as well as create jobs.

As long as Missouri stands still, it is being left behind by other states who have adopted forward thinking energy policies. In light of the fact that we do not expect comprehensive regulatory reform this session, coupled with the ongoing financial impacts of Noranda's outage, as well as increased investments and operating costs, we are moving forward with plans to file for an electric rate increase in early July.

Moving from regulatory and legislative matters to a quick comment on Missouri operational matters, our scheduled 2016 nuclear refueling and maintenance outage at the Callaway Energy Center was successfully executed, and the plant is now back online. We also continue our efforts to relentlessly improve operating performance, including our focus on safety, disciplined cost management and strategic capital allocation.

Moving on to page seven and our long-term total return outlook, in February, we outlined our plan to grow rate base at an approximate 6.5% compound annual rate over the 2015 through 2020 period, driven by a strong pipeline of investments to benefit customers and shareholders.

Our peer-leading rate base growth reflects strategic allocation of capital to those jurisdictions that operate under constructive and modern regulatory frameworks.

In addition, we stated in February that we expected earnings per share to grow at a 5% to 8% compound annual rate from 2016 through 2020, excluding the estimated temporary negative effect on 2016 earnings of lower sales to Noranda. Our rate base growth is foundational to our strong earnings per share growth expectations.

We also remain focused on our dividend, because we recognize its importance to our shareholders. Today, our dividend yield remains above the average of our regulated utility peers. Of course, future dividend increases will be based on consideration of, among other things, earnings growth, cash flows and economic and other business conditions.

To summarize, we are relentlessly executing our strategy, and I remain firmly convinced that continuing to do so will deliver superior value to our customers, shareholders and the communities we serve.

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

Martin J. Lyons {BIO 4938648 <GO>}

Thanks, Warner. Good morning, everyone. Turning now to page nine of our presentation, as Warner already noted, we reported earnings of $0.43 per share for the first quarter of 2016 compared to earnings of $0.45 per share for the year ago period.

Key drivers of the earnings variance are listed on this page. Lower electric and natural gas sales volumes reduced earnings with milder winter temperatures accounting for an estimated $0.10 per share decline. This temperature related earnings decline was almost entirely driven by lower electric sales volumes, since Illinois gas sales are subject to a volume balancing adjustment effective the beginning of this year. This volume balancing adjustment ensures the changes in natural gas sales including those from weather do not result in an over or under collection of revenues from residential and small non-residential customers.

First quarter 2016 temperatures were not only milder than those experienced in the year ago period, they were also milder than normal with heating degree days about 20% less than the year ago period, and about 10% less than normal. The remainder of the sales volume related earnings decline was almost entirely due to the idling of Noranda's smelter potlines. Further, the carryover effect from Ameren Missouri's 2013 through 2015 energy efficiency plan reduced earnings by $0.03 per share.

Moving to the next key driver of the first quarter earnings variance. Last year's Ameren Illinois results benefited from recovery of certain cumulative power usage costs. The absence of this benefit had a $0.04 per share unfavorable effect on the earnings comparison.

Shifting now to factors that had a favorable effect on the first quarter earnings comparison. A decrease in the effective income tax rate lifted earnings by $0.08 per share. This reduced tax rate was primarily due to recognition of 2016 tax benefits associated with share-based compensation. These benefits were recognized in earnings pursuant to accounting guidance issued in March of 2016.

I would note that the level of such tax benefits to be recognized in future years will be a function of the fair value of share-based incentive awards when they vest and could cause our effective income tax rate to fluctuate above or below the approximately 38% effective tax rate normally expected. For 2016, we now project the full year effective tax rate to be approximately 35%.

In addition, increased investments in electric transmission and delivery infrastructure in our ATXI and Ameren Illinois businesses lifted earnings by $0.05 per share compared to the year ago period. I want to note that our ATXI and Ameren Illinois Transmission earnings continue to be reduced by a reserve reflecting the potential for a lower MISO-based allowed ROE, given pending complaint cases at the FERC.

In addition, the earnings of our Illinois electric delivery business incorporated an 8.7% allowed ROE under formulaic rate making, compared to 8.6% for the year ago period. The Illinois electric delivery ROE reflected in first quarter 2016 results assumes an annual average of 30-year treasury yield of 2.9% for the full year. Moving to the last item on the page, earnings for the first quarter also benefited from higher Illinois natural gas delivery service rates effective at the beginning of this year, adding $0.04 per share.

