Q2 2019 Earnings Call

Company Participants

- Andrew Kirk, Director, Investor Relations
- Martin J. Lyons, Executive Vice President and Chief Financial Officer
- Michael L. Moehn, Chairman and President, Ameren Missouri
- Shawn E. Schukar, Chairman and President
- Warner L. Baxter, Chairman, President and Chief Executive Officer

Other Participants

- Ali Agha, Analyst, SunTrust Robinson Humphrey
- Gregg Orrill, Analyst, UBS Securities
- Gregory Gordon, Analyst, Evercore
- Insoo Kim, Analyst, Goldman Sachs
- Julien Dumoulin-Smith, Analyst, Bank of America Merrill Lynch
- Neil Kalton, Analyst, Wells Fargo Securities
- Sophie Karp, Analyst, KeyBanc Capital Markets

Presentation

Operator

Greetings, and welcome to the Ameren Corporation Second Quarter 2019 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, Andrew Kirk, Director of Investor Relations for Ameren Corporation. Thank you, Mr. Kirk. You may begin.

Andrew Kirk {BIO 20578297 <GO>}

Thank you. 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's 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 4 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 sections in our filings with the SEC.

Lastly, all per share earnings amounts discussed during today's presentation, including earnings guidance, are presented on a diluted basis, unless otherwise noted.

And here's Warner, who will start on Page 4 of the presentation.

Warner L. Baxter {BIO 1858001 <GO>}

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

Earlier today, we announced second quarter 2019 earnings of $0.72 per share compared to $0.97 per share earned in 2018. A summary of the key drivers of the year-over-year decrease of $0.25 per share is provided on Slide 4, which Marty will discuss in more detail in a moment. I'm pleased to report that despite some weather-related headwinds in the second quarter, we continued to effectively execute our strategic plan and today reaffirmed our 2019 earnings guidance range of $3.15 per share to $3.35 per share, reflecting solid year-to-date results. In particular, I would like to note that during the second quarter, some of our customers and the communities we serve were affected by historic flooding and tornadoes.

While the impact on our operations and financial results was manageable, the impact on our customers and communities by these severe weather events was, in some cases, devastating. Our thoughts and prayers remain with those who have been affected by these events. We continue to work with our customers, local communities, agencies and government lawyers [ph] to help our customers in several ways, including providing energy assistance funds.

I also want to thank our co-workers for their extraordinary efforts to safely restore service to our customers, maintain safe and reliable service throughout our operations, as well as volunteering their time to help those in need during this challenging period. It was clearly a tremendous team effort.

Moving to Page 5. Here we reiterate our strategic plan, which we have been executing very well throughout the year. We expect our plan to continue delivering significant value for our customers and strong long-term earnings growth for our shareholders.

The first pillar of our strategy stresses investing in and operating our utilities in a manner consistent with existing regulatory frameworks. This has driven our multiyear focus on investing in energy infrastructure for the long-term benefit of customers and our jurisdictions that are supported by modern constructive regulatory frameworks.

As you can see on the right side of this page, during the first half of the year, we invested significant capital in each of our business segments to better serve our customers. These investments are delivering value to our customers. Our energy grid is becoming more reliable, resilient and secure. New smart meters are providing our customers with better tools to manage their energy usage and our digital technology investments are enhancing our customers' experience with us. Of course, we're not done.

Looking ahead, we continue to see the need for robust energy infrastructure investments to meet our customers' energy needs and exceed their rising expectations. And we remain relentlessly focused on operational excellence, continuous improvement and disciplined cost management to keep our customers' cost competitive and affordable.

For example in mid-May, we completed the 23rd nuclear refueling and maintenance outage at Ameren Missouri's Callaway Energy Center safely, on time and on budget. This is just one example of many focused efforts across the company that has helped keep our electric rates in both Missouri and Illinois well below the Midwest and national averages.

Speaking of keeping our electric rates low and competitive for our customers, in early July, Ameren filed a request for a $1 million decrease in annual electric service revenue with the Missouri Public Service Commission. This marks the second potential reduction in electric rates since August 2018. The request incorporates the benefits of lower coal and transportation expenses, as well as other operating costs and provides for recovery of and return on important new infrastructure investments.

