Q1 2015 Earnings Call

Company Participants

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

Other Participants

- Greg Gordon, Evercore
- Julien Dumoulin-Smith, UBS Securities LLC
- Michael J. Lapides, Goldman Sachs & Co.
- Paul Patterson, Glenrock Associates LLC

MANAGEMENT DISCUSSION SECTION

Operator

Greetings, and welcome to the Ameren Corporation First Quarter 2015 Earnings Call. At this time, all the 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.

I would now like to turn the conference over to your host, Doug Fischer, Senior Director of Investor Relations. Thank you, Mr. Fischer. You may now begin.

Douglas Fischer {BIO 1498560 <GO>}

Thank you and good morning. I'm Doug Fischer, Senior Director of Investor Relations for Ameren Corporation. On the call with me today are Warner Baxter, our Chairman, President, and Chief Executive Officer; and Marty Lyons, our Executive Vice President and Chief Financial Officer; as well as other members of the Ameren management team.

Before we begin, let me cover a few administrative details. This call is being broadcast live on the Internet, and the webcast will be available for one year on our website at ameren.com. Further, this call contains time-sensitive data that is accurate only as of the date of today's live broadcast, and redistribution of this broadcast is prohibited.

To assist with our call this morning, we have posted on our website a presentation that will be referenced by our speakers, who may use terms or acronyms which are defined in the presentation. To access this presentation, please look in the Investors section of our website under Webcasts & Presentations and follow the appropriate link.

Turning to page two of the presentation, I need to inform you that comments made during this conference call may contain statements that are commonly referred to as forward-looking statements. Such statements include those about future expectations, beliefs, plans, strategies, objectives, events, conditions, and financial performance. We caution you that various factors could cause actual results to differ materially from those anticipated. For additional information concerning these factors, please read the Forward-looking Statements section in the news release we issued today and the Forward-looking Statements and Risk Factors sections in our filings with the SEC.

Warner will begin this call with comments on first quarter financial results, full-year 2015 earnings guidance and the business update. Marty will follow with a more detailed discussion of first quarter results and an update on financial and regulatory matters. We will then open the call for questions. Before Warner begins, I would like to mention that all per-share amounts discussed during today's presentation, including earnings guidance, are presented on a continuing operations and diluted share basis unless otherwise noted.

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

Warner L. Baxter {BIO 1858001 <GO>}

Thanks, Doug. Good morning everyone and thank you for joining us. Today, we announced first quarter 2015 earnings of $0.45 per share compared with $0.40 per share in last year's first quarter. This earnings advance reflected increased electric transmission and delivery infrastructure investments made by ATXI in Ameren Illinois and the formula rate making for the benefit of customers. Our first quarter results also benefited from reduced parent company interest charges.

However, the earnings contributions from these factors were somewhat reduced by lower recognized allowed ROEs for the FERC-regulated transmission in Illinois electric delivery areas of our business. Earnings were also reduced by lower electric and natural gas sales volumes, due primarily to milder winter temperatures and energy efficiency. Our solid first quarter results clearly reflect the benefits of strategically allocating capital to jurisdictions with modern, constructive regulatory frameworks. We saw that first quarter results also provide a good foundation for achieving our full year earnings expectations. Therefore, today we affirmed our 2015 earnings guidance, which is expected to be in the range of $2.45 to $2.65 per share. Marty will discuss first quarter earnings in more detail in a few minutes including comments on additional factors contributing to the higher results.

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

As I mentioned a moment ago, we continue to strategically allocate significant amounts of capital to those businesses where investment is supported by modern, constructive regulatory frameworks that provide fair, predictable and timely cost recovery as well as long-term benefits to our customers. In particular, we invested approximately $270 million during the first quarter on FERC-regulated electric transmission projects in Ameren Illinois electric and natural gas delivery infrastructure. Work on the $1.4 billion Illinois rivers transmission project is advancing as planned. Line construction is expected to begin on the first line segment this month, with completion planned for next year, and we have begun foundation construction on the second line segment.

Further, Ameren Illinois' modernization action plan is on track to meet its reliability, advance metering and job creation goals for this year related to the Energy Infrastructure Modernization Act.

Also Ameren remains actively engaged in advocating for responsible energy policies. In Illinois, policymakers continue to be forward thinking and implementing constructive frameworks to support modernization of the states aging energy infrastructure. In particular, I am very pleased to note that legislation extending constructive electric formula rate making for 2019, which passed by a wide margin in the General Assembly, is now law.

This enables Ameren Illinois modernization of the electric grid to continue with the regulatory and financial certainty needed to replace aging infrastructure, make investments in new technology, upgrade equipment, hire and train new Illinois coworkers, all in an effort to deliver higher quality service to our customers.