Before moving on, let me briefly cover electric sales trends for the first quarter. Weather-normalized kilowatt hour sales to Illinois and Missouri residential and commercial customers were essentially flat as the 2016 leap day sales benefit was offset by energy efficiency impacts. Kilowatt hour sales to Illinois' industrial customers decreased approximately 8%, primarily reflecting lower sales to several large low margin Illinois customers including those in mining, agriculture, auto and steel making. Excluding lower sales to Noranda, kilowatt hour sales to Missouri's industrial customers were flat.

Turning to page 10 of our presentation, now I would like to discuss our guidance for this year. As Warner stated, we continue to expect 2016 diluted earnings to be in a range of $2.40 to $2.60 per share despite several notable items that were not incorporated into our initial guidance provided back in February. These include one favorable item that was offset by three unfavorable items resulting in no change to our guidance range. The favorable item was the decrease in the first quarter effective income tax rate, primarily due to tax benefits associated with share-based compensation, which boosted earnings by $0.08 per share.

The three unfavorable items were; milder first quarter temperatures, which reduced earnings by an estimated $0.05 per share, compared to normal temperatures, an increase in the 2016 estimated earnings impact from lower sales to Noranda of $0.02 per share, as well as a 30-basis point lower assumed ROE for Illinois electric delivery service, which reduced expected 2016 EPS by almost $0.02 per share. The last item reflected the lower estimated average 30-year treasury rate for 2016 of 2.9%, which I mentioned a moment ago, compared to our beginning of the year estimate of 3.2%.

Regarding Noranda, our 2016 guidance includes an updated estimate of approximately $0.15 per share for the impact of lower electric sales to this customer compared to the prior estimate of $0.13 per share. As we discussed in February, this estimate is net of expected revenues from off-system sales that Ameren Missouri is making as a result of reduced sales to Noranda and that are retained under a provision of our fuel adjustment clause. This estimate has been updated for the regulatorily agreed upon method for calculating such off-system sales revenues and changes in for power prices.

We continue to assume Noranda's production lines will remain idle for the rest of this year. I will not go through the balance of the year earnings considerations listed on this page, since they are largely self-explanatory and we discussed each item on our February earnings call. Overall, our goal remains to earn at or close to our allowed ROEs in all of our jurisdictions. Of course, this goal will continue to be more challenging to achieve in Missouri, pending improvement in the regulatory framework.

However, as Warner mentioned, we expect to file a Missouri electric rate case in early July to recover costs related to additional infrastructure investments and rising expenses including those related to net fuel, depreciation, transmission service and property taxes. In addition, rates need to be adjusted to reflect the loss of sales to Noranda. As discussed in February, we expect the earnings impact of lower sales to Noranda to be temporary.

Moving now to page 11, I would like to update you on select regulatory matters pending at the Illinois Commerce Commission and the Federal Energy Regulatory Commission. Turning first to Illinois, last month Ameren Illinois made its required annual electric delivery rate update filing. Under Illinois' formula rate making, our utilities required to file annual rate updates to systematically adjust cash flows over time for changes in cost of service and to true-up any prior period over or under recovery of such costs.

Our filings seeks a $14 million decrease in annual electric rates. This net amount includes a $96 million increase, reflecting 2015 actual costs, related carrying charges and expected 2016 infrastructure investments, which is more than offset by a $110 million decrease due to recovery by year end 2016 of previously under recovered 2014 cost and related carrying charges. The ICC will review the matter in the months ahead with the decision expected in December of this year and new rates effective early next year. I'll remind you that each year's Illinois electric delivery earnings are a function of that year's ending rate base, the formula determined allowed ROE, which is the annual average of 30-year U.S. Treasury bond yields for that year, plus 580 basis points, and the ICC authorized equity ratio, and are not directly determined by that year's rate update filing.

Finally, previously mentioned complaint cases seeking to reduce base allowed ROE for MISO transmission owners, including Ameren Illinois and ATXI, are pending at the FERC. In the first case, the schedule calls for a final order from the FERC in the fourth quarter of this year. And in the second case, the schedule calls for an initial order from an Administrative Law Judge by the end of June this year with a final order from the FERC expected next year.