This filing also provides flexibility to time our next rate review to include wind generation investments, planned for the fourth quarter of 2020. We look forward to working with the Missouri PSC staff and other stakeholders on this important matter in the months ahead. I am also pleased to report that in late July, Ameren Missouri was able to reach a non-unanimous stipulation and agreement on our pending natural gas rate review. Consistent with our focus on keeping our customers' energy cost competitive and affordable, this agreement will lower Missouri's natural gas customers' rates by $1 million as well and will continue to enable us to use the gas infrastructure recovery mechanism between rate reviews to support important and timely investments for our natural gas customers in the future.

These two Missouri rate review filings are an addition to Ameren Illinois' annual electric formula rate update request for a $7 million rate decrease filed in April. Marty will go into more detail on both the Missouri electric and gas rate reviews, as well as the Illinois electric rate update in a moment. But as you can see, we are clearly focused on keeping our customers' cost competitive and affordable while we make significant investments in energy infrastructure investments to deliver long-term value.

Moving to the second pillar of our strategy, which includes enhancing regulatory frameworks. As you know, constructive electric grid modernization legislation, that would extend electric formula ratemaking through 2032, while widely supported, was not brought to a vote before the full Illinois General Assembly through the other legislative matters taken priority during this year's general session. It is clear that modernize energy policies in Illinois, including formula ratemaking, are driving significant incremental investments in its electric and natural gas energy infrastructure.

Together, these investments are not only delivering meaningful long-term benefits to our customers at affordable cost, but they have also created thousands of new jobs in the State of Illinois. With these benefits in mind, policymakers have already extended electric formula rates twice since 2012, which are currently effective through 2022. We will continue to work to extend this important grid modernization legislation again in the future. This fall, the Illinois legislature is scheduled to conduct its annual veto session where the electric grid monetization legislation and other proposed energy legislation could be considered. At this time, it is premature to predict whether any of these legislative proposals will be addressed during the veto session.

Turning to Page 6 for an update on the third pillar of our strategy, which includes creating and capitalizing on opportunities for investment for the benefit of our customers and shareholders. Here, we outline our renewable energy investment plans to achieve compliance with Missouri's renewable energy standard and continue to transition our generation portfolio.

We had previously announced three build-transfer agreements for a total of 857 megawatts of wind generation at an estimated cost of approximately $1.4 billion. And as you might recall, the capital spending and related rate base guidance that we provided to you in February of this year included approximately $1 billion for 557 megawatts of wind generation to be placed in service in 2020. There have been several recent developments with our wind generation projects update you want.

I will begin with our build-transfer agreement with EDF for 157 megawatt facility, the smallest of our three projects. Last week, Ameren and EDF mutually agreed to terminate this project due to unacceptably high transmission interconnection cost estimates that were received from both MISO and SPP during the second of three phases of interconnection cost studies.

During this phase of the process, it was determined that the addition of this wind project would require significant costs to enhance the transmission system. These projected costs were far greater than those anticipated in MISO's estimate after the first phase of this process. We simply had to terminate this project due to the unacceptably high transmission costs that made this project no longer economic and not in the best long-term interest of our customers,.

Of course, we are disappointed that we had to take this action. We felt that the EDF wind facility had the potential to bring significant value to our customers and the State of Missouri. That said, we are very pleased with progress on our larger proposed wind generation investments, a 400 megawatt wind facility located in Northeast Missouri and a 300 megawatt wind facility located in Northwest Missouri. In particular, in May 2019, we announced that Ameren Missouri reached an agreement with a subsidiary of Enel to acquire after construction, a 300 megawatt wind facility. Shortly thereafter, we file for a Certificate of Convenience and Necessity or CCN with the Missouri PSC.

I am very happy to report that this week, we reached a non-unanimous stipulation and agreement with the Missouri PSC staff and other parties that recommends the Missouri PSC grant this CCN for this project. The Missouri PSC decision is expected by October. If ultimately approved, the CCN would be an addition to the previously granted CCN for the 400 megawatt Terra-Gen wind facility. Notably, a lot of my comments a few minutes ago were on transmission interconnection costs.

I am also pleased to inform you that we have already received the third and final phase transmission interconnection cost estimates from MISO for both projects, which were in line with our expectations. We expect to finalize the interconnection agreements later this fall. We believe we are very well positioned to obtain all necessary regulatory approvals and move forward with the time the construction of these two important renewable energy projects for the State of Missouri. Both facilities will be significant additions to our renewable energy portfolio and are expected to be in service in the fourth quarter of next year. As a result, we expect to see meaningful contributions to earnings in 2021 from these investments.

