Q2 2017 Earnings Call

Company Participants

- Douglas Fischer, Senior Director-Investor Relations
- Martin J. Lyons, Chief Financial Officer & Executive Vice President
- Michael L. Moehn, Chairman & President
- Shawn E. Schukar, Chairman, President & Chief Executive Officer
- Warner L. Baxter, Chairman, President & Chief Executive Officer

Other Participants

- Andrew Stuart Levi, Analyst, Avon Capital/Millennium Partners
- Kevin A. Fallon, Analyst, Citadel LLC (Investment Management)
- Michael Lapides, Analyst, Goldman Sachs & Co.
- Paul T. Ridzon, Analyst, KeyBanc Capital Markets, Inc.

MANAGEMENT DISCUSSION SECTION

Operator

Greetings and welcome to the Ameren Corporation Second Quarter 2017 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, Mr. Doug Fischer, Senior Director of Investor Relations for Ameren Corporation. Thank you, Mr. Fischer. You may begin.

Douglas Fischer {BIO 1498560 <GO>}

Thank you and good morning. On the call with me today are Warner Baxter, our Chairman, President and Chief Executive Officer; and Marty Lyons, our Executive Vice President and Chief Financial Officer; as well as other members of the Ameren management team. Warner and Marty will discuss our quarterly results and earnings guidance, as well as provide a business update. Then we will open the call for questions.

Before we begin, let me cover a few administrative details. This call contains time-sensitive data that is accurate only as of the date of today's live broadcast and redistribution of this broadcast is prohibited. To assist with our call this morning, we have posted a presentation on the amereninvestors.com website homepage that will be referenced by our speakers.

As noted on page 2 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.

Now, here's Warner who will start on page 4 of the presentation.

Warner L. Baxter {BIO 1858001 <GO>}

Thanks, Doug. Good morning, everyone, and thank you for joining us. Before I begin my business update, I first want to express my deep appreciation to our customers who experienced outages over the last several weeks due to some severe storms. I'm grateful for your patience and the support of our co-workers who are working hard to restore your service in very hot and humid weather conditions.

Of course, I also want to express my appreciation to our co-workers who have been tirelessly working through these difficult conditions for our Missouri and Illinois customers. Our co-workers have continued to work safely and our system has held up well despite these challenging conditions. Again, my thanks to all of you.

Moving now to our financial results, earlier today, we announced strong second quarter 2017 earnings of $0.79 per share, compared to earnings of $0.61 per share in the second quarter of 2016. This growth of $0.18 per share was driven by the factors outlined on this page, which Marty will discuss in more detail in a moment. What is particularly satisfying to me is that our strong growth was driven by the solid execution of our strategy across our entire business.

I'm also pleased to report that as a result of this execution, we expect to deliver 2017 core earnings within the range of $2.70 to $2.90 per share, a $0.05 improvement over our prior guidance. This updated guidance excludes an expected third quarter non-cash estimated charge of $0.06 per share, primarily at the parent company.

This charge is the results of revaluation of deferred taxes due to an increase in the Illinois corporate income tax rate effective July 1 of this year. Beyond this charge, we expect this tax increase to have no material impact on consolidated earnings prospectively. Marty will also address this matter in more detail in a moment.

Moving to page 5, here, we reiterate our strategic plan. The year-over-year earnings growth I just mentioned reflects the significant investments we're making to better serve our customers as illustrated on the right side of this page. We continue to strategically allocate capital to our transmission and distribution businesses where investments are supported by regulatory frameworks that provide fair, predictable and timely cost recovery.

This, along with our continued disciplined cost management that supports our goal of earning close to our allowed returns in all of our jurisdictions, is expected to result in long-term earnings growth that is superior to our regulated peers. I'd like to discuss some of our year-to-date accomplishments and efforts towards execution of our strategy.

As you can see on the right side of this page, during the first half of this year, we invested more than $640 million or almost two-thirds of our capital expenditures in jurisdictions with more constructive regulatory frameworks. This included about $290 million of capital for FERC-regulated transmission projects. A significant portion of this capital was invested in our $1.4 billion MISO approved Illinois Rivers project, which is now about 90% complete, with four of its nine line segments energized, including two of three river crossings, and with all 10 substations in service.

Four of the five remaining line segments are in the advanced stages of construction with two of those line segments to be completed by the end of this year. And that our project remains on schedule for completion in 2019. At our second MISO approved project, the $150 million Spoon River Transmission line in Northwestern Illinois, 85% of pole foundations are complete. Pole installation is now underway and the project remains on schedule for completion in 2019.

