Q2 2022 Earnings Call

Company Participants

- Martin J. Lyons, President and Chief Executive Officer
- Megan Oliverio McPhail, Manager of Investor Relations
- Michael L. Moehn, Executive Vice President, Chief Financial Officer, Ameren Corporation, President, Ameren Services

Other Participants

- Anthony Crowdell, Mizuho
- Jeremy Tonet, JPMorgan
- Julien Dumoulin-Smith, Bank of America Merrill Lynch
- Neil Kalton, Wells Fargo Securities
- Paul Patterson, Glenrock Associates
- Shahriar Pourreza, Guggenheim

Presentation

Operator

Greetings and welcome to Ameren Corporation Second Quarter Earnings Conference Call. At this time, all participants are on a listen-only mode. A 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 turn the conference over to your host, Megan McPhail, Manager of Investor Relations. Thank you. You may begin.

Megan Oliverio McPhail

Thank you and good morning. On the call with me today are Marty Lyons, our President and Chief Executive Officer, and Michael Moehn, our Executive Vice President and Chief Financial Officer, as well as other members of the Ameren management team joining us remotely. Marty and Michael will discuss our earnings results and guidance, as well as provide a business update. Then we will open the call for questions. Before we begin, let me cover a few administrative details. This call contains time sensitive data that is accurate only as of the date of today's live broadcast, and redistribution of this broadcast is prohibited. To assist with our call this morning, we have posted a presentation on the amereninvestors.com home page 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, projections, strategies, targets, estimates, 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 our news release we issued yesterday 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 is Marty, who will start on Page 4.

Martin J. Lyons {BIO 4938648 <GO>}

Thanks, Megan. Good morning, everyone, and thank you for joining us. We had a solid quarter, and we are excited to share an update today on a number of recent developments. As always, our team continues to work hard to execute our strategic plan across all of our business segments, allowing us to deliver significant value to our customers and shareholders. Yesterday, we announced second quarter 2022 earnings of $0.80 per share compared to earnings of $0.80 per share in the second quarter of 2021. The year-over-year results reflected increased infrastructure investments across all our business segments that will drive significant long-term benefits for our customers. The key drivers of our second quarter results are outlined on this slide. I am pleased to report that we remain on track to deliver solid earnings growth in 2022 and are reaffirming our 2022 earnings guidance range of $3.95 per share to $4.15 per share. Michael will discuss our second quarter earnings, 2022 earnings guidance and other related items in more detail later.

Moving to Slide 5, you will find our strategic plan reiterated. We continue to invest in and operate our utilities in a manner consistent with existing regulatory frameworks, enhance regulatory frameworks and advocate for responsible energy and economic policies, and create and capitalize on opportunities for investment for the benefit of our customers, shareholders and the environment. Turning now to Page 6, which highlights our commitment to the first pillar of our strategy, investing in and operating our utilities in a manner consistent with existing regulatory frameworks. Our strong, long-term earnings growth guidance is primarily driven by our infrastructure investment and rate base growth plans, which are supported by constructive regulatory frameworks.

You can see on the right side of this page we continue to strategically invest significant capital in each of our business segments in order to maintain safe and reliable operations as we transition to a cleaner energy grid. Regarding regulatory matters, earlier this week, Ameren Missouri filed an electric rate review with the Missouri Public Service Commission, requesting a $316 million annual revenue increase. This request reflects significant modernization upgrades to the electric grid for system reliability, resiliency and safety, as well as investments to support the transition to cleaner energy for the benefit of our customers and local communities.

In our Illinois electric business, we recently requested an $84 million revenue increase in our required annual electric distribution rate filing. Again, key drivers for this rate increase include significant investments to enhance the grid for our customers and communities, which will deliver long-term benefits. Michael will cover these in more detail a bit later, and we will provide updates on these proceedings as they develop later this year. As we invest to build a safer, stronger, smarter and cleaner energy grid for our customers, we also continue to work diligently to manage our costs, leverage our investments, and optimize our performance.

Moving now to Page 7 and the second pillar of our strategy, enhancing regulatory frameworks and advocating for responsible energy and economic policies. Without question, energy policy at the federal and state levels, and constructive regulatory frameworks that incentivize meaningful and needed infrastructure investments have never been more important as we look to reliably and securely transition to a cleaner energy future as affordably as possible. As you know, late last week it was announced that Senators Schumer and Manchin reached agreement on proposed legislation that would, among other things, extend significant incentives for clean energy development and deployment. Given the clean energy transition underway in Illinois and Missouri, as highlighted by our recent change to the Ameren Missouri Integrated Resource Plan filed with the Missouri PSC in June, and our goal of reaching net zero carbon emissions by 2045, we are very excited about the potential benefits of this legislation.

Specifically, the credits proposed for wind, solar, storage, nuclear, carbon capture utilization and storage, or CCUS, and hydrogen will align very well with the significant investments proposed in the Missouri IRP. Importantly, the benefits of these tax incentives will ultimately lower the cost of the clean energy transition for our customers in Missouri and Illinois over time. These potential tax credits, when coupled with the significant clean energy funding made available through the infrastructure investment and JOBS Act passed earlier this year, will drive significant long-term benefits for our customers, communities and the country. I will also note that the proposed legislation includes a minimum corporate income tax for public companies with pretax book earnings above $1 billion.