Finally, turning to page 12, I will summarize. We've affirmed our earnings guidance for 2016 and we continue to execute our strategy. Further, on our February call, we stated that we expected earnings per share to grow at a strong 5% to 8% compound annual rate from 2016 through 2020, excluding the estimated temporary net effect of lower sales to Noranda this year.

We said this earnings growth was driven by approximately 6.5% compound annual rate base growth over the 2015 through 2020 period based on a mix of needed transmission, distribution and generation investments across multiple regulatory jurisdictions being made for the benefit of customers. When you combine our strong earnings growth with Ameren's dividend, which now provides investors with an above peer group average yield of approximately 3.5%, we believe our common stock provides very attractive total return potential for investors.

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

Q&A

Operator

Thank you. Our first question comes from the line of Paul Patterson with Glenrock Associates. Please go ahead with your questions.

Q - Paul Patterson {BIO 1821718 <GO>}

Good morning.

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

Morning, Paul.

Q - Paul Patterson {BIO 1821718 <GO>}

Just with respect to the long-term earnings growth rate and your comments regarding the legislation and Noranda, I guess, it seems like you were suggesting that Noranda might be a temporary situation, and that you expected that it might change. I was just wondering is Noranda in the long-term guidance, Noranda coming back that is, or how should we think about that?

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

Sure, Paul. This is Marty. You may recall, when we gave the long-term guidance outlook back in February, we, number one said, we expected 5% to 8% compound annual EPS growth from 2016 through 2020. And the foundational element of that, of course, is the 6.5% rate base growth that we have, which we showed from 2015 to 2020. But importantly, when we talked about that 5% to 8% compound annual EPS growth, we were basing that off of an adjusted 2016 EPS guidance of $2.63. Obviously, if you took our guidance for this year, the midpoint is $2.50, but we added to that the impact we estimated at that time of the Noranda outage, which was $0.13 at that time to get to an adjusted midpoint of $2.63 and then base the earnings guidance off of that.

And the reason we did that is that we do believe the impact of Noranda's outage on our earnings to be temporary. And, as we mentioned on the call, we do expect to file a Missouri rate case in early July of this year. We expect that that rate case will reflect the reduced usage by

Noranda, and as our rates are adjusted next year, then the temporary impact of this earnings decline from the outage would be erased. So that's how we expect it to go. And so long-term in terms of our earnings growth guidance, Noranda may be there or Noranda may not be there. We're not speculating on that, but we do believe that through the rate case process, that the impact of the outage will be mitigated.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. That makes sense. And just in terms of the legislation, as I recall also, your earnings growth rate is not dependent upon Missouri legislation getting enacted. Is that still the case?

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

Yes. That's absolutely right. We said that in February, and we stand by that. As you know, the overall 6.5% rate base growth is the foundation. We've got about 2% growth forecasted for Missouri over that period of time. And we do believe both that rate base growth as well as our earnings growth expectation of 5% to 8% can be achieved without the need for legislation in Missouri.

Q - Paul Patterson {BIO 1821718 <GO>}

How should we think about this tax benefit? I mean, how do you sort of model it? It sounds like there was obviously a benefit this year, but I mean, just in general, how do we factor in this new guidance associated with the taxes?

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

You know, Paul, it's a good question. I think going forward, continuing to think about that 38% effective tax rate is probably the right way to think about it, but to be aware that there could be some variation, up or down, from year-to-year based upon this new accounting guidance. And as mentioned on the call, what it will really be a function of is what the fair value is of long-term share-based compensation is at the time it vests versus what's been reflected in book expense over the three years, and as it relates to our plans over the three year vesting period.

And that can create a little bit of volatility in the effective rate. In this particular period, as you see, the value of what vested was greater than what had been recognized in expense over the past three years. And therefore, the tax benefit was greater than the effective tax rate reflected over the past few years. So we ended up with a benefit this year. But as noted on the talking points, it could be a benefit or it could be a detriment. But I think, in the absence of any further information, I think I'd expect that 38% effective tax rate.

As it relates to this year, that item had a discrete impact on the first quarter, so it lowered the first quarter effective tax rate. At the end of the year, as we mentioned in the prepared remarks, we expect the effective tax rate to be around 35%, which would imply over the remainder of this year in the remaining three quarters, an effective rate somewhere between 37% and 38%.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. And then just finally on the Mark Twain Transmission ruling, this idea that you have to go back to the counties to get approval there, county consent, there was some discussion at the PSC that that was going to probably lead to more litigation in the court system. I just wonder if you could sort of elaborate a little bit on how you see that.