Moving to our third MISO approved project, the Mark Twain Transmission line in Northeastern Missouri, there have been several recent developments. As we discussed on our first quarter call, ATXI has proposed an alternative route for the project that would place more than 90% of the line on existing transmission line corridors. To accomplish this, ATXI has reached agreements in principle with Northeast Missouri Electric Power Cooperative and the Ameren Missouri to locate the new line on existing rights-of-way.

This alternative route significantly minimizes the impact to landowners, communities and existing farmland, has been endorsed by various agricultural and economic development groups and is not expected to change the estimated $250 million project cost. In June, ATXI, along with Northeast Missouri Electric Power Cooperative and the Ameren Missouri, hosted a series of open house meetings to obtain public input on the proposed alternative route to help finalize route options.

Feedback so far has been positive and we're working to obtain needed county assents for road crossings. Upon receiving all five county assents, ATXI will request a Certificate of Convenience (sic) [Public Convenience] and Necessity for this route from Missouri PSC. We look forward to continuing to work with landowners and the county commissioners to get this important project for Missouri and the entire Midwest region moving forward. The planned in-service date is late 2019.

We also continue to invest in Ameren Illinois local electric transmission projects to maintain and enhance reliability, including projects to meet reliability requirements, replace an aging infrastructure, and modernize the grid. Our pipeline for these types of projects remains strong and will continue to deliver significant value to our customers and create jobs.

Moving on to our other businesses, we invested about $350 million in Illinois electric and natural gas distribution infrastructure projects during the first half of this year. These investments include natural gas distribution projects that upgrade our gas main infrastructure, and electric distribution projects that add smart grid technology and upgrade substations, all to improve the safety and reliability of our system.

Through the end of June, Ameren Illinois has installed 516,000 smart electric meters and 278,000 gas meter modules that provide customers with enhanced energy usage data and access to programs to help them save on their energy bills. Ameren Illinois expects to install another 185,000 smart electric meters and 76,000 gas meter modules in the second half of 2017, as it works to deploy these to all of its 1.2 million electric and 800,000 gas customers by the end of 2019.

Turning now to page 6 for our Missouri business update. As we discussed on our first quarter earnings call, new electric rates went into effect on April 1 of this year as a result of a unanimous agreement resolving all the issues in the rate review. Again, we appreciate the cooperative effort of all parties involved and consider unanimous agreement a positive, constructive step forward. In addition to successfully executing our rate review, we continue to effectively manage our Missouri operations and earn solid returns.

We are doing so by effectively managing our capital projects, as well as by keeping a very sharp eye on our operating costs. We're also very focused on enhancing Missouri's regulatory framework. As you know, constructive ratemaking legislation was not passed by the Missouri General Assembly during this year's legislative sessions, as a result of filibusters by a small group of state senators. While legislation did not get across the finish line, we did make progress on several fronts, progress we will build upon going forward.

That progress included constructive reports from the Senate Interim Committee and Missouri PSC that supported enhancing the Missouri regulatory framework. Those reports, coupled with growing evidence from around the country that indicates that modern energy policies that support investment in the energy grid were in the long-term best interest of customers and the economy, helped grow the strong bipartisan support for legislation.

Looking ahead, we will leverage the meaningful progress we have made over the last several legislative sessions, continue to work collaboratively with key stakeholders, and work towards charting a constructive path forward to enhance Missouri's regulatory framework. I also expect that we will support another legislative initiative in 2018.

Turning to page 7. As we look to the future, the successful execution of our robust five-year plan is not only focused on delivering strong results through 2021, it's also designed to position Ameren for success over the next decade and beyond. We strongly believe that the energy grid will be increasingly more important, as we believe that Ameren and our industry will be critical enablers of advancing technologies that will bring even greater value to our customers, the communities we serve, and our shareholders.

Further, we continue to believe it will be appropriate to transition our generation fleet to a cleaner, more diverse portfolio in a responsible fashion. With this long-term view in mind, we're already making investments that will position us for success. These include significant investments in smart meters, digital technologies, and other infrastructure that will result in a safer and more secure energy grid that will enable us to meet our customers' rising energy needs and expectations.

And we're making prudent decisions to close down coal-fired generation resources at the end of their useful lives, including our Meramec Energy Center in 2022, as well as to invest in renewable energy to effectively transition our generation portfolio. Right now, Ameren Missouri is in the process of finalizing its next 20-year integrated resource plan, which is scheduled to be filed with the Missouri PSC in October of this year. In this plan, we will continue to appropriately balance our responsibilities to our customers and communities, the environment and, of course, our shareholders.