Further, the extension of constructive formula rate making was cited by Moody's and Fitch in their recent reports upgrading certain of Ameren Illinois credit ratings. I believe these actions reinforce that good energy policy leads to benefits for customers and investors.

On the federal level, we continue to collaborate with industry leaders, stakeholders and policymakers across the country to aggressively advocate for constructive and responsible improvements to the U.S. Environmental Protection Agency's proposed Clean Power Plan.

Simply put, we have serious concerns with the EPA's current proposed rules. Aside from the legal challenges that the Clean Power Plan will face in the future, we believe that many of the underlying assumptions that are the foundation of these proposed rules were unreasonable. Most important, we, along with experts across the country, have stated that implementation of these rules in their current form will meaningfully raise reliability risks for the grid. And electricity costs for our customers are projected to rise significantly under the current proposed rules.

While we have serious concerns with these rules, we are not just saying no. Instead, we have proposed several commonsense solutions, including eliminating unrealistic interim targets and allowing the states to determine the best path to address the EPA's final targets. Also, we are strongly advocating that the rules include protections to ensure that our nation's grid is able to operate in a reliable fashion. Our plan will materially reduce greenhouse gas emissions, while saving customers' billions of dollars and preserving a reliable service U.S. citizens have enjoyed for decades.

In summary, we believe our constructive alternative is the right thing for our customers, our country and the environment. Our clean energy plan also includes continued reliance on dependable and carbon-free nuclear generation from the Callaway Energy Center. Recently, we achieved a major milestone in this regard.

In March, we obtained Nuclear Regulatory Commission approval for extending the operating license for Callaway by 20 years to 2044. In addition to prudently investing in our utilities and advocating for responsible energy policies, we remain relentlessly focused on achieving operational improvements and efficiencies across all of our businesses, including the continuation of our lean management efforts throughout our organization. We have a solid track record of disciplined cost management and aligning our overall spending with regulatory frameworks and outcomes, as well as economic conditions. And we remain committed to our goal of closing gaps between earned and allowed returns on equity.

Turning now to page six of our presentation, let me update you on some other legislative and regulatory matters related to our businesses. Beginning with Missouri, that state's Public Service Commission approved a $122 million increase in Ameren Missouri's electric service rates in a decision issued last week. As you know, the primary drivers of this rate case were significant investments made over the past couple of years to improve the quality of service we provide to our customer in terms of safety, reliability, and environmental stewardship as well as accelerated recovery of our aging Merrimac Energy Center investment and rising net energy costs for our energy centers.

While we are pleased at the Public Service Commission's orders allows for the recovery of these important infrastructure investments and increased net energy costs, other aspects of the decision are disappointing. This includes the 9.53% allowed ROE, which is a decrease from the current allowed ROE of 9.8% authorized back in December 2012. In addition, the Public Service Commission eliminated our ability to recover changes in transmission revenues and expenses with the Fuel Adjustment Clause and discontinued tracking mechanisms for vegetation management and storm cost recovery. Lastly, the Commission provided great relief to Noranda Aluminum, our largest customer. That rate relief is revenue neutral to Ameren Missouri and will be subsidized by our other customers. We have consistently stated this is an economic development matter which should have been addressed by the Missouri legislature. Marty will provide further details on this rate order in a few minutes.

While we are disappointed with the Commission's decision, we are already moving forward with action plans to address the outcome for this rate case. We will request a rehearing on several aspects of this order, including the allowed ROE and the elimination of recovery of changes in transmission revenues and expenses to the Fuel Adjustment Clause.

As we have done in the past, we will seek to align our overall operating and capital spending with this regulatory outcome while maintaining our goal of earning at or very close to our new allowed ROE.

And finally, we will continue to be relentless in our pursuit of modernizing the regulatory framework in Missouri in order to support investment to upgrade the states' aging electric utility infrastructure and to reduce regulatory lag.

The Missouri General Assembly is not expected to advance legislation to modernize the state's regulatory framework this year. As we have stated in the past, the execution of our near-term rate base and earnings growth plans are not contingent on enhancement of the Missouri framework. As the energy industry continues to change and advance, we remain committed to educating stakeholders in our effort to help Missouri remain competitive and build the grid of the future. We are convinced such an enhancement is in the best long-term interest of our customers and the state. As a result, we will continue to work with the commission, legislators and others and aggressively advocate for improvement of the Missouri regulatory framework.

Last, with regard to the complaint cases pending at the FERC challenging MISO's base allowed ROE of 12.38% for transmission services, we and other MISO transmission owners are strongly advocating for an ROE level that is fair and that will continue to incentivize the transmission investment needed to ensure a robust grid for our nation. To that end, we know there's filed testimony in April. I strongly believe that the FERC supports additional investment in our nation's transmission infrastructure, and will continue to provide a regulatory framework including an ROE that will incentivize that investment. FERC's review of this matter is expected to continue over the next year.