To summarize, we now have in place build-transfer agreements for 700 megawatts of wind generation. Together, our investment in these two projects is expected to approximate $1.2 billion or approximately $200 million in excess of the capital spending and rate base guidance we provided to you in February. At this time, these investments are also expected to fulfill our needs to comply with the Missouri renewable energy standard in 2021.

We will continue to explore additional renewable energy investment opportunities that will drive long-term value for our customers and shareholders. These opportunities include our previously announced Renewable Choice Program. This Missouri PSC approved program allows large commercial and industrial customers and municipalities to elect to receive up to 100% of their energy from renewable resources.

The program enables us to supply customers with up to 400 megawatts of wind generation, of which up to 200 megawatts we could own. We are still in early stages of this program. Further, and consistent with the Ameren Missouri's Smart Energy Plan, this month, we expect to file CCNs with the Missouri PSC to build three solar plus storage facilities across the state. Each location will connect solar energy generation and battery storage. The installations are expected to be completed by the end of 2020 and will be the first of their kind in the state. Importantly, these proposed facilities will bring increased reliability to our customers in a cost effective manner.

Finally, we will assess additional renewable generation opportunities for the benefit of our customers in the context of our next comprehensive integrated resource plan, which we plan to file in September 2020. Needless to say, we have a lot of exciting things going on in the renewable energy space in Missouri.

Moving now to Page 7. To sum up our value proposition, we believe that the execution of our strategy in 2019 and beyond will continue to deliver superior value to our customers and shareholders. In February, we rolled forward our five-year growth plan, which included our expectation of 6% to 8% compound annual earnings per share growth for the 2018 through 2023 period using 2018 weather-normalized core earnings per share as a base. This earnings growth is primarily driven by expected 8% compound annual rate base growth over the same period. And I will point out that we have a strong pipeline of investments to benefit our customers in the future.

Our strong earnings growth expectation positions us well for future dividend growth. Of course, future dividend decisions will be driven by earnings growth, in addition to cash flows and other business conditions. Together, we believe our strong earnings growth outlook, combined with our solid dividend, which currently provides a yield of approximately 2.5%, results in a very attractive total return opportunity for shareholders.

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

Martin J. Lyons {BIO 4938648 <GO>}

Thank you, Warner, and good morning, everyone.

Turning now to Page 9 of our presentation. As Warner mentioned, today we reported second quarter 2019 earnings of $0.72 per share compared to earnings of $0.97 per share for the year ago quarter. Here we highlight the key factors by segment that drove the overall $0.25 per share decrease.

Ameren Missouri, our largest segment reported decreased earnings of $0.25 per share. This reflected lower electric retail sales, which decreased earnings by an estimated $0.22 per share, primarily due to mild early summer temperatures in the quarter compared to extremely warm temperatures in the second quarter of last year.

Ameren Missouri's results also reflected this year's scheduled refueling and maintenance outage at our Callaway Energy Center that reduced earnings by $0.08 per share compared to 2018, when there was no refueling outage.

The next Callaway refueling is scheduled for the fall of 2020. These items were partially offset by the positive comparative impacts of timing differences in 2018 related to federal tax reform, which are not expected to impact full-year earnings comparisons.

Earnings for Ameren Illinois Natural Gas were down $0.01 per share, primarily due to a change in rate design, which is not expected to impact full-year results. And finally, Ameren Parent and other results decreased $0.02 per share, primarily due to timing of income tax expense, which is also not expected to impact full-year results. Earnings per share for Ameren Transmission and Ameren Illinois Electric Distribution were up $0.02 and $0.01, reflecting increased infrastructure investments.

In addition, Ameren Illinois Electric Distribution's earnings reflect a lower expected allowed return on equity under formulaic ratemaking of 8.5% in 2019, compared to 8.9% for the prior year. The 2019 ROE is based on a projected 2019 average 30-year treasury yield of 2.7%, down from the 2018 average of 3.1%.

Before moving on, let me briefly cover electric sales trends for Ameren Missouri and Ameren Illinois Electric Distribution for the first six months of this year compared to the first six months of last year. Weather-normalized kilowatt-hour sales to Missouri residential and commercial customers on a combined basis increased 1%, excluding the effects of our energy efficiency plan under MEEIA. Kilowatt-hour sales to low margin Missouri industrial customers decreased 2.5% after excluding the effects of our energy efficiency plan.