At the state level, as part of Ameren Missouri's Smart Energy Plan, a multiyear effort to strengthen the grid, our customers are benefiting from stronger poles, more resilient power lines, smart equipment, including modern substations, and upgraded circuits to better withstand severe weather events and restore power more quickly. As we mentioned on our first quarter earnings call, Missouri Senate Bill 745, which enhances and extends the Smart Energy Plan, passed earlier this year with strong majority support in the General Assembly. The bill was later signed by Governor Parson. We believe extending Missouri's Smart Energy Plan will continue to benefit our customers and communities as we transform the energy grid of today to build a brighter energy future for generations to come, and while creating significant economic development and jobs in the state.

Moving to Page 8 for Illinois legislative matters. We continue to make progress working towards the implementation of the Illinois Energy Transition Legislation enacted last year, including the performance metrics required by the legislation. Ameren Illinois has proposed eight performance metrics, each worth 3 basis points of incentives for a total of 24 basis points of symmetric equity return upside or downside potential. The ICC staff is mostly aligned with Ameren Illinois on the performance metrics and has proposed a range of 20 to 24 total basis points of increased or decreased return opportunities. We expect a final order from the ICC by late September in the performance metrics docket. We look forward to the ICC's order and filing our first multiyear rate plan next year, as we believe this legislation will support important energy grid investments and deliver value to customers.

Turning to Page 9 for an update on our plan to accelerate the retirement of the Rush Island Energy Center. Last month, in response to our notification to MISO of our intention to retire the energy center, MISO issued its final Attachment Y report designating the generating units at the Rush Island Energy Center as system support resources. MISO also concluded that certain mitigation measures, including transmission upgrades, should occur to ensure reliability before the energy center is retired. Those transmission upgrade projects have been approved by the MISO, and we have started the design and procurement process associated with the upgrades, which we expect to complete by late 2025. In the interim, until Rush Island can be retired, Ameren Missouri has proposed limiting operations at the energy center. The District Court is under no obligation or deadline to issue a rule modifying its remedy order to reflect the MISO SSR designation, or proposed interim operating parameters. The original March 31, 2024 compliance date remains in effect, unless extended by the court. We expect a decision in the near-term.

Turning now to Page 10 for an update on changes to our 2020 Ameren Missouri Integrated Resource Plan, which we filed in June. Our IRP is a 20-year energy plan created to ensure reliability for our customers for years to come. I'm excited to share with you that these changes to the plan accelerate our clean energy additions, reduce carbon emissions even further in the short term, and accelerate the company's net zero carbon emissions goal by five years. Specifically, the plan targets a 60% reduction in carbon emissions below 2005 levels by 2030 and an 85% reduction by 2040. By 2045, our goal is to achieve net zero carbon emissions across all of Ameren.

The new goals include both Scope 1 and Scope 2 emissions, including other greenhouse gas emissions of methane, nitrous oxide and sulfur hexafluoride. We plan to achieve these goals by making significant investments in renewable energy, including 2,800 megawatts of renewable energy by 2030, representing an investment opportunity of $4.3 billion. This is an increase of $1 billion from our 2022 -- excuse me, our 2020 IRP. By 2040, in total, the plan includes 4,700 megawatts of renewable generation for a total investment opportunity of $7.5 billion. The plan also includes 1,200 megawatts of gas combined cycle generation by 2031, an investment opportunity of $1.7 billion, which will allow us to safely and reliably advance the net retirement timeline of our fossil generation, including the accelerated retirement of the Rush Island Energy Center.

Further, the plan includes 800 megawatts of battery storage by 2040, representing an investment opportunity of $650 million. We expect to add 1,200 megawatts of a clean, dispatchable resource by 2042 and to also seek an extension of the operating license of our carbon-free Callaway Nuclear Energy Center beyond the current expiration date of 2044. These changes to the 2020 IRP will drive our ability to meet customers' rising needs and expectations for reliable, affordable and clean energy sources. Achieving these goals is dependent upon a variety of factors, including cost effective advancements in innovative clean energy technologies and constructive federal and state energy and economic policies. We have issued a request for proposal to solicit solar and wind projects that will allow us to take the next steps and deliver the best value for our customers. One thing is clear, our IRP includes significant incremental investment opportunities, and we are very excited as we continue to execute our clean energy transition plan.

Turning now to Page 11. Speaking of executing our clean energy transition plan, in July, we filed Certificates of Convenience and Necessity, or CCNs, with the Missouri Public Service Commission for two solar project acquisitions. Boomtown, a 150-megawatt solar energy center located in southern Illinois, is expected to be in service by the fourth quarter of 2024. Huck Finn, a 200-megawatt solar energy center located in eastern Missouri would be Ameren's largest solar project to date, generating more than 25x the amount of energy of Missouri's largest existing solar facility. This solar project is also expected to be in service by the fourth quarter of 2024. While the Missouri PSC is under no deadline to issue an order on the CCN filings, we expect decisions by March and April 2023 for the 200-megawatt and the 150-megawatt facilities, respectively. Looking ahead, we expect to announce further agreements for the acquisition of renewables between now and the first half of 2023.