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

It's Maureen Borkowski. Yeah, at this point in time, we are fully expecting just to go to each county and present the evidence, really, their statutory obligation in each county is to ensure that the transmission line doesn't have any impact on the user safety of public roadways. So we will put that packet of information together for each county and pursue getting their assent when we make that demonstration. So at this point in time, we're not anticipating any additional litigation in that regard.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. Thanks so much.

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

Thanks, Paul.

Operator

Our next question comes from the line of Julien Dumoulin-Smith with UBS. Please proceed with your questions.

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

Hi, good morning. Can you hear me?

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

You bet, Julien. How are you?

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

Great. Thank you. Quite well. So, perhaps following a little bit up on the last round of questions here. Can you elaborate a little bit on the specific differences in the statistics between Missouri and Illinois? You started off your remarks elaborating on Illinois, but just how do the two compare? And then, what are kind of tangible projects that would be on the table if you were to succeed either this year or next year under a new legislative framework?

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

Yeah, Julien, this is Marty. Could you please state your first question, we're not clear what statistics you're referring to?

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

Well, I suppose, what are the reliability statistics, the differentials between Illinois and Missouri? Just to get a sense as to what the – what are you aspiring to Missouri versus Illinois? And then, or perhaps to boot with that, what are the discrete intangible projects that you're evaluating should you be able to get legislation this year or next year?

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

Yeah, Paul, (sic) [Julien] this is Warner. I think a couple of things. Number one, by and large Illinois has clearly made progress and an improvement in reliability as well as is responding to outage duration as a result of the Grid Modernization Project.

By and large, what you're seeing between the two jurisdictions that they are moving closer in terms of what their overall reliability and ultimate responsiveness to outages are. And so, Illinois will continue. They have specific metrics that they have to hit as part of the Grid Modernization Act and they'll continue to pursue that. As part of the legislative effort in Missouri, there were specific performance metrics that are put out there as well for reliability and that was in the legislation. I think importantly, what really we were focused on, we'll continue to be focused on in Missouri is to address the aging infrastructure.

So, what are the kind of things that we would think about doing well? We would certainly be doing many of the things that you're seeing over in Illinois, investing in smart meters. Missouri needs to do that, and it's an opportunity, not just for our customers ultimately to use the more advanced meters. It's investing in the smarter grid, whether it'd be on the power lines, whether it'd be in automating much of the grid compared to where it is today, substations, all these things are very important and things that we're doing in Illinois that we'll be focused on doing in Missouri.

We would also, as part of the legislative effort would be looking at the generation portfolio. Clearly, have aging infrastructure there and we could do improvements in a more timely fashion, we think in our generating power plants as well as invest in renewable energy, which was a significant aspect of this Bill. So when you put all those things together, these are things that we would be focused on in Missouri, should we get legislation passed that would support that investment, and those are the kind of things we're going to continue to talk about with policymakers, both the remaining part of this session, as well as frankly moving into next year, both during the rate case as well as preparing for the next legislative session.

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

Got it. Excellent. And then turning my attention to Illinois, specifically here we've seen a lot of retirements in the last few weeks here. Can you comment at all where you are in the process of evaluating trends, any requisite transmission upgrades for MISO...

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

Yeah, we're going to have Maureen Borkowski, so she can jump in as we've seen some of these retirements. We think there are some transmission opportunities. And so Maureen, why don't you to jump in and talk a little bit about some of those?

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

Yeah. It's little too early to be specific about what projects, but process-wise when a generator applies to MISO to shutdown even on interim basis, there is a study that's done by our transmission planner, so if it generate on our system to determine what the transmission needs would be to make sure the system can still operate reliably. So there is certainly the potential as these reported shutdowns are studied for additional transmission investment. And the one thing I would point out is that, because any needed investment here would be for reliability purposes, that would be outside of the competitive process, and it would be Ameren's own company, that would be making any investment that was identified.

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

Got it.

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

And, so Julien, I apologize, I think I was saying Paul a moment ago, it's Julien, so I apologize for that. I'm sure Paul is not offended, hopefully you're not as well.

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

I'm sure, nor am I. A last quick question on Missouri in the rate case, any changes in the regulatory framework that you would be seeking in this? And also do you have any initial estimate on what the rate impact would be?

