Q4 2017 Earnings Call

Company Participants

- Doug Fischer, Senior Director, Investor Relations
- Martin Lyons, Executive Vice President and Chief Financial Officer
- Michael Moehn, Missouri Chairman and President
- Warner Baxter, Chairman, President and Chief Executive Officer

Other Participants

- Andrew Levi, Analyst, Avon Capital Advisors
- Ashar Khan, Analyst, Verition Fund Management
- Julien Dumoulin-Smith, Analyst, Bank of America Merrill Lynch
- Neil Kalton, Analyst, Wells Fargo Securities
- Paul Patterson, Analyst, Glenrock Associates
- Paul Ridzon, Analyst, KeyBanc Capital Markets
- Steve Fleishman, Analyst, Wolfe Research

Presentation

Operator

Greetings and welcome to the Ameren Corporation's Fourth Quarter 2017 Earnings Call. At this time, all participants are in 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 introduce your host, Doug Fischer, Senior Director of Investor Relations for Ameren Corporation. Thank you, Mr. Fisher, you may begin.

Doug Fischer {BIO 16481971 <GO>}

Thank you and good morning. On the call with me today are Warner Baxter, our Chairman, President and Chief Executive Officer; and Marty Lyons, our Executive Vice President and Chief Financial Officer, as well as other members of the Ameren Management Team. Warner and Marty will discuss our 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 website home page, that will be referenced by our speakers.

As noted on page two of the presentation, comments made during this conference call may contain statements that are commonly referred to as forward-looking statements. Such statements include those about future expectations, beliefs, plans, strategies, objectives, events, conditions, and financial performance. We caution you that various factors could cause actual results to differ materially from those anticipated.

For additional information concerning these factors, please read the forward-looking statements section in the news release we issued today and the forward-looking statements and risk factors sections in our filings with the SEC. Lastly, all per share earnings amounts discussed during today's presentation, including earnings guidance are presented on a diluted basis, unless otherwise noted.

Now here is Warner who will start on page four of the presentation.

Warner Baxter {BIO 1858001 <GO>}

Thanks, Doug. Good morning everyone and thank you for joining us. Before I begin my business update, I first want to express my deep appreciation to our coworkers who volunteered to leave their families for weeks to support Puerto Rico in it's hurricane restoration efforts, as well as offer best wishes to a second group of coworkers who were heading to the island to continue this important work. It has been an historic year for restoration efforts following hurricanes Harvey, Erma and Maria, which impacted so many in Texas, Florida and Puerto Rico. I'm so proud of all of our co-workers who bound here to support this important restoration efforts, as well as those who stayed behind and handled extra duties for that regard. These efforts displayed incredible team work and commitment to our mission to power the quality of life.

Now moving to our financial results. Earlier today, we announced 2017 core earnings of $2.83 per share compared to $2.68 per share earned in 2016. This marks another year of strong growth driven by the successful execution of our strategy across our businesses. While Marty will discuss the drivers of these results in a few minutes, I'd like to highlight some areas of our team's strong performance in 2017.

Last year, we continue to exercise disciplined cost management and strategically allocated capital to our businesses that were supported by constructive regulatory frameworks. We also effectively manage capital projects across all of our businesses, which ultimately delivered value to our customers. ATXI's three major transmission projects proceeded very well as noted on this page. We continue to make significant grid modernization investments in our Illinois electric and natural gas distribution businesses, including the continued deployment of smart electric meters and gas modules which combined are now about two-thirds complete.

In addition, Callaway safely concluded its major refueling and maintenance outage in December.

Another key 2017 accomplishment was the constructive outcome achieved by Ameren Missouri in its electric rate review. As a result, the electric rates went into effect in April, favorably impacting our results and supporting Ameren Missouri's efforts to earn a fair return on the electric utility infrastructure investments made for the benefit of customers. Further, last fall, Ameren Missouri filed a new integrated resource plan with the Missouri Public Service Commission, which meaningfully advances the transition of our power generation to a cleaner, more diverse energy portfolio. And finally, working together with many of our nation's investor-owned utilities, we successfully dedicated for income tax provisions and recently enacted federal income tax reform law, that retains important tax benefits for both customers and shareholders. As you can see, we successfully executed our strategy in 2017, which delivers significant value for our customers and shareholders.