Turning to Page 12 and the third pillar of our strategy, creating and capitalizing on opportunities for investment for the benefit of our customers, shareholders and the environment. This page provides an update on the MISO long-range transmission planning process. As we have discussed with you in the past, MISO completed a study outlining a potential roadmap of transmission investments through 2039, taking into consideration the rapidly evolving generation mix that includes significant additions of renewable generation based on announced utility integrated resource plans, state mandates, and goals for clean energy or carbon emission reductions, as well as electrification of the transportation sector, among other things.

In July, MISO approved Tranche 1, a set of projects located in MISO North, which it estimated to cost more than $10 billion. Of these projects, approximately $1.8 billion represent projects in our service territory that have been assigned to Ameren. We expect to refine the scope, cost estimates and timeline for these projects over the remainder of this year. In addition to the assigned projects, MISO approved approximately $700 million of competitive projects that cross through our Missouri service territory, which provide additional potential investment opportunities. We are well positioned to compete for and successfully execute on these projects, given the location of the projects and our expertise constructing large regional transmission projects. Later this month, MISO is expected to post a schedule, outlining the RFP process for competitive bidding with the first RFP expected to be issued by late September. The competitive bidding process is expected to take 12 to 24 months.

For the projects assigned to Ameren, we expect the capital expenditures to begin in 2025, with the completion dates expected near the end of this decade. MISO has also begun work on three additional tranches and has indicated that an initial set of Tranche 2 projects, also located in MISO North, is expected to be approved in the second half of 2023. Projects included in Tranche 3 are expected to be located in MISO South with approval scheduled by the end of 2024, while projects identified in Tranche 4 are expected to improve transfer capability between MISO North and MISO South and will be studied upon approval of Tranche 3.

Turning then to Page 13. Looking ahead over the next decade, we have a robust pipeline of investment opportunities that will deliver significant value to all of our stakeholders by making our energy grid stronger, smarter and cleaner. We have updated the investment opportunities to reflect the additional renewable and combined cycle generation included in the change to the IRP filed in June. We now expect over $48 billion of investment opportunities over the next decade. Maintaining constructive energy policies that support robust investment in energy infrastructure and a transition to a cleaner future in responsible fashion will be critical to meeting our country's energy needs in the future and delivering on our customers' expectations.

Moving now to Page 14. We are focused on delivering a sustainable energy future for our customers, communities and our country. This slide summarizes our strong sustainability value proposition and focus on environmental, social, governance and sustainable growth goals. The change to the Ameren Missouri IRP filed in June supports our goal of net zero carbon emissions by 2045, and is also consistent with the objectives of the Paris Agreement in limiting global temperature rise to 1.5 degrees Celsius. We also remain focused on supporting our communities, including our very robust supplier diversity program. Our strong, sustainable growth proposition remains among the best in the industry. We have a robust pipeline of future investments that will continue to modernize the grid and enable the transition to a cleaner energy future. I encourage you to take some time to read more about our strong sustainability value proposition. You can find all of our ESG-related reports at amereninvestors.com.

Turning to Page 15. To sum up our value proposition, we remain firmly convinced that the execution of our strategy in 2022 and beyond will deliver superior value to our customers, shareholders and the environment. In February, we issued our five-year growth plan, which included our expectation of a 6% to 8% compound annual earnings growth rate from 2022 through 2026. This earnings growth is primarily driven by strong rate base growth, supported by strategic allocation of infrastructure investment to each of our operating segments based on their constructive regulatory frameworks. We expect Ameren's future dividend growth to be in line with our long-term earnings per share growth expectations and within a payout ratio range of 55% to 70%. We expect to deliver strong long-term earnings and dividend growth, which results in an attractive total return that compares favorably with our regulated utility peers. I am confident in our ability to execute our investment plans and strategies across all four of our business segments, as we have an experienced and dedicated team to get it done.

Finally, turning to Page 16. I would like to take the opportunity to congratulate Richard Mark on his retirement and extend my gratitude for his many contributions made to Ameren and our communities. Richard served in several leadership positions during his 20-year career at Ameren and was influential in the advancement of the electric and natural gas distribution grids throughout southern and central Illinois, including installing advanced technologies, improving reliability, and creating thousands of jobs, in addition to his strong community engagement. Thank you, Richard, and I wish you well in your retirement. I would also like to introduce to you Ameren Illinois' new President, Lenny Singh. Lenny brings more than 30 years of utility experience, serving in both electric and natural gas operations, most recently as Senior Vice President of Consolidated Edison Company of New York. Over the course of his career, Lenny has focused on operational excellence and value creation, prioritizing safety, customer satisfaction, continuous improvement, action, and accountability. I look forward to working with Lenny as he builds on Ameren Illinois' success as we work to safely, reliably and securely drive the clean energy transition in the State of Illinois.

Again, thank you all for joining us today, and I will now turn the call over to Michael.