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

Julien, this is Warner again. I think a couple of things; it would be premature for us to say if we're going to do something special from a regulatory framework perspective. Every time, we move into a rate case, we step back and say okay, what from a policy perspective things that we want to pursue. So, we'll step-back and think about that. And in terms of the overall rate increase, yeah, it too is premature. You'll see a lot of that here coming up very soon in early July, we'll give you all the specifics. And then as we move forward in the rest of the year, we'll explain the case in more detail to you and the rest our shareholders.

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

Great. Thank you. Best of luck.

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

Thank you, Julien.

Operator

Our next question comes from the line of Paul Ridzon with KeyBanc. Please go ahead, with your questions.

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

Good morning. How are you?

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

Good morning, Paul.

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

You mentioned growth in Missouri of 2%, is that EPS or rate base or both?

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

Yeah, Paul, this is Marty, that 2% I was referencing was rate base. So overall, we're expecting 6.5% compound annual rate base growth. In Missouri, we expect it to be 2% compound annual rate base growth. So really not commenting specifically there on earnings, but overall, I would say that 6.5% rate base growth is sort of the midpoint of our long-term earnings per share growth guidance of 5% to 8%. So, consistent with what we've talked about in prior quarters, I mean the bulk of that growth is coming in our FERC-regulated transmission and our Illinois electric and Illinois gas distribution businesses, where we're allocating a significant amount of capital because of the constructive regulation we have in those jurisdictions.

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

What's the statutory deadline to adjudicate Missouri rate case?

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

We've typically experienced 11 months resolution of the rate cases in Missouri.

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

And then in February, I think you indicated that you might pursue an accounting order of some sort for Noranda, or other means to rectify the situation, where does that stand, or is it just going to be through a rate case?

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

Sure, yeah. Now, good memory, good recollection. We laid that out there as one of the options that we would have in terms of ensuring, to say, impact to be temporary. However, that's really not needed if the plan is to file a rate case. We'll make the appropriate request in the context of the rate case we file in early July, and therefore that accounting authority order would not be needed. So, as we said in the call, that is our plan as we sit here today is to file that rate case in early July.

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

And so we model in $0.075 drag for Noranda in 2017?

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

We haven't given that, but to your point, we always said on our call today as we expect the impact to be about $0.15 this year, and just to give you an idea of how that breaks down. This year, we expect – obviously, we experienced in the first quarter about a $0.03 drag on earnings, we expect another $0.03 drag in the second quarter, $0.06 in the third quarter, and then $0.03 again in the final quarter of the year in the fourth quarter.

So, through the first half of this year, about $0.06. To your point, Noranda was up and running to some extent in the first quarter. So, I would say an impact in the order of $0.07 – $0.06 to $0.07 in the early half of next year until we can get rates updated, is probably a fair assumption.

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

And why is 3Q so heavily weighted, you had summer rates or...?

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

Yes. Noranda, and we talked about this at some length in our February call, Noranda has differential in rates, so between October and May of each year, the rate has been $31, and during – per megawatt hour in June to September about $46. So it had differential, I'll call them, winter and summer rates, and so there is a differentiated impact in those various quarters.

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

Thank you very much.

Operatory: Our next question comes from the line of Feliks Kerman with Visium Asset Management. Please proceed with your question.

Q - Ashar Hasan Khan {BIO 19979997 <GO>}

Hi, good morning. This is Ashar. Marty, one thing, which I read in the Q, which I was a little bit surprised, was that the change in the FAC, of course, I knew there was some transmission earnings, I guess, that we don't get recovery on a timely basis. But you mentioned that in 2016 that could be a gap of like $20 million. So as we file the case next year, is there some way that this gap can be minimized to kind of zero or something to be changed? I'm trying to kind of like put that into my model, is there some way that in this next case filing that this regulatory lag can be eliminated?

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

Sure, Ashar. What you're referring to in the Q, I believe, is that we actually lay out what the amount was that was actually included in rates when rates were set, and then contrast that with the transmission costs that we're actually experiencing in 2016. And so there is a differential there. The transmission costs have grown. During our last rate case transmission cost will renew from recovery in the FAC. And that's an element of lag that we're experiencing. So you would expect as we go to file this next rate case that we would update our cost of service for the transmission costs that we're incurring. And through the rate case process, you would expect then that increased cost would be incorporated into the revenue requirement.