We exclude MEEIA effects because the plan 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 decreased 2% and kilowatt-hour sales to Illinois industrial customers also decreased 2%. Recall the changes in electric sales in Illinois, no matter the cause, do not affect our earnings since we have full revenue decoupling.

Moving then to Page 10 of our presentation. Despite the weather-related headwinds discussed earlier, our year-to-date results are solidly on track and we continue to expect 2019 diluted earnings to be in a range of $3.15 to $3.35 per share. Select earnings considerations for the balance of the year are listed on this page. I will not comment specifically on these considerations since they are largely self-explanatory and consistent with the 2019 earnings drivers and assumptions discussed on our February earnings call and the balance of your considerations outlined on our first quarter call.

Moving now to Page 11. Here we begin to outline in more detail our recently filed Missouri electric rate review that Warner mentioned earlier. Base rates were last reset April 1, 2017, and are required to be reset at least every four years to allow for continued use of the fuel adjustment clause. This filing will allow us to meet that requirement and provide flexibility to time our next rate review to include our wind generation investments. The Missouri PSC decision is expected by late April 2020, with new rates expected to be effective in late May.

Now, let me take a moment to go through the details of this filing. The request includes a 9.95% return on equity, a 51.9% equity ratio and the December 31, 2019 estimated rate base of $8 billion. This is based on a 2018 test year with certain pro forma adjustments through the end of 2019 and January 1, 2020.

Further, as outlined on Page 12, the key drivers of our $1 million annual revenue decrease include; decreased net energy costs, otherwise subject to recovery through the fuel adjustment clause, reflecting lower coal and transportation expenses, a higher level of weather-normalized customer sales volumes to recover costs, decreased expenses, other than net energy costs, of which a portion was otherwise subject to regulatory recovery mechanisms and recovery of and return on increased infrastructure investments made for the benefit of customers, including those, otherwise deferred under plant-in-service accounting or PISA.

We've received a number of questions with respect to PISA mechanics between rate reviews and in this rate review. While PISA meaningfully reduces regulatory lag, we still experienced some lag on recovery of depreciation expenses and the return on projects placed in service between rate cases. PISA allows us to differ and recover 85% of depreciation expense and return on rate base related to qualifying plant, which is nearly all plant placed in service. Such deferrals continue to accumulate until the related plant becomes part of rate base, included in a subsequent rate review.

As a result, 15% of such costs continue to result in lag between rate reviews. In addition, accounting rules only allow for the recognition in earnings of Ameren Missouri's cost of debt with respect to the 85% of return on rate base deferred under PISA, until such deferrals are reflected in rates. This results in a temporary lag in reported returns, but no ultimate economic loss. Of course, we seek to manage Ameren Missouri's business to reduce regulatory lag inheritance framework to earn as close to our allowed returns as possible while being mindful of operating and other business needs.

Moving now to Page 13 for other regulatory reviews. In December 2018, we filed a natural gas rate review with the Missouri PSC. In late July, we reached a non-unanimous stipulation and agreement with the Missouri PSC staff and certain interveners for a $1 million annual revenue reduction and no other parties to the rate review object.

While this was a black box agreement, it specifically provides for the use of the actual Ameren Missouri capital structure as of May 31, 2019 a 52% equity and a range of reasonable allowed ROE of 9.4% to 9.95%, including the use of 9.725% for the infrastructure rider. The Missouri PSC decision is expected in August, with new rates expected to be effective in September.

Moving to Illinois. 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 prior period over or under recovery of such costs. In late June, the ICC staff issued its recommendation, which was comparable to Ameren Illinois' request. An ICC decision is expected in December, with new rates expected to be effective in January 2020.

Finally, turning to Page 14, I will summarize. We continue to expect to deliver strong earnings growth in 2019 as we successfully execute our strategy. As we look to 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. In addition, Ameren shares continue to offer investors an attractive dividend. In total, we have an attractive total shareholder return story that we believe compares very favorably to our peers.

That concludes my prepared remarks. With that, we now invite your questions.

Questions And Answers

Operator

At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first question comes from Julien Dumoulin-Smith with Bank of America. Please proceed with your question.

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

Good morning, Julien.

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

Hey. Good morning.

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

How you doing?

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

Hey. How are you?

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

Terrific. Thank you.

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

Great. Not bad.