Turning now to page seven and our long-term growth outlook, in February of this year, we outlined our plan to grow rate base at a solid 6% compound annual rate over the 2014 through 2019 period. We have a strong pipeline of investments that we expect to bring superior value to our customers and shareholders over the next five years and beyond.

As shown on this page, the growth rates of our jurisdictional investments are aligned with the perspectives I just shared on our regulatory frameworks. We are executing on numerous FERC-regulated electric transmission projects including multi-value projects such as Illinois Rivers, as well as an extensive list of local reliability projects.

Further, we are making investments to strengthen our electric delivery system and install electric smart meters consistent with the Ameren Illinois' 10-year Modernization Action Plan. And we are making meaningful investments in our Illinois gas delivery system to upgrade metering equipment, while also replacing and modernizing certain mains, lines and controls to ensure safety and reliability. To earn a timely return on incremental Illinois gas delivery investments, we began using the state's gas infrastructure rider in the first quarter of this year.

Last, in Missouri, we are focused on providing safe and reliable energy to our customers, as we seek to align our overall spending with the recent rate case outcome. We expect our solid rate base growth to be the primary driver of superior earnings growth for our shareholders.

Further, looking ahead, we remain focused on delivering a solid dividend because we've recognize the importance of dividends to our shareholders. Of course, future dividend increases will be based on consideration of, among other things, earnings growth, cash flows and economic and other business conditions.

In closing, we are committed to executing our strategy and we expect this focus to deliver superior value to both our customers and our shareholders.

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

Martin J. Lyons {BIO 4938648 <GO>}

Thanks Warner. Good morning everyone.

Turning now to the page nine of our presentation, as Warner already noted, today we reported earnings of $0.45 per share for the first quarter of 2015 compared with $0.40 per share for the year-ago period. Key drivers of this earnings increase are listed on this page. Higher electric transmission and delivery infrastructure investments made by ATXI and Ameren Illinois under formula rate-making, increased earnings by $0.05 per share compared with the year-ago quarter. The earnings comparison also benefited by $0.05 per share from reduced operations and maintenance expenses for those businesses not operating under formula rates.

In addition, the January 2015 Illinois Commerce Commission order approving recovery of Ameren Illinois cumulative power usage costs, increased earnings by $0.04 per share compared with the first quarter of last year. Earnings also benefited by $0.03 per share from a reduction in parent company interest charges, reflecting the May 2014 maturity of $425 million of 8.875% senior notes that were replaced with lower cost short-term debt.

Moving now to factors that had an unfavorable effect on the first quarter earnings comparison, lower electric and natural gas volumes reduced earnings by $0.05 per share, with milder winter temperatures accounting for an estimated $0.03 per share of this decline and the balance due to energy efficiency and other drivers.

First quarter 2015 temperatures were milder than those experienced during the polar vortex in the year-ago quarter, were still colder than normal. We estimate that weather-normalized kilowatt hour sales to residential and commercial customers across our systems decreased by approximately 1% with about one-half of this decrease due to energy efficiency programs.

In Missouri, the effect of declines in electric sales volumes due to our energy efficiency programs is offset by revenue recovery authorized under the state's Energy Efficiency Investment Act. Kilowatt-hour sales to industrial customers in Illinois increased 2%. However, sales to industrial customers in Missouri declined 4% primarily due to lower sales to Noranda Aluminum, Ameren Missouri's largest customer. Sales to Noranda declined because of sustained operational issues at their plant.

Next the earnings contribution from electric transmission and delivery investments at ATXI and Ameren Illinois, which I noted a moment ago, was reduced by lower recognized allowed ROEs. Transmission earnings for the year ago quarter incorporated the current MISO base allowed ROE of 12.38%. However, this year's first quarter results were reduced by a reserve to reflect the potential for a lower ROE from the pending complaint cases at the FERC.

The net ROE recognized in our transmission earnings is consistent with the level incorporated into our 2015 earnings guidance, as discussed on our February 25 call. Regarding the first-quarter 2015 Illinois electric delivery earnings, these incorporated an 8.6% allowed ROE compared with 9.7% in the year ago period. This decline was due to a decrease in the assumed annual average 30-year treasury rate from 3.9% to 2.8%. Of course, this year's Illinois electric delivery earnings will incorporate the actual 2015 average 30-year treasury rate, which I would note that interest rates have recently been rising. Other factors weighing on the earnings comparison included increased depreciation and amortization expenses and increased Ameren Missouri financing cost as noted on this page. These reflected in part, the impacts of capital projects placed in service by Ameren Missouri over the last 12 months.