Michael L. Moehn {BIO 5263599 <GO>}

Thanks, Marty, and good morning, everyone. Yesterday, we reported second quarter 2022 earnings of $0.80 per share, compared to $0.80 per share for the year ago quarter. Slide 18 summarizes key drivers impacting earnings at each segment. I'd like to take a moment to highlight a few key variances for the quarter. Earnings at Ameren Missouri, our largest segment, benefited from higher electric retail sales, driven by warmer early summer temperatures during the quarter compared to near normal temperatures in the year-ago period and higher electric rates. The positive factors impacting earnings at Ameren Missouri were more than offset by, among other things, higher operations and maintenance expenses. The higher O&M reflected unfavorable market returns in 2022 on company-owned life insurance investments compared to favorable market returns in the year-ago period.

In addition, the higher O&M expenses were driven by the absence of refined coal credits in 2022, which had been a benefit to our coal fired energy centers in 2021 and prior years, and increased transmission and distribution expenses, including storm costs. The reduction in refined coal credits was anticipated and reflected in the new electric service rates effective earlier this year. In fact, year-to-date O&M costs, excluding COLI, are largely in line with what we expected when we provided guidance in February. We remain focused on disciplined cost management for the second half of the year. Before moving on, I'll touch on sales trends for Ameren Missouri and Ameren Illinois electric distribution year-to-date. Weather normalized kilowatt-hour sales to Missouri residential and commercial customers increased about 0.5% and 1.5%, respectively. While weather normalized kilowatt-hour sales to Missouri industrial customers decreased about 0.5%. Weather normalized kilowatt-hour sales to Illinois residential and commercial customers increased about 1.5% each, year-to-date. And weather normalized kilowatt-hour sales to Illinois industrial customers increased about 0.5%. Recall that changes in electric sales in Illinois, no matter the cause, do not affect our earnings, since we have full revenue decoupling.

Turning to Page 19, I would now like to briefly touch on key drivers impacting our 2022 earnings guidance. We have delivered solid earnings in the first half of 2022 and are well positioned to finish the year strong. As Marty stated, we continue to expect 2022 diluted earnings to be in a range of $3.95 to $4.15 per share. Select earnings considerations for the balance of the year are listed on this page and are supplemental to the key drivers and assumptions discussed on our earnings call in February. As we reflect on our earnings for the full year results, the benefits we have seen from weather during the first half of the year and from the higher expected 30-year treasury rates are offset, in part, by unfavorable market returns on company-owned life insurance, as well as higher than expected short-term and long-term borrowing rates. I encourage you to take these into consideration as you develop your expectations for the third quarter and full-year earnings results.

Turning now to Page 20 for an update on regulatory matters, starting with Ameren Missouri. Earlier this week, we filed for a $316 million electric revenue increase with the Missouri Public Service Commission. The request includes a 10.2% return on equity, a 51.9% equity ratio, and a December 31, 2022, estimated rate base of $11.6 billion. Drivers of the requested increase are investments under the Smart Energy Plan, including increased cost of capital and depreciation expense, as well as increased net fuel expense due to reduced off-system sales driven by expected reduced operations at Rush Island. As Marty noted earlier, customers are benefiting from investments made under the Smart Energy Plan to strengthen the grid, including infrastructure upgrades bolstering reliability and resiliency, installation of smart meters, and an improvement in reliability of up to 40% on circuits with new smart technology upgrades. We expect the Missouri PSC decision by June 2023 and new rates to be effective by July 1, 2023. We look forward to working with all key stakeholders on this request.

Moving to Page 21 and Ameren Illinois regulatory matters. In April, we made our required annual electric distribution rate update filing. Under Illinois performance-based ratemaking, these annual rate updates systematically adjust cash flows over time for changes in costs of service and true up of any prior period over or under recovery of such cost. In late June, the ICC staff recommended a $60 million base rate increase compared to our updated request of an $84 million base rate increase. The $24 million variance is primarily driven by a difference in the common equity ratio, as we proposed 54% compared to the ICC staff's recommended 50%. For perspective, the order received from the ICC last December included a common equity ratio of 51%. An ICC decision is expected in December with new rates expected to be effective in January 2023.

On Page 22, we provide a financing update. We continue to feel very good about our financial position. On April 1, Ameren Missouri issued $525 million of 3.9% green first mortgage bonds due 2052. Proceeds of the offering were used to fund capital expenditures and refinance short-term debt. In order to maintain a strong balance sheet, while we fund our robust infrastructure plan, consistent with the guidance in February, this year we expect to issue approximately $300 million of common equity under our at-the-market equity program. We have fulfilled all of our '22 equity needs through the forward sales agreement entered into as April 1, and we expect to issue 3.4 million common shares by the end of this year upon settlement. Further, as of July 12, approximately $225 million of the $300 million of equity outlined in 2023 has been sold forward under that program.

Finally, turning to Page 23. We have had a solid first half and we expect to deliver strong earnings growth in 2022 as we continue to successfully execute our strategy. Today, we have outlined significant and exciting investment opportunities over the back half of our current capital plan and beyond that are not reflected in our 2022 to 2026 capital plan. Consistent with our approach in the past, we will step back and take a comprehensive look at our investment opportunities and provide our five-year capital plan for 2023 through 2027 during our yearend conference call in February. As we look to the longer term, we continue to expect strong earnings per share growth, driven by robust rate base growth and disciplined cost management. Further, we believe this growth will compare favorably with the growth of our regulated utility peers. The bottom line is that we are well positioned to continue executing our current plan. And Ameren shares continue to offer investors an attractive dividend. In total, we have an attractive total shareholder return story that compares very favorably to our peers.