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

So, maybe just to kick things off, if I can, I'd love to go back to your comments, Warner, on the terminated agreement with EDF and how you think about next steps. And also just to make sure that you've secured your interconnection upgrade costs and firm those up on the other projects as well. Do you think this was very much isolated to this project, or is this kind of a wider theme that you're seeing in the MISO footprint?

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

Yeah. Thanks, Julien. So, a couple things. Number one, yes, with regard to the two projects that we have, the 400 megawatt project and the 300 megawatt project, we have the final interconnection costs done. And that was not the case with the EDF, that was only in the second stage. So, now those other two are done. So now keep in mind for the 400 megawatt project, we have the CCN already and so well positioned. We can move forward on that. We still have to get the interconnection agreement, but we expect that by the fall. And so we don't see any major issues with that.

With the 300 megawatt project, as you heard me say, we're real pleased to get a non-unanimous stipulation with the Missouri Public Service Commission staff. And so we're well positioned to have the review by the Missouri Public Service Commission and we look forward to having that and hopefully a decision by October. So as I step back and look at where we're at with the 700 megawatts that we have in place, I think we're very well positioned to get the necessary regulatory approvals and to begin construction in those projects and to get them all in service by the end of 2020.

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

Got it. And just to clarify here with respect to the initial project that was terminated. Is it your expectation that you go back to try to find an alternative project, restructure this project somehow to address some of the transmission costs, however, that might ever be possible? Or perhaps just forgo it altogether because obviously, as you said, you're ahead of the plan as you initially described anyway?

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

Yeah. So good question, Julien. So look, the bottom line is that with the 700 megawatts now that we have announced, we are in compliance with the Missouri Renewable Energy Standard and so we're well positioned. And in fact, that's consistent with what we said at the outset of these conversation and consistent with our integrated resource plan.

But like I also said, we continue to look at renewable energy investment opportunities and I mentioned the Renewable Choice Program. Certainly, we will file an updated integrated resource plan next year. So, we're not done kicking the tire renewable energy project is my message. But with regard to the Missouri Renewable Energy Standard, where we will be in compliance with these two projects that we plan on executing next year.

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

Got it. And if you permit me just a follow-up here. With respect to transmission once more, we've seen some interesting headlines thus far on MISO 2019 plans and where those budgets are coming in. Also, still September we are going to see the next round of the draft MSEP 20. How are you thinking about altogether transmission spending trajectory, if you can comment at least initially on some of the procedures?

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

Look, as I sit here today, obviously, and with regard to the other project, can't speak to the other projects. And I can speak to ours. And as I said a moment ago, all the two projects that we've got across the finish line, they are in line with what our estimates were. We certainly don't have visibility to all the projects that are going on in the system. That's certainly something that MISO has the visibility.

But what I will say, when you talk about broader transmission and you think about all the interconnection agreements and all the things going on here, I do continue to say and believe that when you look to the long term, that there is an opportunity for us as a system in MISO to look at multi-value projects to try and address the transmission matters and issues that we see today and the continued desire to put more renewable energy generation on our system.

So, this is an area of focus, as Shawn Schukar and all of our team are working with MISO and many others to be thinking about, we have to get through these interconnection agreements today. We need to be thinking about those multi-value projects down the road because that's what's going to enhance our overall system prospectively.

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

Great. Another MVP. Excellent. Well, thank you there. I'll leave there.

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

Thank you, Julian.

Operator

Our next question is from Greg Gordon with Evercore. Please proceed with your question.

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

Good morning, Greg. Good morning, Greg. Greg, you there?

Operator

Greg, are you muted? Greg, you are live with our speaker.

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

Why don't we go to the next question if Greg can get back in the queue. If he jumps back on, please.

Operator

Okay. Our next question is from Insoo Kim with Goldman Sachs. Please proceed with your question.

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

Good morning.

Q - Insoo Kim {BIO 19660313 <GO>}

Thank you. Good morning. To go back to your comments, I just want to clarify -- want to make sure I understand regarding the potential solar/battery facilities. Is that something that new -- something new that you guys are considering for the CCN? And again, it seems like the timing that you talked about at the end of 2020 kind of matches up with the last 157 megawatts of the other win, but is this potentially to serve as an offset to your plans?

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

And so, I'm going to let Michael Moehn talk about this exciting project. And so, Michael, I know is part of your Smart Energy Plan. So, who don't you talk a little bit about the benefits that this is going to bring the customers?