Turning now to page 10: First, I would like to remind you that today, we have affirmed our 2015 earnings guidance range of $2.45 to $2.65 per share. Moving to the details on this page, here we list select items for you to consider as you update your 2015 earnings models. This include the effect on earnings that a return to normal temperatures would have on this year's remaining quarters compared with those of last year.

Over the balance of this year, we expect increased earnings from our FERC-regulated electric transmission and Illinois electric delivery services as we continue to make significant infrastructure investments under formula rate making. In addition, capitalized financing costs are expected to decline this year, reflecting the significant Ameren Missouri capital projects that were in process and ultimately placed into service late last year.

Earnings for the balance of the year are expected to benefit from a lower effective income tax rate. Our forecasted 2015 effective income tax rate is approximately 38%, a decrease from the 2014 effective rate which was approximately 39%.

In addition, I want to you remind you of factors that will affect the fourth quarter comparison. The absence of a Callaway Energy Center nuclear refueling and maintenance outage this year is expected to boost fourth quarter 2015 earnings by approximately $0.08 per share compared with the year ago quarter. The next Callaway refueling is schedule for the spring of 2016.

Finally, this year's fourth quarter will reflect the absence of a 2014 benefit resulting from a regulatory decision authorizing Ameren Illinois to recover previously disallowed debt redemption costs of $0.03 per share. Of course, these are only some of the factors that we will have an effect on balance of the year 2015 earnings as compared with 2014.

Turning now to page 11 and regulatory matters: Here, we provide details on the recent Missouri rate order. As Warner already mentioned, last week The Missouri Public Service Commission approved a $122 million annual increase in Ameren Missouri's retail electric rates. This amount was comprised of $109 million for increased net energy costs and $13 million for other non-energy costs. The Missouri Commission authorized continuation of two very important and constructive cost recovery mechanisms, the fuel adjustment clause and the pension and other postretirement benefits cost tracking mechanism.

However, as Warner mentioned, the Commission eliminated our ability to recover changes in transmission revenues and expenses through the fuel adjustment clause. The Commission also discontinued two other cost trackers, one for vegetation management and infrastructure inspection costs and another for storm costs. The Commission did state in its order that Ameren Missouri can request an accounting authority order to defer extraordinary storm costs incurred between rate cases for possible inclusion in rates and a future rate case. In years past, Ameren

Missouri has been granted such storm costs, accounting orders and later authorized to recover these costs in future rate cases.

Moving to page 12 and further details of Missouri electric rate decision: Here, we provide a breakdown of the key drivers of the $13 million authorized annual increase in other non-energy revenue. As Warner noted, we're disappointed with this rate decision and we'll seek to align our overall operating and capital spending with this outcome. And as we have stated repeatedly, our objective is to earn a return on equity at or close to our allowed level. Given Missouri use of historical test years and now more limited riders and trackers, this objective will be more challenging. However, we are clearly focused on the issue, and as we have done in the past, we'll be taking several actions to achieve this objective.

Turning now to page 13, I will update you on select regulatory matters pending at the Illinois Commerce Commission and Federal Energy Regulatory Commission.

Turning first to Illinois: Last month, Ameren Illinois made its required annual electric delivery rate update filing. Under Illinois' formula rate making, our utilities required to file annual rate updates to systematically adjust cash flows over time for changes in cost of service and to true up any prior period over or under recovery of such costs. Our filing seeks $110 million increase in net annual electric rates, reflect 2014 actual costs, expected 2015 infrastructure investments, and prior-period under recoveries of costs. A summary of our filing is included in the appendix to this presentation.

The ICC will review the matter in the months ahead with a decision expected in December of this year, and new rates effective early next year. I'll remind you that each year's Illinois electric delivery earnings are a function of that year's ending rate base, the formula-determined allowed ROE, which is the annual average of 30-year U.S. Treasury bond yields plus 580 basis points and the ICC authorized equity ratio, and are not directly determined by that year's rate update filing.

We also have a natural gas delivery rate case pending in Illinois. In January of this year, we requested a $53 million annual increase based on a future test year ending in December 2016. Our filing also included a proposal for a decoupling mechanism that would permit us to collect our authorized revenue requirement from residential and small non-residential customers, independent of sales volume fluctuations. We expect the ICC to issue a decision by December with new rates effective by January of next year. A summary of this filing is also included in the appendix to today's presentation.

Finally, previously mentioned complaint cases seeking to reduce the base allowed ROE for MISO transmission owners, including the Ameren Illinois and ATXI, are pending at the FERC. The FERC's schedule for the initial case calls for hearings to begin in mid-August with an initial order from an administrative law judge expected by the end of November of this year and a final order from the FERC expected next year.