Q - Ashar Hasan Khan {BIO 19979997 <GO>}

But my question is, there is some way to, because I'm assuming the transmission costs are going to keep on going up. So, is this going to be a repeat issue like a year after the next rate case we will again have under recovery, or is this just something which is happening this year? That's what I am trying to kind of like gather.

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

You know, Ashar, in the absence of a change in the regulatory framework, or some mechanism to avoid that, there would be continuing drag on earnings or regulatory lag associated with that item. So it's something that certainly we'll consider as we go into this next rate case is how to deal with that. But absolutely, at this point in time, it is not incorporated into the FAC.

I'd remind you, Ashar, that overall, we continue to work very hard to earn as close to our allowed return as we can. You know we have had that lag from transmission since the last rate case, and we've been working hard to do what we can to find cost reductions in other areas.

I mentioned in the guidance earlier this year that year-over-year as we move from 2015 to 2016, that we expect overall our operations and maintenance expenses to be down in Missouri. And when you normalize for the Callaway refueling and remove the effect of Noranda, we expect to earn within 50 basis points of the allowed this year. So in isolation, absolutely yes, the increases in transmission costs are creating lag for us.

Q - Ashar Hasan Khan {BIO 19979997 <GO>}

Okay. Thank you.

Operator

Thank you. Our next question comes from the line of Brian Russo with Ladenburg Thalmann. Please go ahead with your questions.

Q - Brian J. Russo {BIO 6238768 <GO>}

Hi, good morning.

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

Good morning.

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

Good morning.

Q - Brian J. Russo {BIO 6238768 <GO>}

Could you remind us of the test year in the most recently concluded Missouri rate case?

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

Yeah, I think it was – you might look, I think it was in 2015, but I can't remember what the exact cut-off date was. I think I'll let Doug maybe address it.

A - Douglas Fischer {BIO 1498560 <GO>}

Yeah. The test year was the 12 months ended March 31 of 2015, but then a number of things were updated through the end of the year. Am I giving the year wrong there, 2014, I'm sorry, March, end of March 2014 was the test year, and then we updated for a rate base in a number of items through the end of 2014.

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

Correct.

A - Douglas Fischer {BIO 1498560 <GO>}

And the rates went into effect in May of 2015, late May.

Q - Brian J. Russo {BIO 6238768 <GO>}

Okay. So, I guess, if we wanted to kind of calculate the incremental net plant that you'll be seeking recovery of in the July rate case. Could we just back of the envelope take through year-end 2014 and grow with by the 2% CAGR?

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

Yeah. I think we'd have to give that one some thought and whether that simplified works or not.

Q - Brian J. Russo {BIO 6238768 <GO>}

Got it. Okay. And I'm just curious, hypothetically speaking, what happens if you go through the Missouri rate case, you get new rates in effect to reflect the lost Noranda sales and then Noranda resumes the plant? Is that just incremental excess sales and margin until your next rate case?

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

I don't know if I would assume that to be the case. As we work through the rate case, maybe there'll be clarity brought to that issue, but wouldn't want to speculate that there'd be some windfall that would be achieved as a result of that.

Q - Brian J. Russo {BIO 6238768 <GO>}

All right. Thank you.

Operator

Our next question comes from the line of Andy Levi with Avon Capital. Please go ahead with your questions.

Q - Andrew Levi {BIO 17596378 <GO>}

Hi, good morning, guys.

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

Good morning.

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

Good morning.

Q - Andrew Levi {BIO 17596378 <GO>}

Hey, just two questions. Just can you guys talk about just M&A and in the context of Ameren as a buyer?

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

So Andy, this is Warner. And so, a couple of things, just in general, as you know from a buyer perspective, obviously, you look in the past, we have been a buyer of M&A. But as I've said before and continue to say, our policy has been we don't really kind of get into the specifics or comment on speculative transactions or M&A activities just in general, that's not very constructive. As you know, we've grown in the past through acquisitions. But to be clear, our current plan is focused on the plan that I laid out before, and that's on the organic growth in our regulated business. We plan to deliver strong earnings growth that I outlined, and that's driven by the rate base growth, of course.

And with our strong dividend, we believe we'll deliver the superior value to our shareholders and ultimately, to customers, too. And so, M&As happening in our space, so it doesn't surprise us that there continues to be some level of consolidation. And then, in particular, we continue to be attentive to things going on in our space like other companies, but whether we're a buyer or anything, that probably takes it one step too far other than just what we've done in the past.