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

Perfect. Thanks, Warner. Good morning. Yeah. So, really these three projects that Warner referred to these battery plus storage facilities, there are three projects across the Missouri footprint and they really are focused primarily on reliability enhancement. So, we are making these investments in lieu of investments that we would need to make in substations, et cetera, to enhance the reliability on that system.

There will be some environmental benefits associated with them and will have some renewable energy credits that come as part of the solar projects. So, I mean they -- we will account for those, but they really are being driven by economics and reliability thing. We're excited about them. So hopefully, more to come there. But as Warner said, we're going to be filing those CCN very, very soon for those three projects.

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

So, Insoo, you also had a question in there as to whether this was incremental to our existing point. They are not incremental. They have been part of our five-year plan, part of the Smart Energy Plan. We've mentioned these projects as part of our comments because these are innovative technology projects that we're doing on behalf of our customers and certainly have a part in the renewable energy space as well. So..

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

So yeah, I think, just one important note on the 15% requirement that we have as part of the Missouri Renewable Standard. There is a 2% requirement for solar as well, 2% of that 15%. So, these will go to satisfy some of that as well.

Q - Insoo Kim {BIO 19660313 <GO>}

Understood. That's all I had. Thank you.

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

Terrific. Thank you.

Operator

Our next question comes from Ali Agha with SunTrust Robinson. Please proceed with your question.

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

Good morning.

Q - Ali Agha {BIO 1509168 <GO>}

Good morning.

First question. Can you, Marty, give us any more insight to your thinking on how you're planning to fund the wind acquisitions next year? Should we assume for planning purposes that the financing will be next year? Or any thoughts to any kind of a forward component to get that off the table today? Just what's your latest thoughts there?

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

Sure, Ali. Good morning. Thanks for the question. Overall, I have to say our financing plans haven't really changed from what we communicated to you and others on the February call and then again on the May call. In the February call, you'll recall that we laid out our $13.3 billion five-year capital expenditure plan that included about a, at that time $1 billion for wind today. As you heard on the call, looks like $1.2 billion of wind and you also heard, we do feel confident about those projects.

We said at that time, of course, and we reiterated, may I should say, that our financing plan included equity issuances under our DRIP and our employee benefit plans of about $100 million a year and the issuance of common equity to fund a portion of Ameren Missouri's wind acquisitions. We believe those two sources of equity, Ali, will allow us to fund the capital expenditure plan while maintaining approximately the same capitalization levels we have currently and our current credit ratings, which as you know, we've worked hard to achieve.

So sifting through all that and answer your question, I would say that other than the DRIP and employee benefit plan issuances and with respect to our current capital expenditure plans, we have no plan to equity -- external equity needs, other than for these wind projects, which are expected to close next year in the fourth quarter of 2020. So with respect to your question about options, we do have options in terms of accessing the equity markets. We're clearly aware of the where -- aware of the ways our peer utilities have approached the equity markets. We are monitoring market conditions and ultimately, we will move forward to a manner that we think is most appropriate given the funding need. So -- and I think that's -- that's what we've got to say on it. I don't think I'll comment beyond that, but we recognize the options that we have before us.

Q - Ali Agha {BIO 1509168 <GO>}

All right. And Marty, can you also remind us, do you still believe there is a further debt capacity at the parent or holding company level at this stage for Ameren?

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

Look, we've laid out the financing plans that we have. I think you're aware of the credit ratings that we have overall and where the thresholds are. And we've talked about that on prior calls. Moody's, we have a BBB plus and FFO to debt threshold of 13%. At Moody's Baa1, the thresholds a little bit higher there with a CFO pre-working capital to debt of 17%. And so a little bit, I would say less cushion there with respect to the Moody's rating.

So, we're conscious of that. We watch where the credit metrics are. We like those credit ratings. We'd like to hold those credit ratings. And we think about other factors, maintaining a strong balance sheet, positioning these various investments like the wind for success in the regulatory environments. And ultimately, all of that led us to the conclusions that we've reached and communicated earlier this year. And as I just repeated that, overall, we want to keep our capitalization levels approximately where they're at today at all of our legal entities. And we do plan to fund a portion of these wind investments with equity and we think that's the right balance overall.

Q - Ali Agha {BIO 1509168 <GO>}

Got it. And my second question related to the $13.3 billion five-year plan. I know in the past, you all have talked about that the Missouri legislation incentive that there was more CapEx potentially you could spend. There was more need for CapEx at Missouri. And I'm just wondering, when is the next time you all will update us on the CapEx plans? And should we assume that there is potentially upside to this plan that currently is at $13.3 billion?