Finally, turning to page 14, I will summarize our comments this morning. We delivered solid first-quarter earnings and affirmed our earnings per share guidance range for this year of $2.45 to $2.65 per share. As Warner discussed, we continue to successfully execute our strategy. We also continue to expect 6% compound annual rate base growth over the 2014 through 2019 period based on a transparent mix of needed transmission, distribution and generation investments across multiple regulatory jurisdictions. Importantly, we are strategically allocating capital to those jurisdictions with modernized regulatory frameworks that support investment. We believe this highly visible growth is outstanding compared to our regulated utility peers and provides the foundation for superior long-term growth in earnings per share.

Further, Ameren's $1.64 per share annualized dividend rate provides investors with a current yield of approximately 4%, which is above average compared to our peers. Through this expected earnings growth coupled with our dividend yield translates into a very attractive total return proposition for investors.

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

Q&A

Operator

Thank you. We'll now be conducting the question-and-answer session. Thank you. Our first question comes from the line of Michael Weinstein with UBS. Please proceed with your questions.

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

Hi, good morning. It's Julien here.

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

Good morning, Julien.

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

Good morning. So first question, if you will, on the Missouri case – and I apologize if this didn't come across – when's your next expected filing and how are you thinking about addressing the presumably incremental lag coming from some of the changes in the latest filling? And what's the magnitude of that lag that you would anticipate having from the transmission expense along with some of the other tweaks?

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

So there are a multiple questions in there, Julien. And I'll take a stab at those and maybe others can chime in and supplement as we go and, if I missed any of your questions, we'll let you repeat it. I think your first question was about when we're going to file our next rate case? I mean, obviously, we had just received this commission order. We're in the process of assessing the order and also considering what matters we may ask the commission to consider rehearing on. So I wouldn't say we're even through the full process of this one, so it's certainly premature to think about the timing of a next rate case.

You know what goes into that, obviously, is assessing this order, its impact. As we mentioned on the call and as you just alluded to, we're going to be taking a number of actions to align spending with this rate case outcome. We'll be looking at our capital expenditures moving forward and the in-service dates, and all of those things are going to factor into a decision about when the next rate case may be. It's probably important to note that this rate case was about two and a half years since our last rate increase. So no telling when the next one will be, but like I said, those are the various things we will take into consideration.

You also asked, I think, about some of those actions that we may be taking to address any lag coming out of this order. And I think that, whenever you go into a rate case, it's certainly expected that cost savings that you've achieved over the past couple of years, in our case, helped to mitigate the rate increase for the customer and that's certainly what's happened here. And then what you have to do going forward is to the extent that there are non-recovered costs or escalating costs in certain areas of your business, that you're going to identify actions that you can take within your business to overcome those, to offset those.

And as I said on the call, our goal continues to be to earn at or very near to our allowed returns and that's going to be our objective going forward. And without providing any specifics, certainly have processes underway today as part of our annual planning processes to identify and implement those actions, which are needed to achieve that objective.

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

Gotcha. And could you perhaps quantify a little bit, what your lag expectations are? Or I suppose, it's a little early, right, in the context of identifying offsetting cost cuts. And then maybe just more specifically on the transmission expense side, how much of the rate lag specially or what kind of inflation rate have you being seeing of late? I imagine, that's probably the most critical item there.

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

Yeah. Sure. So yeah, that's right. Those were parts of your other question. I guess, number one, Julien, we don't think about sort of an amount of lag that we're targeting or that we expect. As I said a moment ago, I mean, our objective is to earn at or very close to our allowed return. That has been our objective and it continues to be our objective. Now, there are going to be elements that are things that would have to be overcome. Now, we'll, on this transmission piece in the FAC, there what's happened is transmission revenues and costs are coming out of the FAC and then would go into base rates and would be handled that way subject to potential rehearing on that issue with the Commission.

I would tell you that today, just to give you an order of magnitude, in 2015 we expect transmission revenues and transmission expenses in Ameren Missouri to be around $35 million. However, those revenues and those expenses change over time, and one of the reasons that we view them as being appropriate for being in the FAC is that, frankly, those costs are outside of our control and they can be volatile. And to give an example, I think, what was put into our base rates reflected a differential between revenues and expenses of about $6 million, where revenues had exceeded expenses. So, that gives you I think some sense of the magnitude of the numbers and the change we've seen here recently. Hard to say what the change will be prospectively, obviously, again, as I said, those costs are outside of our control. So what that may – if it's not in the FAC, what that may mean for us in terms of prospective lag is really uncertain at this time.

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

Right. But just to be clear though, if you may permit me, your expectation is that you will be able to continue earn at or around your earned or your authorized level?

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

Julien, that is our objective and we work each year to align our cost to achieve that objective.