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

Questions And Answers

Operator

(Question And Answer)

Thank you. At this time, we'll be conducting a question-and-answer session. (Operator Instructions) Our first question comes from Shahriar Pourreza with Guggenheim Partners. Please proceed with your question.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Hey, good morning, Marty.

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

Good morning, Shar. How are you today?

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Not too bad. Not too bad. It's Friday.

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

Very good.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Marty, let me ask you. Just thank you for the visibility obviously on the Tranche 1 opportunities, but just a two-part question here. What's your, I guess, confidence level on the competitive slice or how should we be thinking about maybe your ability to capture that? Is there a technical or cost of capital facet to your advantage? And then does this -- how does this sort of interact with your prior CapEx and sort of rate base guide? I mean, some of the projects do break ground in '25, so could these be accretive to your 6% to 8%? Thanks.

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

Yes, you bet Shar. Good questions, and you're right. I hope you have a good Friday and a good, good weekend. But back to your questions. In terms of the competitive projects coming out of Tranche 1, as we highlighted, a little over $700 million of those. As we mentioned in our prepared remarks that we do believe we're well positioned to compete for and successfully execute those. I think the bottom line is that we believe we're really well positioned to efficiently build, operate and maintain those assets over time. The projects that are competitive are within our footprint. There are places where we have strong relationships with local communities, regulators, suppliers, contractors, et cetera. And we've been operating in this area for many years. So we know the land. We know the environmental conditions and issues. And I'd tell you, too, that we've been working for several years now. As you know, we've developed billions of dollars' worth of transmission projects and we've been working over time with suppliers and contractors to really bring down the cost of construction.

And because these projects, these competitor projects, are contiguous with other assets that we own and operate, we think we're really well positioned to operate and maintain these assets at a low cost over time. So those are some of the reasons that we believe at the end of the day we're well positioned to compete and execute on those projects. So we look forward to participating in that competitive process over time. And then your second question really got to some of the incremental capital into our plan. I'll let Michael comment on that, but you're right. In terms of the $1.8 billion worth of projects that were assigned to us, we do again expect to begin those in 2025. And those cash flows and capital expenditures to be incurred over between 2025 and the end of the decade. Michael, any comments in terms of the added CapEx?

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

Yes. Hey, good morning, Shar. I think Marty said it well. In terms of the capital plan itself, Shar, and we've talked about this, I mean, I think that it's great to start getting some clarity here around these different projects. And as Marty said, I think some of this could even benefit the five-year plan. As we have indicated, we're going to step back and what we typically do with our cadence is we'll update all of this in the February timeframe. And my sense is this has got the ability to be accretive to our five-year capital plan, as well as just additive to the overall runway as we talk about the growth story. I think as we, if you kind of remember, if you reflect back on the $48 billion that we have there now, that number used to be $40 billion. We captured about $5 billion associated with transmission projects. That was broadly to try to look at these LRTP projects over the next 10 years. So I think we got it in there, and now it's a matter of where it just ends up by year, if that makes sense.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

It does.

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

Yes, Shar.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Sorry.

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

Yes, Shar, this is Marty. I think Michael touched on a good thing. As we started the year, we looked ahead to Q2, and we noted that there were going to be some important updates in Q2, and I think that's exactly what came through. In terms of the integrated resource plan in Missouri, that indicated about $2.7 billion of incremental spend between now and 2031. And then as Michael said, the LRTP adding another $1.8 billion of expenditures that we have assigned to us, as well as this potential for $700 million of additional competitive projects. So as Michael said, all those things gave us confidence to add that $8 billion to that long-term capital expenditure outlook.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Perfect. Perfect, and then just, I know you just broadly touched on it a little bit on just the Inflation Reduction Act. I mean, obviously Sinema proposed some changes. I think we go to a vote on Saturday. Can you just touch a little bit on the tax side? I mean, some of the utilities have talked about a technical fix with the 50% AMT. Are you and sort of EEI lobbying against it? Could you get a carve out? And then if there is an enactment of that AMT, how do we just sort of think about the cash flows and rate base growth impact and the recovery timing? Thanks.

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

Well, Shar, there's a lot there, and as you noted, even based on the reports this morning, there seems to be some moving pieces as it relates to the corporate minimum tax. Let me just say this overall about the legislation, we're excited about the potential tax credits in the legislation, especially the wind and the solar, given the 4,700 megawatts of renewables that we looked to add in Missouri by 2040 based on our integrated resource plan. That's all pretty exciting. Even net of CMT impact, we think the legislation is good for Ameren, for our customers in both Missouri and Illinois because it really should lower the cost of the clean energy transition in both states. And that's not even mentioning some of the other positives in there, whether it's the credits for nuclear, storage, CCUF, hydrogen, things we talked about on the call, all of which align with our long-term resource plan. So that's all really good. The other things you're aware of, you know, things like the PTC for solar is a positive versus the prior ITC and transfer ability provisions, which are things that we really think could help us to pass the value associated with some of these tax credits to our customers more swiftly.