Turning now to page five in earnings guidance. First, we expect our 2018 earnings per share to be in a range of $2.95 to $3.15 per share. Earnings within this range, we deliver strong growth again in 2018. As the midpoint, this guidance represents nearly 8% earnings per share growth compared to 2017 core results. Marty will provide you with more details on our 2018 guidance a bit later. Building on our robust earnings growth over the past several years, I'm also pleased to announce that we roll forward our long-term guidance and we expect strong 5% to 7% compound annual earnings growth for the 2017 through 2022 period, using 2017 core earnings as a base. This long term earnings growth outlook is driven by continued execution of our strategy, including investing in infrastructure for the benefit of customers. And as I'll discuss further in a moment, this guidance does not reflect significant incremental infrastructure investment opportunities in Missouri.

Turning to page six. We expect to grow our rate base in an approximately 7% compound annual rate for the 2017 through 2022 period. Our plan again includes strategically allocating capital to those businesses that operate in jurisdictions with constructive regulatory frameworks. This is reflected in the expected rate base growth for each of these businesses as noted in the graph on the right side of this page. I would also note that lower deferred tax balances related to federal tax reform is driving faster rate base growth in each of our jurisdictions. For example, Missouri's rate base growth would have been in the range of 2% to 2.5%, not for the positive impacts of federal tax reform on rate base. Marty will discuss tax reform impacts in greater detail later in the call.

Importantly, our five-year earnings and rate base growth projections do not include the incremental investment opportunity of approximately $1 billion of wind generation by 2020, proposed in Ameren Missouri's integrated resource plan that I discussed earlier. We expect to add these investments to a multi-year rate base outlook as we finalized pending negotiations with wind developers and moved further into the regulatory approval process in Missouri, which I will cover in a few moments. In addition, our five year earnings and rate base growth plan does not include approximately $1 billion of potential incremental capital expenditures through 2023 that we would expect to execute if legislation is enacted to support grid modernization infrastructure investment.

Speaking of this important legislation, I now direct you to page seven of the presentation. As you know, for several years, we along with our investor-owned electric industry colleagues in Missouri have been focused on enhancing the state regulatory framework to support critical energy infrastructure investment, consistent with the benefits we have seen in Illinois and around the country. Modernized policies to support energy infrastructure investments will lead to a more reliable and smarter energy grid, provide greater tools for customers to manage their future energy usage. Position us to meet our customers energy needs and management expectations and create significant quality jobs for Missouri.

With these benefits in mind, I'm pleased to report that the senate passed Senate Bill 564 yesterday by a strong bipartisan vote. Senate passage of this bill is a result of hard work, collaboration and compromised by many parties. The bill will now head to the house of representatives.

Key provisions of Senate Bill 564 for electric utility service are outlined on this page. If enacted is currently written, this legislation would support our ability to invest an incremental $1 billion in infrastructure through 2023 that will drive significant long-term benefits to customers and create good paying jobs, as well as our impaired returns on those investments. The legislation would also benefit customers by providing the Missouri Public Service Commission one-time authority to pass on savings, stemming from the lower federal corporate income tax rate in a very timely fashion. The legislation will also provide economic development range for certain incremental electric sales.

Further, one of the most significant customer benefits is the rate certainty this legislation would provide. Base rates would be frozen to March 31, 2020, and average overall rate increases would be capped at 2.85% compounded annually through 2023. The provisions of Senate Bill 564 can be extended through 2028 if requested by the electric utility and approved by the Missouri PSC. Finally, this bill would maintain continued strong Missouri PSC oversight. The legislative session ends on May 18.

Moving now to page eight for an update on our wind generation investment plans that I referenced earlier. We are in advance negotiations with multiple wind developers for the development, construction and purchase of at least 700 megawatts of generation to achieve compliance with the Missouri Renewable Energy Standard.

Upon reaching agreements with wind developers, we will follow request for Certificate of Convenience and Necessity for each project with the Missouri PSC, which we expect will be made in the first half of 2018. We plan to include in our certificate filings, request for authorization to use Missouri's Renewable Energy Standard-Rate Adjustment Mechanism. This mechanism provides timely rate recovery of renewable energy cost related to compliance with the state's renewable energy standard.

And finally, regional transmission organization interconnection studies are already underway for these projects. We look forward to executing this important component by integrated resource plan, because we believe that it will deliver clear benefits to our customers, environment and the communities we serve.

Turning now to page nine. As we look to the future, the success for execution of our five year plan is not only focused on delivering strong results for 2022. It was also designed to position Ameren for success over the next decade and beyond. We believe that the energy grid will be increasingly important as we expect Ameren and our industry to be critical enablers of advancing technologies that will bring even greater value to our customers, the communities we serve and our shareholders. With this long-term view in mind, we are already making investments that will position Ameren to meet our customers' future energy needs and rising expectations, as well as support increased electrification of the transportation sector and other industrial processes.