Q - Andrew Levi {BIO 17596378 <GO>}

Got it. Okay. Thank you. And then, the second question I have is just regarding Missouri Commission. What's the thinking now since legislation is not getting done, that the Commission may do some type of workshops this summer to maybe address some of the things in the legislation?

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

So Andy, this is Warner and I'll ask Michael Moehn to speak up as well. I think that there is – whether there is going to be a specific workshop, I don't think there is anything been decided in particular, and there's always a possibility. But now I think the Commission's come out with a specific statement or ruling that they plan on doing that. Michael, I don't know – I'll let you...

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

Yeah, I think that's right, Warner. The Commission remains focused on trying to help deal with this regulatory lag issue and I think that that could potentially be an outcome to a work-through the summer to help gain some additional support with respect to what we're trying to do here in Missouri.

Q - Andrew Levi {BIO 17596378 <GO>}

Got it. Thank you very much.

Operator

Our next question comes from the line of Paul Patterson with Glenrock Associates. Please go ahead with your questions.

Q - Paul Patterson {BIO 1821718 <GO>}

Hi. Just really quickly, I think you guys mentioned the potential for non-comprehensive legislation. In other words, you guys mentioned that you got confidence that legislation was likely this session, but that there – I was wondering if that meant that there was maybe some other sort of legislative opportunities that should you see potentially and if you could elaborate on that?

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

Sure, Paul, this is Warner. I guess a couple of things. Number one, the session, is I said, ends this Friday. So the reality is, time is very short. And while comprehensive performance based regulation legislation that will not pass, at least from our perspective. That doesn't mean that we still don't have conversations with key stakeholders to see if we can make some level of progress. It's probably not appropriate for me to speculate frankly to say what that may or may not look like, we'll know frankly in a few short days whether anything happens. But time is short, and so, while it may be difficult, it doesn't mean that we're still not at the table talking to key stakeholders.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. So stay tuned.

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

Stay tuned, it's a good way to put it.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. Thanks so much.

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

Sure.

Operator

Our next questions comes from the line of Steve Fleishman with Wolfe Research. Please go ahead with your questions.

Q - Steve Fleishman {BIO 22027192 <GO>}

Yeah. Hi, good morning.

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

Good morning, Steve.

Q - Steve Fleishman {BIO 22027192 <GO>}

Going back a while ago, the company used to talk about the – keeping the parent balance sheet pretty consistent with the utilities, and particularly Missouri that used to be kind of a focus in terms of just making sure there is not a big difference there. Is that still something that you need to kind of monitor and keep in balance, or not?

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

Yeah. Steve, this is Marty. You know, look, I think still if you look at our slides that we've got out there today, we look to keep a parent company cap structure around on 50% equity. Today, I think in our Missouri rates, we've got a little north of 51% Illinois, about 50% the transmission business depending on where it's at anywhere from 51% to 56% with our hypothetical cap structure for ATXI. So, we have over time tried to keep those all in the ballpark in the general vicinity of one another, and generally keep strong balance sheets and solid credit ratings.

Q - Steve Fleishman {BIO 22027192 <GO>}

Okay. But is that just a choice, or is there in Missouri kind of a risk or some kind of imputation if you were to have a lot more parent, or holdco leverage?

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

You know, well, I guess Steve, I'd say in Missouri, we really haven't experienced any sort of look-through kind of issue, if that's what you're getting at, I don't think over time in Missouri, we've been able to demonstrate that the equity in the utility balance sheet hasn't been funded by any debt at the parent. So, largely I would say it's by choice. We think it's good to keep all of those in general alignment. And like I said, keep a strong balance sheet, I do think as you look around the state, there is different historical practices in terms of use of the parent company balance sheet, or utility-specific balance sheet, but it seems more situational versus some bright-line test or standard practice.

Q - Steve Fleishman {BIO 22027192 <GO>}

Okay. Thank you.

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

You're welcome.

Operator

Thank you. This concludes today's question-and-answer session. I would like to turn the floor back to Doug Fischer, Senior Director of IR for closing 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 our earnings release. Financial analyst enquiries should be directed to me, Doug Fischer, or my associate, Andrew Kirk. Media should call Joe Muehlenkamp. 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. And thank you for your participation.