So like I said, net, we think that the legislation overall is good and will help facilitate a lower cost transition to this clean energy. As it relates to the CMT, it is applicable to us, given that we have pretax book income of greater than $1 billion, but probably premature to speculate on exactly what that impact would be given, as you mentioned, some of the moving pieces that aren't even really clear to us at this particular time. But at the end of the day, we do think -- based on what we have seen, we do believe that the cash flow impacts would be manageable. And as would, and Michael can comment on this better, but also the impacts on credit metrics and credit ratings. So that's I guess where we stand on things. Shar, hopefully I answered all of your questions.

Michael, do you have anything to add?

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

Yes, I think Marty, at a high level, you gave it good justice there. I mean, I think overall we do see it as being manual. There are a lot of moving pieces here, and so I think that's why we're really trying to stay away from the specifics. But as we look at it and model it out we do think, as Marty said, both from a cash flow as well as any sort of impact, Shar, on our FFO to debt metrics that it definitely is something that is manageable. And I think the important thing to remember is just the net benefit to customers, just from an overall credit standpoint. Certainly, on the Missouri side as you think about this clean energy transition that we're about to go through.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Fantastic, guys. Listen, have a great weekend and appreciate the disclosures.

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

You too, Shar.

Operator

Our next question comes from Jeremy Tonet with JPMorgan. Please proceed with your question.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi, good morning.

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

Good morning, Jeremy.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Just wanted to round out the MISO Tranche 1 conversation a little bit more. And would Ameren entertain the notion of pursuing competitive processes beyond the $700 million identified, or is that the extent of what you would consider? And also, we have heard about there being kind of some incremental upside to these projects, maybe 10% to 15% of CapEx additionally for kind of ancillary components to these projects. And just wondering if you had any thoughts along those lines.

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

Yes, Jeremy, good questions. You certainly will look to compete for these $700 million. If there are other projects that are competitive, certainly we'll take a look at those as well. We're not limited to these, but of course, as you know, in many of the surrounding states, you have entities with rights of first refusal. So, look, we feel good about the ones that have been assigned to us. I can't emphasize that enough. This $1.8 billion, we feel great about, and we'll go after the $700 million. If we see other opportunities, we'll certainly look to compete in those as well. I wouldn't speculate right now, Jeremy, in terms of any incremental investment beyond these. These are the estimates that really came from MISO, and as we indicated in our call, prepared remarks, we'll certainly be looking to next steps is really work on more refined design, procurement, the regulatory approvals, et cetera, and give updates on what we think the overall value of these projects are, perhaps when we get around to February and update our overall plans. But for now, we think these are the best estimates to be able to provide.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's helpful. Thanks. And then just as it relates to Rush Island here. If you could provide any incremental thoughts with regards to transmission upgrade opportunity here. Can you provide any estimates on what these upgrades could look like? I know it's bigger than a breadbox, but trying to kind of scope out what that might look like.

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

Yes, good question. Look, we again gave a pretty good update in our prepared remarks on Rush Island. We did indicate that design and procurement is underway with respect to the upgrade projects that MISO had approved. I mean, I think our best estimate today, and this is a bit of a broad range, probably in the $100 million to $150 million range. And but like I said, we'll be able to refine that further as we go through the design and procurement activities.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's very helpful. I'll leave it there. Thanks.

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

Thanks, Jeremy.

Operator

Our next question is from Julien Dumoulin-Smith with Bank of America. Please proceed with your question.

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

Hi. Good morning, team. Thanks for the time and the opportunity. Hope you guys are well.

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

Hi, Julien. Hope you're well also.

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

Thank you. Thank you, sir. So maybe I want to come back to the Rush Island situation. I know you mentioned '25 here, for instance, on retirement here. But I want to talk about these other CSAPR regulations and NOx, and just trying to understand how that lines up. I know that there's some proposals out there for 2026, and obviously you've got a couple other plants, Labadie and Sioux. How do you see this playing out because obviously there's EPA regs in terms of hypothetical ether, and then there's sort of reality of them lining up against your portfolio in a pretty meaningful way? I just wanted to understand sort of the specifics as to-- I mean, obviously, it's subject to litigation, but how do you see this playing out more specifically for your portfolio and as you see to try to balance things?

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

Yes, so as it relates to the CSAPR rules, look, it's something we're not only monitoring, but engaging with EPA in terms of providing comment. Of course, Meramec is retiring this year. Rush Island, as you mentioned, looks like it's going to retire in the 2024 to 2025 timeframe. Again, we don't expect the transmission investments to be fully completed until 2025. As we noted, we have proposed some limited operations between now and then, between now and when the plant would ultimately retire, all subject to the court's ruling in terms of operating parameters, as well as the ultimate closure date. But certainly, going to significantly reduce NOx emissions as we ramp down towards closure of that facility. So I think the focus really becomes, Julien, then on NOx controls at Labadie and Sioux. And I would remind you there that we've made significant investments over time in terms of NOx controls, and we're more than complying with all the current standards that are out there.

So with respect to the proposed additional rules, I think we'll wait to comment on specifically what the impacts will be at Labadie and Sioux over time until we get the final rules, which we expect to come out next March. But I will tell you that what we'll be doing, and we are, we're analyzing strategies for compliance and making sure that we get the full benefit of the controls that we do have in place today at Labadie and Sioux.