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

All right. Great. Sorry for so many questions. Thank you so much.

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

That's okay, Julien. I just would add on that, I mean I think we have a good track record that we've shown over this past couple of years of actually achieving that objective. But thank you for your questions.

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

Agreed. Good luck.

Operator

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

Q - Paul Patterson {BIO 1821718 <GO>}

Hi. How you doing?

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

Good Paul.

Q - Paul Patterson {BIO 1821718 <GO>}

Just on the long-term growth rate which – how should we think about that now?

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

Well, in terms of long-term growth rate, you're speaking about the rate base or the earnings per share or both?

Q - Paul Patterson {BIO 1821718 <GO>}

I'm talking about the earnings per share. That doesn't seem to be in the slide deck this time around?

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

Yeah, sure. Yeah, that's fine, Paul. I just wanted to clarify. I mean, obviously, in the slides we talked about our 6% compound annual rate base growth from 14% to 19%. I mean, you're right; what we didn't do is specifically mention the earnings per share growth. And I think going forward, reason for that is really simply that we planned to formally update you and others on the long-term earnings growth plans on an annual basis consistent with our annual planning cycles. But that being said, as we sit here today, we do continue to be confident in our ability to deliver within that 7% to 10% compound earnings per share growth range that we've previously talked about which is from 2013 to 2018. As you know, Paul, that growth is driven by the transparent rate base growth plans that I just mentioned. It's driven by a reduction in parent and other costs that we've been achieving. It's driven by the monetization and reinvestment of tax assets that we have – about $440 million of tax assets at the parent company. And also incorporated in there is our expectation of rising interest rates and rising ROEs over time.

And when we think about all those things together, we remain confident of achieving that 7% to 10% growth. What we don't plan to do is provide quarterly updates on the long-term plans going forward based on, I would say, short-term movements in interest rates or changes in allowed returns. We take all of that data, of course, into consideration as we prepare our – do our annual planning and think about where we're going to allocate capital and how we're going to modify our longer-term growth plan.

Q - Paul Patterson {BIO 1821718 <GO>}

So I guess it means – does that mean like from quarter-to-quarter internally you guys might think that this number might be changing or is this more of sort of a cosmetic thing in terms of just simply leaving it alone till the – in a more annual basis, because that would make more sense than changing it I guess quarter-to-quarter. Is that – how should we think about that?

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

Sure. Sure, Paul. No, it's a fair question. No, I mean, what we're not doing, I would say, is internally updating our five-year earnings per share growth outlook each quarter based on changes. It's, frankly, a fairly comprehensive process that we and I'm sure other companies go through on an annual basis, to think about changes in long-term interest rate forecast, long-term ROE forecast, changes in regulatory frameworks, changes in customer needs, changes in technology. And really think about what kinds of investments should be made for the benefit of our customers, where they should be made, when they should be made and all of those things factor into our long-term investment plans and our long-term EPS growth.

And so, we do those comprehensive planning processes on an annual basis. And we'll be planning then to roll that out and roll it into the guidance we provide you and others on an annual basis about what our long-term growth plans are.

Paul, I would just add, a couple of months ago when we provided our guidance, I was asked a question about, well, are you going to hit that 7% to 10% in the current ROE environment? And what I'd said in that call and I certainly standby is that, if we held the ROEs that where embedded into our guidance flat through time, we still expect it to be in that 7% to 10% range, albeit potentially at the lower end. And I have to say that, while we haven't completely reassessed our long-term model, I do remain confident that even with this lower Missouri ROE and holding the other ROEs embedded in our current guidance flat, we do have that flexibility within the guidance range and within our business plans to be able to achieve at least that 7% end of our growth.

So net that growth, as you know, that 7% earnings per share growth is superior I think to the average of our regulated peers; and we fully expect that interest rates overtime will rise, that ROEs will rise, and that'll certainly help to drive earnings higher within that range.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. Just to sort of follow-up here on the regulatory environment and the legislative environment in Missouri. You guys went over the rate case, not exactly what you guys wanted. And it looks like the legislative efforts, if I understand you guys, they're dead for this year. Do you think that there's any rate case fatigue? I mean, let me put it right out there, I mean, do you think that there's maybe, there may be a limit in terms of revenue increases in Missouri? And then just to sort of follow that through, do you have any opinion of the legislation that's happening in Illinois with respect to nuclear and the other sort of clean job stuff and what have you that's been gain – garnering a lot of attention in Springfield?

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

Yeah, Paul, we'll try to – this is Marty again. We'll try to take those in order. I think on the Missouri ones, maybe Michael Moehn, who's with us here who's the Head of our Missouri operations, can take the first part of your question.