Consistent with this long-term view, by the end of 2021, we expect that nearly 75% of our rate base will be invested in transmission and distribution assets, while just 13% (13:11) of our rate base will consist of coal-fired generation. In addition to making investments with an eye toward the future, we're also actively participating in proceedings before the Illinois Commerce Commission and Missouri PSC that are, among other things, studying appropriate regulatory programs and frameworks to address changes taking place in our industry. The bottom line is that we're taking steps today across the board to position Ameren for success in 2017, the next five years, and the next decade and beyond and, in so doing, continue to deliver superior value to our customers and you, our shareholders.

Turning now to page 8 to conclude my remarks. In February, we outlined our investment plan that included 6% compound annual rate base growth from 2016 to 2021, reflecting greater levels of capital allocated to those jurisdictions with constructive regulatory frameworks. As we stated previously, this plan is not contingent on passage of Missouri legislation. Also, in February, we affirmed our expectation for earnings per share growth of 5% to 8% compounded annually from 2016 to 2020 based on the adjusted 2016 guidance midpoint we outlined early last year.

We consider both our rate base and earnings growth rates to be attractive compared to those of our regulated utility peers and Ameren shares continue to offer investors a solid dividend, which our board has increased in each of the last three years. 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 believe our strong rate base and earnings growth profile, combined with our solid dividend currently providing a yield of approximately 3.1%, results in an attractive total return opportunity for shareholders compared to our regulated utility peers. We remain focused on executing our strategy and I am firmly convinced that doing so will deliver superior value to our shareholders, customers and the communities we serve.

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

Martin J. Lyons {BIO 4938648 <GO>}

Thanks, Warner, and good morning, everyone. Turning now to page 10 of our presentation, as Warner mentioned, we reported second quarter 2017 earnings of $0.79 per share compared with earnings of $0.61 per share for the year ago quarter. On this page, we highlight by segment the key factors that drove the overall $0.18 per share increase.

Starting with Ameren Missouri, second quarter year-over-year earnings increased $0.11 from $0.38 to $0.49 per share. This improvement reflected new electric service rates effective April 1, driven in part by increased infrastructure investments and removal of the negative effect of lower sales to the New Madrid smelter. The earnings improvement also resulted from the absence of a scheduled Callaway Energy Center nuclear refueling and maintenance outage. The favorable factors were partially offset by lower electric retail sales, primarily driven by milder early summer temperatures.

Next, Ameren Illinois Electric Distribution's second quarter year-over-year earnings rose from $0.08 to $0.14 per share. This largely reflected the favorable impact of the 2017 change in the timing of interim period revenue recognition resulting from the Future Energy Jobs Act. This Act modified the existing formulaic ratemaking by decoupling our distribution revenues from sales volumes. While this change will impact quarterly comparisons, it will not affect full year earnings. Second quarter 2017 earnings at Ameren Illinois Electric Distribution also benefited from increased infrastructure investments as well as a higher allowed return on equity under formulaic ratemaking of 8.8% compared to 8.45% for the year ago quarter.

Turning to Ameren Transmission, second quarter year-over-year earnings rose from $0.13 to $0.14 per share. This was due to increased transmission infrastructure investments at ATXI and Ameren Illinois, which both operate under constructive FERC-formulaic ratemaking, partially offset by lower average allowed return on equity, which was 10.82% in 2017 compared to an average of 11.4% in the year ago quarter. In 2016, our Transmission segment benefited from a temporarily higher FERC-allowed ROE as a result of the expiration in May of 2016 of the 15-month refund period for the second MISO ROE complaint case.

Before moving on, let me briefly cover sales trends for the first half of 2017 compared to the first half of 2016. Weather-normalized kilowatt-hour sales to Illinois and Missouri residential and commercial customers on a combined basis were flat, excluding the effects of our Missouri energy efficiency program under MEEIA. We exclude MEEIA effects because the program provides rate recovery to ensure that earnings are not affected by reduced electric sales resulting from our energy efficiency efforts. The sales results reflect underlying 2017 growth, offset by the absence of the 2016 leap day sales benefit.

Kilowatt-hour sales to Missouri industrial customers increased about 0.5%, excluding MEEIA effects and sales to the New Madrid smelter, which shut down operations during the first quarter of 2016. Kilowatt-hour sales to Illinois industrial customers in 2017 decreased 3%, primarily due to lower sales to a large, low margin processor of agricultural products. Recall the changes in electric sales in Illinois, no matter the cost, do not impact our earnings since the Future Energy Job Act provided full revenue decoupling beginning this year.