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

Well, this is Marty. And I'll start off in case others want to jump in. But I would say that traditionally, we update our long-term capital expenditure plans in February on our year-end call. As I -- we noted on this call, we put out a $13.3 billion plan this past February that included $1 billion for wind. Now, we stand at $1.2 billion. So logically we'd include that in February. And then with respect to further grid modernization, we'll continue to assess that.

As you know last year when we rolled forward our five-year plan, we updated our capital expenditures across the board notably in Missouri, increased our capital expenditure plan, excluding the wind about $1.5 billion versus the prior five-year plan. So, we've incorporated a considerable amount of incremental infrastructure spending in that plan. But you're absolutely right. In terms of that $1.5 billion, that was only a percentage, a fraction of the overall potential incremental capital expenditure that we can make at Ameren Missouri over time. So, I don't want to speculate today on what we may or may not add next February. But clearly, we have a very large infrastructure investment pipeline and some great projects incremental to those that we've already put in the current five-year plan, incremental projects that we think would bring great value to our customers.

Q - Ali Agha {BIO 1509168 <GO>}

Thank you.

Operator

Our next question comes from Gregory Gordon with Evercore. Please proceed with your question.

Q - Gregory Gordon {BIO 3419434 <GO>}

Hey, gentlemen. Sorry about that [Speech Overlap] moment earlier.

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

Good morning Greg.

We thought we lost you. We're glad you came back in. How you doing, Greg?

Q - Gregory Gordon {BIO 3419434 <GO>}

Yeah. Yeah. So, I know you did talk about the energy infrastructure legislation that I guess has been tabled into potentially the veto session coming up in the fall. Can you talk about what it is that, that you specifically would like to see that legislation accomplish if it does get considered? And then also Vistra had their earnings call earlier today and they've made a proposal with regards to a coal, to solar plant that I think is the, basically, impacts the assets that you sold Dynegy all those years ago.

How do you see that, even though it doesn't have a, obviously, a direct financial impact to Ameren's P&L, how do you see that proposal? Do you think it's beneficial overall to your customers? Would you be supportive of it or any other comments you might want to give us on that topic?

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

Sure. Thanks, Greg. This is Warner. So look, I think we've been clear and we'll continue to be clear that our focus has been and will continue to be on passing the grid modernization legislation that supports the extension of formula rates through 2032. You heard me talk on the call about the significant benefits that it's brought to Illinois in terms of investment, reliability, jobs and still affordable. And so we think -- and this is why this has been extended twice and that's why it's received such favorable votes in the committees in both the Senate and the House. And we're hopeful that the legislature takes it up because we think it would be a good thing for the State of Illinois for many years to come. So, that's going to continue to be our primary focus.

There is no doubt that there are several other legislative proposals being looked at in the State of Illinois, very comprehensive, very complex. And so the only thing I can say is that Richard Mark and his team are at the table, speaking with all these stakeholders, trying to sort through all the details including Vistra's proposal. So it would be premature for me to speculate just exactly where those proposals are, all the pros and the cons. The only thing I can tell you is that they are complicated, they're complex, they're big bills. But that doesn't mean that they won't be considered either in a veto session next year. The only thing rest assured, we're at the table.

Q - Gregory Gordon {BIO 3419434 <GO>}

Okay, Warner. Thank you.

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

Thanks, Greg .

Operator

Our next question comes from Sophie Karp with KeyBanc. Please proceed with your question.

Q - Sophie Karp {BIO 19699392 <GO>}

Hi. Good morning, guys. Hello? How are you?

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

Good morning. Good morning. How are you? Great.

Q - Sophie Karp {BIO 19699392 <GO>}

So a couple of questions if I may. First, I wanted to follow up on the solar plus battery projects that you discussed. And I was wondering if you looked at other applications of battery storage technology at this point maybe replacing peaking generation capacity or you've even addressed in one of some of those transmission interconnection issues that you discussed. Is that the potential solution to transmission interconnection costs?

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

So Michael, why don't you talk a little bit about this innovative project that we're doing in Missouri and then we can talk a little bit more. Shawn, you can weigh in on some of the things on the transmission side.