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

Yeah, great. Thanks, Marty. With respect to the fatigue, certainly these increases have been hard on customers, we recognize that. We try to do everything we can to mitigate the impact on customers. But at the end of the day, all of these investments that we're making are really to continue to provide safe and adequate and reliable service. And so, we're going to continue to do what we think is necessary to deliver on that promise.

But, you know, and I – and with respect to legislation in Missouri, we do remain very focused on trying to get something across the finish line. We continue to talk with stakeholders, legislators about the importance of modernizing the regulations in the Missouri to make sure that we're able to continue to build out the grid of the 21st century. We continue to remind them of the good things that are going on in Illinois, referencing what's happening in Arkansas and

Wisconsin and Michigan. And so, I think through a constant, relentless pursuit of it, we're going to get it across the finish line at some point. It's difficult to say exactly when that's going to be – when that's going to happen. But we are going to continue to put every effort into making it happen.

Q - Paul Patterson {BIO 1821718 <GO>}

But it won't be this year, right?

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

Yeah. I think that is a fair assumption at this point in time.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. And then if you could follow up on Illinois. I don't want to take any more time – sorry.

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

Yeah, that's okay. And Paul, this is Warner. Richard Mark is here, too. So Richard, maybe you can give a little perspective on the Illinois legislation.

A - Richard J. Mark {BIO 4447427 <GO>}

Well, there's three bills pending in Illinois and we're just continuing to monitor those bills to see which one of them or which of them will be called for hearings in the near future. The session in Illinois ends May 31, so we're going to continue to monitor those to see which ones – how they affect our customers through improvements and value as well as the impact that it would have on increased cost to our customers.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. Thanks a lot.

Operator

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

Q - Greg Gordon {BIO 1506687 <GO>}

You guys have answered a lot my questions. I was looking back at the disclosures from the end of the year call. And I can't remember, did you disclose explicitly what ROE you're reserving – you're reserving to or was it just that you're making assumptions that are less explicit?

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

Yeah, Greg. This is Marty. What we've talked about on that call and repeat here, I mean, obviously, we've got active litigation and we don't want to get into specifics. But what we did say then is our guidance reflected approximately the outcome of the ISO New England order last year plus a 50-basis point adder and that -

Q - Greg Gordon {BIO 1506687 <GO>}

Gotcha.

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

...that kind of an ROE was embedded into our guidance and that's what we continue to reflect in our ongoing results. And it's also reflected in our current guidance for 2015.

Q - Greg Gordon {BIO 1506687 <GO>}

Perfect. Thank you for reminding me. Have a good afternoon.

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

You too, Greg. Thanks.

Operator

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

Q - Michael J. Lapides {BIO 6317499 <GO>}

Hey, guys. Congrats on a good quarter and sorry about Adam Wainwright, what a tough way to start the season even though they're on a great winning streak, that's just brutal.

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

Let's do remember that they've been on a pretty good winning streak, Mike.

Q - Michael J. Lapides {BIO 6317499 <GO>}

No, I know, but it's May not August or October. So I'd rather have Wainwright back and give up a couple of the April wins.

Real quick, I want to make sure I understand some things. In the quarter O&M was down a lot this quarter, and came in a good bit better. Can you just talk about whether that's seasonality, whether there were some things that will put upwards pressure on O&M towards the back half of the year? Or is this a kind of a new run rate?

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

Michael, I'll try to answer as best as I can. This is Marty again, obviously. But, yeah, the O&M was down. The O&M was down principally at Missouri. When you see the 10-Q, you'll get some further detail and breakdown, I suppose, by legal entity. But I'll tell you that Illinois was about flat, and the real driver was slower Missouri. And I would say that, that's just – in general, just efforts to contain costs. There were some specific costs that we had last year at our Callaway plant, that did not recur in the current period. But I would say, overall, our focus is to continue to work to improve the productivity of operations, to find ways to control costs. And I can't really be specific with you in terms of trends for the remainder of the year in O&M, but I will tell you that, just, in general, and especially in light of the rate case outcome that we had, we're going to continue to be very cost conscious and manage O&M very carefully.

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

Mike, I would just add – this is of Warner. This is not something new. This is not something new. We have been very disciplined in managing our costs. And as Marty rightfully said a moment ago, as we manage those costs between rates cases, it helps address regulatory lag, and then as we have the rate cases, it certainly provides a significant benefit to customers.

And we're not done. We're going to continue to do that both in Missouri and across our enterprise because it's the right thing to do. And so, I know others have raised the questions on regulatory lag, we cite that, obviously, the regulatory lag may become more challenging; at the same time we're geared up to address those issues internally and are still very focused and confident that the execution of our plan is going to deliver superior value to – not just to our shareholders but also to our customers.