Moving to page 11 of our presentation, I would now like to discuss our 2017 earnings guidance. Today, we reaffirmed our GAAP guidance at $2.65 to $2.85 per share, which now includes an expected third quarter, non-cash tax-related charge of $0.06 per share, which I will discuss in more detail in a moment. Excluding this charge, we expect to deliver 2017 core earnings within a range of $2.70 to $2.90 per share, a $.05 per share improvement over our prior guidance range, reflecting solid execution of our strategy, including continued disciplined cost management.

This updated guidance assumes normal temperatures for the second half of this year. While July temperatures were much warmer than normal, we don't expect that this impact was significant enough to offset the very mild temperatures experienced during the first half of the year, which reduced earnings by approximately $0.07 per share. Listed on this page are select earnings considerations that will affect the comparability of second half 2017 core earnings to last year's second half results.

Some of the larger impacts include a change in the timing of interim period revenue recognition at Ameren Illinois Electric Distribution business and assumed return to normal temperatures, a fourth quarter Callaway refueling and maintenance outage, the absence of 2016 Ameren Missouri energy efficiency performance incentives, the 2017 Ameren Missouri electric rate review settlement, and increased transmission and electric distribution infrastructure investments at ATXI and Ameren Illinois.

I want to particularly call your attention to the change in timing of interim period revenue recognition in Ameren Illinois, because it is expected to decrease earnings by approximately $0.23 per share in the third quarter of 2017 and increase earnings by approximately $0.11 per share in the fourth quarter of 2017. Finally, I would like to discuss the impact on Ameren of the recently enacted increase in Illinois' corporate income tax rate. Early last month, the Illinois General Assembly approved a budget-related legislation that effectively increased the corporate income tax rate to 9.5% from 7.75% as of July 1 of this year.

The tax increase is expected to result in a third quarter 2017 non-core, non-cash charge of an estimated $0.06 per share, primarily at the parent company, due to revaluation of deferred taxes. Beyond this charge, we do not expect the tax increase to have a material impact on our consolidated earnings prospectively. The tax increase is not expected to materially impact earnings of Ameren Illinois Electric Distribution or Ameren Illinois' and ATXI's Transmission businesses since they operate under formulaic ratemaking.

The tax increase is expected to reduce Ameren Illinois' gas distribution business earnings, but only by approximately $1 million annually until customer rates are reset in the next rate review. And we plan to file for a gas distribution rate review in Illinois in early 2018 with new customer rates to be effective in early 2019.

Turning now to page 12 for an update on 2017 long-term debt financings. On June 15, Ameren Missouri issued $400 million of 2.95% senior secured notes due 2027, the proceeds of which were used in connection with the repayment at maturity of $425 million of 6.4% senior secured notes. Also, ATXI agreed to privately place $450 million of 3.43% senior unsecured notes due 2050. $150 million of such notes were issued on June 22, with the remaining $300 million to be issued on August 31.

The proceeds of the ATXI private placement will be used to repay Ameren parent for a portion of ATXI's existing intercompany debt. This is the first time ATXI has issued external debt. And we're pleased with the successful low-cost issuance, including the strong investment grade credit rating the notes received. Finally, we expect Ameren Illinois to issue long-term debt later this year to repay, at maturity, $250 million of 6.125% senior secured notes and short-term debt.

Moving now to page 13 for a discussion of select regulatory matters pending at the Illinois Commerce Commission and the Federal Energy Regulatory Commission. In July, Ameren Illinois updated its required annual electric distribution rate update filing, requesting a $17 million decrease in the annual electric distribution revenue requirement. This is consistent with the ICC staff's filed testimony, and other parties did not file revenue requirement testimony. An ICC decision is expected in December of this year, with new rates effective early next year.

Turning to the FERC, one complaint case remains that seeks to reduce the base allowed ROE for MISO transmission owners, including Ameren Illinois and ATXI. These businesses are currently earning a 10.82% ROE, including a 50 basis point adder for MISO membership, and will continue to do so, pending any change required by the FERC as a result of this case. Our updated guidance assumes this ROE continues through the end of the year.