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

Yeah. Again, these are exclusively focused on the distribution side. So again, looked and found places within our system that we need to make some reliability enhancements and combining these two projects together to make those reliability improvements in lieu of traditional sort of substation investments. My sense is -- and Shawn can comment on this with respect to whether those kind of applications are available on the transmission side as well.

A - Shawn E. Schukar {BIO 16870725 <GO>}

Yeah. This is Shawn. On the transmission side, we do look across the system to see where are alternatives just like Michael was describing on the distribution side and continue to look for those as we look for solutions to enable both reliability improvements on the system and those generating -- generator interconnection.

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

And so, look, the bottom line is energy storage is something that we as a company look very carefully at, for a variety of different reasons. And we're pleased that we'll look forward to having a conversation with the stakeholders in Missouri on this Missouri project and we're going to continue to kick the tires on energy storage product because as I think, we all know, the cost continue to come down in various applications. And so we'll continue to put our innovative efforts forward to see if we can actually do some of these projects for the benefit of our customers.

Q - Sophie Karp {BIO 19699392 <GO>}

Thank you.

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

Thank you.

Operator

Our next question comes from Gregg Orrill with UBS. Please proceed with your question.

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

Good morning, Gregg.

Q - Gregg Orrill {BIO 1532939 <GO>}

Good morning. Thank you. You spoke a little bit about the lag in between cases on the, I guess, the gaps in PISA mechanism. And I was wondering if it's possible to scale that impact or quantify it some way, how you're thinking about it?

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

Yeah, I don't -- Gregg, this is Marty. Hey, thanks for the question. I don't know that I have a way to really scale it, our objective and walking through those PISA mechanics was really just to help you and investors understand some of the nuances of the accounting ratemaking, because we still do receive a number of questions about it in the context of the need for this current rate review and the next one to incorporate the wind.

So -- but bottom line, as you know, this PISA has really been a big step forward for us in terms of improving the Missouri regulatory framework for infrastructure investment. We've significantly increased our ongoing and planned investments. So, it's really terrific. It's really, I guess, to say again, there is a small amount -- there is still a small amount of lag in terms of the ratemaking, that's for the 15%. That doesn't get PISA deferrals. And then we have this delayed recognition of equity earnings due to the accounting for the PISA deferrals and that needs to be understood. Today, we're booking those debt returns at about a 5% rate, so that may help you in terms of some of your modeling.

And as we stated, we're going to continue to manage the business in terms of cost management and regulatory rate reviews turning us close to allowed returns as possible, while as I said earlier being mindful of operating business needs. So, I think, Gregg, those are the components that we wanted to communicate and lay out and hopefully, you can use that to help with your modeling.

Q - Gregg Orrill {BIO 1532939 <GO>}

Yes. Thank you.

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

You're welcome.

Operator

[Operator Instructions] Our next question comes from Neil Kalton with Wells Fargo Securities. Please proceed with your question.

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

Good morning, Neil.

Q - Neil Kalton {BIO 6409354 <GO>}

Hi, guys. Good morning. Quick question. Just to clarify on new wins [Phonetic]. So, as you're evaluating and thinking about it, so ex the RCP, would new wins necessarily have to go to be a part of the IRP process or not necessarily?

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

Hi, Neil. Good morning, Neil. It's Michael Moehn. Thanks for that question. Yeah, I think as Warner stated earlier, I mean, as we think about the future and think about future opportunities, it's really going to be part of that integrated resource planning process that we have here in the State of Missouri. And so those renewable opportunities will be considered in the context of that. Again, we are complying with, the Missouri Renewable Standard with the 700 megawatts and the $1.2 billion investment today. So, future investments are really going to be contemplated in the IRP.

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

And so, Neil, I'll just add to this. And you broke up a little bit at the front end. Of course, the Renewable Choice Program though is different, that would be outside, that's a separate program that's been approved by the Missouri Public Service Commission. And we already talked about that in the past, so I just want to clarify that.

Q - Neil Kalton {BIO 6409354 <GO>}

Perfect. Thank you.

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

Thank you .

Operator

Ladies and gentlemen, we've reached the end of the question-and-answer session. At this time, I'd like to turn the call back to Andrew Kirk for closing comments.

A - Andrew Kirk {BIO 20578297 <GO>}

Thank you for participating in this call. A replay of this call will be available for one year on our website. If you have questions, you may call the contacts listed on our earnings release. Again, thank you for your interest in Ameren. Have a great day.

Operator

This concludes today's conference. You may disconnect your lines at this time and we thank you for your participation.