Q - Michael J. Lapides {BIO 6317499 <GO>}

Got it. And want to circle back on the transmission ROE. Your guidance assumed a lower ROE, is there any change in the guidance level of the ROE? I know this is piggybacking off of Greg's question a little bit, but I want to just make sure I understand kind of the puts and takes versus original guidance and what you're saying today.

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

Sure, Michael. I'll reiterate. Basically, what's in our new guidance our current updated guidance reflects exactly what we had in our guidance at the beginning of the year. So we said then and we say now what it reflects is basically the outcome of the ISO New England order plus 50 basis points. And so that gives you an approximation of where we're booking a reserve to, what the effective earned ROE is that we're reflecting in our financial statement this year. Obviously, we don't know where those cases will come out. We certainly think that the testimony that was filed by the MISO TOs and our own witnesses speak for itself and we'll let that play out here over the remainder of the year.

Q - Michael J. Lapides {BIO 6317499 <GO>}

Got it. One last item, thinking about Illinois and MISO transmission opportunities, I mean you've got a very healthy rate base growth opportunity there over the next four years or five years. But trying to think about what could be incremental to what's already in your plan, can you talk a little bit about the Order 1000 process in the MISO and whether projects are soon to be put out to bid or whether there's another round of potential Order 1000 related projects that you could potentially be a participant in an RFP on or updates on the (48:31) process as well?

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

Sure, Michael. I think the best person to speak to that is Maureen Borkowski, who is the head of our transmission business. Maureen, you want to comment on those questions?

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

Sure. MISO is in the process of getting some Order 1000 things started. There're a little behind the curve relative to the other RTOs. And just to clarify, at the present time, our business development folks are active not only in the MISO Order 1000 process, but also in PJM and Southwest Power Pool. We actually have some proposals active in some of the PJM solicitation windows right now.

And as you mentioned, correctly, any kind of success in that venue – in any of those MISO, PJM, SPP is all incremental to the rate base growth and the investment that we've already talked about today.

But we're not necessarily relying on that to provide our future growth pipeline. We have a great deal of investment opportunity remaining in our utility systems, both for reliability needs, aging infrastructure replacement and modernization of the grid. We also expect the Clean Power Plan will likely have some impacts on the generation fleet in our service territory, which will also drive local transmission projects. And all of those opportunities that I mentioned are really hours to deliver on. They're not subject to any of the competitive process in MISO. So we certainly are active in the competitive space, but we're not relying on that to provide our pipeline. We have lots of other opportunities as well.

Q - Michael J. Lapides {BIO 6317499 <GO>}

Got it. Okay. I just wanted to kind of tail on that only because yesterday on an earnings call one of the Kansas utilities talked about the SPP and just mentioned that they had only put out one small Order 1000 project bid, no others for RFP. Do you know the number of potential projects that the MISO is likely to put out to bid and when those RRPs would come out?

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

I really couldn't speculate on that. It is supposed to be in the MTEP 2016 process, I guess, which begins effectively in August of this year. So sometime late next year you would probably see the results of that.

Q - Michael J. Lapides {BIO 6317499 <GO>}

Got it. Okay. Thank you guys. Much appreciated.

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

Okay. Thanks, Mike.

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

Hey, Michael. It's Marty. Just one – couple things, I think it was implied in your question; but obviously, our rate base growth plans that we've put out there today and in prior call, that 6% doesn't include any kind of expectation for any kind of FERC Order 1000 competitive win. So if anything was achieved there, it'd certainly be incremental. As Maureen described, we've got a good pipeline of local reliability projects that goes on behind the five-year period. Certainly, there could be some incremental for our current five-year plan. But I'd also mention that, as we discussed last time – I think you asked the question on the last call and I responded – I mean, certainly, there could be even incremental investments in other areas of our business, particularly in the gas area, where there's the possibility that new federal rules will come into play that will actually cause us to increase the amount of investment that we need to make for replacement of aging infrastructure. So there are a number of things including transmission on top of transmission that present additional rate-based growth opportunity. Appreciate the question.

Q - Michael J. Lapides {BIO 6317499 <GO>}

No, thank you, guys. I really appreciate the response.

Operator

Thank you. Thank you. At this time, we've reached the end of our question-and-answer session. I'll turn the floor back to Mr. Doug Fischer for closing comments.

A - Douglas Fischer {BIO 1498560 <GO>}

Thank you for participating in this call. Let me remind you again that a replay of the call will be available for one year on our website. If you have questions, you may call the contacts listed on today's release. Financial analyst inquiries should be directed to me, Doug Fischer; media should call Joe Muehlenkamp. Our contact numbers are on today's news release. Again, thank you for your interest in Ameren, and have a great day.

Operator

Thank you, Mr. Fischer. This concludes today's teleconference. You may disconnect your lines at this time and thank you for your participation.