While the U.S. Senate's approval yesterday of two new commissioners reestablishes a quorum at the FERC, it remains uncertain when the commission will rule on the pending complaint case. In addition to facing a significant backlog of other cases, we expect that the FERC commissioners will take time to consider the recent ruling of the U.S. Court of Appeals for the DC Circuit that vacated the FERC's order in a New England transmission ROE case, as this court ruling may influence the FERC's order in the pending MISO ROE complaint case.

Turning to page 14, I will summarize. We expect to deliver 2017 core earnings within a range of $2.70 to $2.90 per share, as we continue to successfully execute our strategy. As Warner stated, as we look ahead, we continue to expect strong earnings per share growth, driven by strong rate base growth and disciplined financial management. And, Ameren shares continue to offer investors an attractive dividend. In total, we believe we have an attractive total shareholder return story compared to our regulated utility peers.

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

Q&A

Operator

Thank you. We will now be conducting a question-and-answer session. Our first question comes from the line of Andy Levi with Avon Capital Advisors. Please proceed with your question.

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

Wow. I never get the first question.

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

Good morning, Andy. How are you doing?

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

How are you guys doing?

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

How are you?

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

Some people don't even let me ask a question. I'm all right. So, just on the earnings revision for 2017, so should we kind of – is the new base to grow off of is the midpoint of that number, which is like $2.80? Is that kind of how to think about it?

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

Well, you know, Andy, obviously, the guidance we gave in terms of our long-term earnings guidance has been really based on 5% to 8% compound annual EPS growth from 2016 to 2020. And, of course, when we'd started that, we used a base in 2016 of $2.63, which was an adjusted base. Clearly, you're right. I mean, as we look at this year, we've upped our guidance for our core earnings. The midpoint is $2.80. And as we think about going to next year, any kind of long-term guidance we give, yeah, the foundation would be whatever the core earnings were for the prior year. So, that would be – that very well may be the $2.80 going forward.

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

Okay. And what's the difference between the midpoint and $2.90, just in the thinking because, I mean, it's August already, so obviously you threw the $2.90 in there for a reason. It must be achievable. So, what is kind of the delta that gets you to $2.90 versus $2.80?

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

Well, when you say that, obviously, as we go through the remainder of the year, we don't have, for example, in there any kind of July weather that's been baked in. I mean, you're really asking, I think, about the range, and what justifies the range up or down?

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

What gets you – $2.80 is your midpoint, but what would get you to $2.90? I mean what's in the thinking that gets you the $2.90 or higher?

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

To plug anything else for the remainder of the year, to the extent that there were sales volume changes, as I mentioned, we don't include in our – our guidance typically include normal weather. Certainly, there could be some weather impact up or down. We have had some warm weather here in July, which isn't explicitly factored in. As we mentioned on the call, we don't expect that to offset the negative impacts of weather from earlier this year. Probably as we sit here today, it's probably less than a $0.05 kind of impact from what we're seeing in July. But things like sales trends, reductions in operations and maintenance spending, positive weather, those are the kinds of things that can really move you up or down within your range.

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

And are you trending towards kind of the midpoint or the high end right now do you think?

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

You know, Andy, we...

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

You don't have to answer it. I just wanted to...

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

Well, thanks for asking. No, we – look, wait, we give a range. We feel comfortable with that range. And, look, we started the year with a little bit lower. As we moved through the year, we started the year with a little bit of negative weather. That was certainly influencing our thinking at the beginning of the year in terms of the guidance range we gave. As we've moved through the year, we've had a constructive outcome in the Missouri rate case, which was terrific.

We've got a disciplined financial management as we've moved through the year too, making sure we keep tight control of our cost. As you know, our goal in each one of our jurisdictions is to earn as close to our allowed returns as we can. And we're executing on our strategy well, deploying the capital as we expected to, which drives rate base growth which drives earnings growth. So, we're executing well. We feel comfortable with raising the overall range and we're going to obviously work hard to achieve year-end results within that range.

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

Andy, this is Warner. I would just simply say – I would just add one thing. As Marty said, I think, it's simply evidence of the fact that we're executing our plan and we're executing it well and we're executing across all of our businesses.

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

And then, I know I'm going to cheat here and ask one extra question. But if you kind of – and I know you haven't given 2018 guidance and I'm not expecting you to. But just kind of just very simplistically, $2.80 is kind of the midpoint of where we're going to grow off of and then you don't have a Callaway outage next year, right, that adds like $0.09 to $0.10 to 2018. Is that correct?

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

Callaway outage is around $0.08.

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

$0.08. And then...

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

But you're right. We do not have one – we don't have one next year. Look, we're not giving guidance for next year.