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

Yes, understood, excellent. Thank you. And then if I can, just jumping in on the inflation conversation. Obviously, you filed here your latest iteration of the rate case. But how are you seeing sort of cost inflation manifest itself across your portfolio, and how do you think about balancing that, given the test year embedded in the current rate case and any other leverage you might have?

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

Yes. Thanks, Julien. This is Michael. Yes, look, inflation, certainly we're in a little different environment today, but I mean I think as we've talked historically and we've shown you a couple of times, even had a slide I think that went through '16 through '21 and our overall operating costs were down about 3%. And so, look, we remain focused on it. You referenced this Missouri rate review that we just filed here. I would tell you that's really predicated on a lot of capital investment within the Smart Energy Plan. We outlined, I think, the benefits the customers are getting associated with those investments. And obviously, it's also being impacted by what we just talked about with respect to Rush Island, and the net fuel cost and operating that plant in a more limited fashion as well. So when you really cut through what's going on in that case, it's really not about O&M cost, which I think is a testament to what this team has been doing in terms of just looking for ways to continue to hold down costs wherever possible.

So in the present environment, I think we're managing well through it. As we noted on the call, we had some O&M was up, but it was really driven by some one-time thing between the COLI performance, as well some storm costs, and when you cut through it, it certainly lines up with where expectations were in the February timeframe we released guidance.

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

Got it. And just prospectively here, just if I could push a little bit further. Obviously, you've done a good job sort of to date, if you will. If you look prospectively whether that's related to the cadence of labor relation negotiations, et cetera. I mean, what kind of trajectory in inflation are you seeing sort of in real time, if you can comment a little bit more.

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

Yes, look, yes absolutely. Look, I'll keep my comments consistent with where we've been in the past. Marty and I and the rest of the team are very focused on these costs and doing all that we can to control what we can control. And look, we aspire to keep these O&M costs, I think we said this before that really flat over the five-year horizon if at all possible. It's obviously, it's a bit more challenging in this environment. But again, as we look to our capital plan, we look to the investments that we're making in automation and digital and smart meters, I mean, we're using all of those things to increase productivity, lower cost where we can, and we're going to stay focused on it and just do absolutely all that we can because we know, again, what it means to our customers. We understand. We talked about this from our capital perspective, for every dollar of O&M we reduce, we can spend an equivalent $7 of capital. And so it is certainly top of mind and a continuous everyday focus here.

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

Excellent. Thank you, team. Have a good weekend. Stay tuned.

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

Thank you, Jillian.

Operator

Our next question is from Paul Patterson with Glenrock Associates. Please proceed with your question.

Q - Paul Patterson {BIO 1821718 <GO>}

Hey, good morning.

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

Good morning, Paul.

Q - Paul Patterson {BIO 1821718 <GO>}

So just on Rush Island, just sort of technically speaking, if you don't get the-- I mean, if the courts don't completely go your way, the plant to shut down, what would actually happen, or do we have an idea about what would happen?

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

Yes, I guess I don't want to speculate that, Paul. I think that it's obviously a process that we're still working through with the court and the court proceedings. And so we laid out for you on Slide 9 the facts as they stand today, and certainly wouldn't speculate if we get to that crossroads. I would point you on Slide 9, we said that with respect to the court, the March 31, 2024, compliance date remains in effect, unless extended by the court. So the court has got that ability, and certainly don't want to speculate as to what the court will or won't do, and we'll let these proceedings play out.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay, fair enough. I don't want to push that, I guess. It's all hypothetical, I guess, to a certain degree. So with respect to wind curtailments that we've been seeing in the area, I was wondering if you could tell us what you've been seeing, not just in Ameren, but the greater Ameren neighborhood, so to speak. As well as how Tranche 1 and other sort of activity occurring, like, I guess Grain Belt is talking about a 25% I think increase among other things, and there are a lot of moving pieces, I guess, to put it lightly. I'm just sort of wondering if you could just sort of comment about what you're seeing there in terms of additions of generation plants, traditional plants shutting down, and transmission, what you see sort of the current situation with wind curtailments, just generically speaking, in your general region and what Tranche 1 and other things might do with respect to the issue.

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

Yes, Paul, I guess I don't have a specific comment on wind curtailments, and something we can follow up with you on. That said, what I have seen recently is a map of these Tranche 1 projects overlaid against where we're seeing congestion across MISO. And I will tell you there's tremendous alignment there. Meaning, these planned projects in Tranche 1 really align well with where we're seeing congestion across the footprint, really promise to alleviate some of that congestion. And I think that's why and if you go back a year or so ago, Warner made a comment about these being, I forget the word he used, but kind of no brainer projects or something like that. And no regrets projects, and I think what he really meant by those is that whether we proceed towards future one, two, or three in MISO, these projects are very foundational, no matter where you go, and they're needed today to address some of the congestion that we're already seeing within the MISO footprint.

And as I look ahead to Tranche 2, 3 and 4, especially based on what we're seeing coming out of this IRA legislation, I think it's really going to push us beyond that Future 1 to more of like a closer to a Future 2 kind of outlook. And my sense is that some of that will end up getting baked into the extent of the projects that are approved in future tranches, including Tranche 2, which is still expected to be approved by late next year. So again, don't have a specific comment on your question about what we're seeing currently, but to your question about these transmission projects and the need to alleviate congestion issues we're seeing, absolutely they align very well.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. Awesome. Thanks so much and have a great weekend.