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

No, no, no.

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

But as you look ahead to next year, we certainly expect to benefit from the continued investments we're making in rate base which drive earnings growth. We don't have a Callaway outage next year as you mentioned which also then would be additive to earnings.

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

Right. Well, you don't have a Callaway outage and then, you're not filing a rate case in Missouri, right? Probably. So there's also like interest expense savings from that that you'll capture in 2018. Plus, you get about $0.20 of growth in Illinois just from the rate base growth. So, I'm just kind of looking at consensus around $3 and just kind of adding up the numbers. So it just seems that people are kind of underestimating your earnings power. I don't know if you tend to agree with that and I guess I kind of saw it this year, too, without obviously giving guidance.

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

Yeah. Again, we're not giving guidance for next year and I won't comment on consensus for next year either. But – and I also wouldn't comment on necessarily the EPS impacts that you gave from the rate base growth. I mean we'll provide our guidance as we normally do as we roll into the early part of next year. I would mention that you mentioned that no Missouri rate case file. One thing I would mention is on the rate review that we just concluded where the rates went into effect April 1. This year we realized about 75% to 80% of the impact of that rate review. Next year, we would incrementally pick up the first quarter benefit of that rate review.

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

Plus any refinancings that you have because you have some high-cost debt that's coming due at Union and that obviously you would have to get back in a future rate case, but not in 2018. Is that correct?

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

Yeah. To the extent that we're able to, at Ameren Missouri, to refinance the debt at a lower rate, we do benefit from that savings until the next rate review. And to your point on that, I mentioned on the call that in June we refinanced. We paid off $425 million of 6.4% debt, issued $400 million at 2.95%, is a 10-year offering. That, for example, is about $15 million of annual interest savings.

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

Right. Okay. Well, I appreciate it. Thank you. I'll let somebody else go.

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

Thanks, Andy.

Operator

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

Q - Michael Lapides {BIO 6317499 <GO>}

Hey, guys. Quick question on Missouri. And, Warner, you commented a little bit about changing generation fleet. And just curious, you're one of the few utilities in the region that has not really, when you look at generation supply, benefited both by sizable, in Missouri, transmission growth that leads to a sizable amount of wind generation, entering your service territory and maybe replacing some fossil generation.

Can you talk a little bit about whether you see that as a significant opportunity, either via owning wind plants in rate base or in the need for incremental transmission in Missouri to be able to connect to the West where there's lots of great wind resource? And can you talk about what do you need from a regulatory standpoint, either ratemaking or approval-wise, to actually make that happen if that's one of the decisions you make going forward?

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

Thanks, Michael, for your question. A couple comments. Number one, we are in the process where we look at transmission but we also look at generation. And we've been consistent in saying that we're going to transition our generation portfolio to a more diverse, cleaner portfolio, but we're doing it in a responsible fashion. A little bit later this year, we are going to update our integrated resource plan. And that will highlight some of those opportunities we may have in the renewable energy space, just with regard to our own generation. And, as we know, we have a renewable energy standard in the state of Missouri. And, as a result of that, as renewable energy cost for new generation comes down, that's something we're going to look carefully at.

Of course, to make renewable energy work, you need to make sure that you have a transmission system that's robust enough to support all of that. And at the end of the day, we've certainly made more investments in the transmission space in Illinois. And in MISO, we've done some. We have the Mark Twain Project that we're going to hopefully continue to move forward with and get across the finish line.

So, as you continue to see greater levels of renewable generation in MISO in the broader footprint, we do see that there could be some opportunities for incremental transmission that could be done, whether it's done on a multi-value project basis, which would have to go through MISO, or potentially, of course, something that we would do under the state regulatory framework in Missouri.

And so I wouldn't say that we've certainly ruled that out. We'd see that as an opportunity. So, I'm looking at Shawn Schukar. Shawn, in terms of how you look at the space, especially in MISO, and other things? We do see incremental transmission opportunities, not just to support generation, but even just to deal with and to support NERC reliability projects and those types of things.

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

Yes, Warner. That's correct. We see significant opportunities around the – opportunity to improve or to replace the existing transmission system in Illinois and Missouri, but overlaying that with as we see changing generation portfolios in the market that that will create potential new opportunity, especially given the strong wind resources to our West.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it, guys. Thank you. Much appreciated, you all.

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

Thanks, Michael. Take care.

Operator

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

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

Good morning. Congratulations on a solid quarter.

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

Thanks, Paul. How are you doing?

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

Thanks, Paul.

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

Well, thank you. Can you just delve a little more deeply into the Missouri process and kind of how you can possibly get more traction there? I'm talking legislative.

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

Sure, Paul. I'll comment on that. Michael, feel free to jump in. As we said before, of course, we've been disappointed that we haven't got that across the finish line. But the process in legislation is always one of collaboration. It's always one of working with key stakeholders to educate them on the needs. And it's always one of ensuring they understand the real value to modernizing the energy grid.

If you look at what we've been able to do in Illinois, that's really the formula that we've worked over there. It's making sure everyone understood the value. And then once you have them understand the value, deliver on those projects. And it's clear what we've seen in Illinois and what we've seen, frankly, across the country, is that modern energy policies that support investment in a modernized grid, not only brings real value to customers, it keeps rates still affordable, but it creates thousands of jobs. That's been a formula that's worked across the country, and we can see that's worked clearly in Illinois.

So, that same message is resonating in the state of Missouri. It's why we have such strong bipartisan support. That's why the collaborative effort that we've been working on continue to gather even more stakeholders to support it. So, really, it's one of just doing the work on the ground, the work on – with the – collaborating with key stakeholders and being mindful that the approach that we've been taking is very consistent with our – Governor Greitens has said that, look, regulatory reform is an important part of his platform to become governor, as well as creating good paying jobs. What we've been talking about in the state of Missouri is absolutely consistent with that. So, I think that has been the approach. And, Michael, you've been on the ground working with key stakeholders. Anything to add?

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

Look, I think, that's well said. The only thing I would add to that is just a couple of things. We're going to continue to build off of certainly the interim report that the Senate put out last fall, along with the Missouri Public Service Commission, had the working docket on – looking at issues around regulatory reform. There's also been an emerging issues task force that they kicked off here. We're going to have some more meetings here in August. All of these are indications that I think they understand that we need to take a different approach to this. There's opportunities around. We're going to continue to leverage those going forward.

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

It really comes down to one party, right? I mean, how do you flip him?

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

Well, so, at the end of the day – Paul, this is Warner again. We do what we've been doing. We continue to work collaboratively with those key stakeholders. And, yeah, we have a small group that has opposed the legislation. But we won't be deterred, because, look, it's important for us to continue to get their input. We share our input with them. And, as we said before, while we've experienced the filibuster, there's certainly ways to – not only find comprises in advance, but in the context of filibusters and the like, look, the key is, you continue to reduce the number of people that may want to participate in the filibuster, number one.

You make sure you're given adequate floor time to try and make sure you can address those issues and hopefully come to a compromise. And, lastly, as we've said before, I mean, there are rules in the Senate that would enable it to close down the debate. But those rules aren't used often. We hope we never get to that point. The bottom line is, we want to work collaboratively with everybody to ultimately get constructive legislation that benefits our customers, the communities that we serve, and our shareholders.

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

Yeah. That's right, Warner. I mean, look, I think that this may sound naïve at the end of the day, but we absolutely have to convince them of the value associated with this. There are too many examples, though. Warner talked about what's going on in Illinois, but you can certainly look far beyond Illinois in terms of what's happening, in terms of modernizing the grid and the value that it creates for customers and shareholders at the end of the day. And so, we just honestly have to continue to double down that effort, to convince him that the state of Missouri is falling behind if we don't make some progress on this.

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

Are there any term limits to consider here, or...

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

In Missouri, there are term limits. Yes.

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

There are or not? Sorry.

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

There are. Correct. There are term limits.

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

Thank you very much.

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

Sure, Paul.

Operator

Thank you. Our next question comes from the line of Kevin Fallon with Citadel. Please proceed with your question.

Q - Kevin A. Fallon {BIO 19872493 <GO>}

Hey, guys. I just wanted to follow up on Michael Lapides' question. And specifically on the wind, are you guys able to sign PPAs, or do new-builds on wind generation with economics below the dispatch cost of your coal fleet?

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

Hey, Kevin. This is Marty. Yes. Good follow-up question. Yes. I mean in terms of moving forward, clearly, there could be PPAs we enter into. We could own wind generation. Both of those are viable options. And in terms of that question, I mean, there's a couple of ways that it could happen prospectively. One, as you mentioned is, to the extent that the all-in cost of those renewables was below the dispatch cost of our existing generation. Of course, one of the reasons why maybe the penetration hasn't been as great here as maybe other places is that the dispatch cost of our existing generation is pretty low. And that's a real benefit for our customers. However, the cost of renewables continues to come down, and we watch those economics very closely.