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

You too.

Operator

(Operator Instructions) Our next question comes from Anthony Crowdell with Mizuho. Please proceed with your question.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Hi, good morning, Mike. Good morning, Marty. Thanks for taking my questions.

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

You bet. Good morning.

Q - Anthony Crowdell {BIO 6659246 <GO>}

I guess, first on the Missouri rate filing, just if I think about you filed in '21. You're filing again in '22. We have the PISA legislation passed. Just now that you maybe have more clarity on the forward-looking CapEx plan, what kind of frequency of rate filings are you expecting in Missouri for the next two to three years?

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

Anthony, we haven't actually said. I mean, you're right. We have been on kind of a two-year cycle here at this point. And look, I mean, we obviously want to continue to stretch these out as much as we possibly can. But just given the pace that we've been on from a capital standpoint, two years has been sort of what the required pace has needed to be. I think the only other thing to just keep in mind is that we are required to file every four years, just because of the fuel adjustment clause. But otherwise, we do want to try to stretch them out as long as we can.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great, and then, I guess, lastly, this may be harder or may not even be a great question. If I think about the Futures 1 projects that the company will bid on, do the incumbent utilities-- you guys operate in that jurisdiction. It seems that maybe the incumbent utilities are more likely to submit a proposal for a more robust-like infrastructure because it's in your jurisdiction, you're looking at a having an asset, be active for 50 years, 60 years, or something like that, whereas a competitor coming in there may just meet the bare minimal of a design spec, and it makes it more affordable and wins the competitive process. Is that possible or is the design spec the same for everyone?

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

I really think MISO is going to do their best to make sure that there are very clear scope and design and construction expectations and attributes such that you can really get apples-to-apples comparisons in these bids. And I gave a fairly extensive answer to a question earlier. At the end of the day, I just want to reinforce we really do believe that we're well positioned to efficiently build, operate and maintain these assets over time. But it is our expectation that there will be every effort made to ensure there's apples-to-apples comparisons.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. Thanks so much, and have a wonderful weekend.

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

You too.

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

Thanks, Anthony.

Operator

Our next question is from Neil Kalton with Wells Fargo Securities. Please proceed with your question.

Q - Neil Kalton {BIO 6409354 <GO>}

Hi, guys. How are you?

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

Good, Neil.

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

Good morning.

Q - Neil Kalton {BIO 6409354 <GO>}

Yes, so I know it's not your project. Grain Belt Express, though, there's been some recent developments. The capacity, as Paul mentioned, is going up on the project, and I would imagine IRA probably has some positive implications for the economics and prospects. I would love your latest thoughts on that project, if you will.

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

Hey, Neil. It's Marty. Absolutely. We laid out in this updated Integrated Resource Plan some pretty significant ambitions in terms of addition of renewables. We're talking about 2,800 megawatts through 2030, 4,300 megawatts by 2035, and we have filed a couple of CCNs related to that. As you know, the Boomtown project, Huck Finn project, a couple of projects we outlined on this call. But there's a long way to go in terms of the addition of renewables. So we have issued a request for proposal and are evaluating the best options for our customers.

As we have discussed with you and others over time, Grain Belt remains a project that is of interest, primarily because of the opportunity to bring wind energy from the west, the Kansas region, for example, into Missouri for the benefit of our Missouri customers. And in fact, in our Integrated Resource Plan, it highlighted the potential to utilize that line to bring in as much as 1,000 megawatts of wind energy. So it is something that we continue to evaluate, and we'll evaluate as we look at the opportunities for renewables that come out of this RFP. Ultimately, as you know, we want to make sure we pick the right projects for our customers from the standpoint of affordability and a good mix of assets to meet their needs over time.

Q - Neil Kalton {BIO 6409354 <GO>}

Great, thanks. And then one other question. I think in your prepared remarks you mentioned hydrogen as being a-- you sort of mentioned that's part of the IRA. Can you elaborate a bit more on sort of how you're thinking about hydrogen? Is this sort of a nearer-term opportunity or any thoughts on that as well, please?

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

Yes, Neil, in our updated Integrated Resource Plan that we filed in June, we actually added a 1,200-megawatt combined cycle plant by 2031. And the idea there is to get to our net zero ambitions by 2045. The idea would be to construct that with an eye towards transitioning to hydrogen, or hydrogen blend with carbon capture retrofit by as early as the 2040 timeframe. So it's with regard to that project specifically that we think about that.

Q - Neil Kalton {BIO 6409354 <GO>}

Okay, great. Thank you.

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

Yes. Take care.

Operator

We have reached the end of the question-and-answer session. I'd now like to turn the call back over to Marty Lyons for closing comments.

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

Great. Hey, thank you all for joining us today. I hope what you heard is that we had a very strong start to 2022. We are looking to finish strong for the remainder of this year and we remain focused on continuing to deliver significant, long-term value to our customers, the communities that we serve, and to our shareholders. And so anyway, we look forward to seeing many of you at conferences over the next couple of months. And we, again, appreciate you joining us. 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.