As Warner mentioned in his answer to Michael earlier, as part of the Integrated Resource Plan, we also look at compliance with the Missouri renewable energy standard. That standard actually requires us to purchase or generate 15% of our native sales from renewables by 2021, subject, though, to a 1% annual limit on rates. And really, that's been a limiter historically, in terms of introducing even more renewables into the portfolio.

In our 2014 IRP, we had about 130 megawatts of wind coming in by 2021. So, as Warner mentioned in his talking points, we're working on an update to that Integrated Resource Plan. And in answer to your question, we're both looking at the economics of renewables as compared to the dispatch cost of our existing generation, but also looking at it in terms of compliance with that renewable energy standard, within the limits of that 1% impact on rates. So, those are the two ways that, really, as we look ahead, there's the opportunity to bring even further renewables into our portfolio.

Q - Kevin A. Fallon {BIO 19872493 <GO>}

And where are you relative to that 15% by 2020 right now in terms of your fleet?

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

In terms of the existing assets that we have or things under purchase, we're below significantly below that, but there are a few ways to go about compliance. One is PPAs, one is ownership, and the other is renewable energy credits. So, we're looking at all options as we move ahead for compliance with that standard.

Q - Kevin A. Fallon {BIO 19872493 <GO>}

And just one last thing. In terms of the process going forward, obviously, you guys have said that you're going to seek legislation again next year in Missouri, but is there any possibility of trying to do something at the commission before with the $1 billion of grid modernization CapEx that you guys have highlighted in past or is that something that you're just going to defer and try to seek the legislation itself only?

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

This is Michael Moehn. Also in respect to your question on the renewals and where we are, I believe we're right at around 5% today in terms of that 15% compliance, so.

Q - Kevin A. Fallon {BIO 19872493 <GO>}

Thank you.

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

With respect to the legislative question, regulatory, look, I think, we're not obviously foreclosing any tools available to us. I think we look at a number of options that we can pursue. As Warner indicated, we certainly intend to file as we sit here today legislation, but we're going to continue to look at all options to continue to make progress. We've used regulatory tools in the past that have been constructive. So, it is certainly an option available for us.

Q - Kevin A. Fallon {BIO 19872493 <GO>}

Is there a certain timeframe that you're looking to make a decision on that before the legislation or is it just kind of a general sense that you always make those types of calculations?

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

Yeah. More of the latter.

Q - Kevin A. Fallon {BIO 19872493 <GO>}

Okay. Thank you very much.

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

You're welcome, Kevin. Thanks.

Operator

Thank you. Our next question is a follow-up from Andy Levi with Avon Capital Advisors. Please proceed with your question.

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

Hi. I'm sorry, guys. Apologize about that. So, on the renewables that was just brought up. So, why wouldn't you guys do the majority of it yourself if there was the opportunity and it was economical for rate base (48:38)?

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

I guess, Andy, no disagreement with that assertion. I mean, certainly, if that makes the most sense for the customers that would be a positive. So, we'll need to look at, as we're assessing it, what the best compliance option is for the renewable energy standard for our customers and looking at the various options and thinking about the benefits, risks, costs of all of those options.

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

And what's the timeframe on – I mean, because obviously things are kind of getting close here. So, what's the timeframe? When will we hear about kind of the decision-making process on that?

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

Andy, this is Michael Moehn. As Warner indicated, we have an IRP that needs to be filed in October. So, my sense is that we'll have some communication right around that timeframe.

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

Okay. And, obviously, you don't have anything in your current CapEx forecast for any of those?

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

Very little in the current CapEx forecast for that, given, as I mentioned earlier, the IRP we had a few years ago in 2014 had about 130 megawatts of wind by 2021.

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

130 megawatts wind by 2021. And how much again came from that 5% to the 20%, I think, you said, right, is what the standard is? How many megawatts are we talking about?

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

Well, it's really, again, limited by the 1%. And I think rather than getting into that here, it's something we're assessing. And as Michael said when we file the IRP in October, we'll see where we're at.

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

Okay. Thank you.

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

Thank you.

Operator

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

A - Douglas Fischer {BIO 1498560 <GO>}

Thank you for your questions today. As we discussed today, we believe Ameren shares offer investors attractive total return potential, based on our strong expected earnings growth outlook and solid dividend. Finally, let me remind you that a replay of this call will be available for one year on our website. If you have questions, please call the contacts listed on our earnings release. Thank you for your interest in Ameren and have a great day.

Operator

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.