In addition to focusing on investment in the energy grid, we are also committed to transition Ameren Missouri's generation to a cleaner, more diverse portfolio in a responsible fashion. Ameren Missouri's IRP issued last September included targets for reducing carbon emissions, including an 80% reduction by 2050 from 2005 levels. We are also actively engaged in and continue to support regulatory proceedings in both Illinois and Missouri. They're looking at emerging industry issues, including grid monetization and increasing electrification. The bottom line is that we are taking steps today across the board to position Ameren for success in 2018, the next five years, the next decade and beyond.

Moving to page 10. I'm firmly convinced that the execution of our strategy in 2018 and beyond will deliver superior value to our customers and our shareholders. We believe the earnings in rate base growth rates I just discussed compare favorably with those of our regulated utility peers. And as I noted previously, these estimates do not include significant incremental investment opportunities in wind generation and energy grid monetization. Further, our shares continue to offer investors a solid dividend. And in the fourth quarter of last year, Ameren's board of directors expressed this confidence in our long term growth plan by increasing the dividend 4%. Of course, future dividend decisions will be driven by earnings growth, cash flows and other business conditions. Together, we believe our strong earnings outlook combined with our shallow dividend, which currently provides a yield of approximately 3.3% results in a very attractive total return opportunity for shareholders compared to our regulated utility peers.

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

Martin Lyons {BIO 4938648 <GO>}

Thanks, Warner, and good morning everyone. Turning now to page 12 of our presentation. Today, we reported 2017 GAAP earnings of $2.14 per share compared to GAAP earnings of $2.68 per share for the prior year. As you can see in the table on this page, the 2017 GAAP earnings included two non-cash charges primarily at the parent company, the decreased earnings by a combined $168 million or $0.69 per diluted share reflecting the revaluation of deferred taxes as a result of changes in Illinois and federal income tax rates.

Excluding these charges, Ameren recorded 2017 core earnings of $691 million or $2.83 per diluted share, which compared favorably to our last guidance range of $2.73 to $2.87 per share. There were no differences between GAAP in core earnings for 2016.

Turning to page 13. We highlight by segment the key factors that drove the overall $0.15 per share increase in 2017 core earnings compared to 2016 results. Starting with Ameren Transmission here. The earnings per share contribution increased $0.10 per share from $0.48 in 2016 to $0.58 in 2017. This 21% growth was primarily driven by earnings on increased infrastructure investments at ATXI and Ameren Illinois, partially offset by a lower allowed return on equity of 10.82% for 2017 compared to an average of approximately 11.3% for the prior year. In 2016, our Transmission segment benefited from a temporarily higher circle at ROE that extended from mid-May to late September 2016 when the FERC adjusted MISOs based ROE to its current level.

Turning to Ameren Illinois Electric Distribution. Earnings for this segment grew from $0.52 per share in 2016 to $0.54 per share in 2017, reflecting increasing infrastructure investments, as well as a higher allowed return on equity under formula ratemaking of 8.7% compared to 8.4% for the prior year. The 2017 allowed ROE was based on a 2017 average 30 year treasury yield of 2.9% up from the 2016 average of 2.6%. Ameren Illinois Natural Gas distribution earnings were up slightly due to infrastructure investment.

Moving to Ameren Missouri, our largest segment, here earnings increased from $1.47 per share in 2016 to $1.48 per share in 2017. The earnings benefit from new electric service rates was largely offset by the unfavorable impacts of lower electric retail sales, primarily driven by milder summer temperatures, higher depreciation and transmission expenses, and the absence of the 2016 performance incentive award related to the 2013 through 2015 energy efficiency plan.

Finally, the Ameren parent and other results comparison was positively impacted by a lower core effective income tax rate, which was largely offset by lower tax benefits associated with share-based compensation.

Before moving on, let me briefly cover electric sales trends for Ameren Missouri and Ameren Illinois Electric Distribution for 2017 compared to 2016. Weather normalized kilowatt hour sales to Missouri residential and commercial customers on a combined basis were flat, excluding the 2016 leap-day sales benefit and the effects of our Missouri Energy Efficiency plan under MEEIA. We exclude MEEIA effects because the plan provides rate recovery to ensure that earnings are not affected by reduced electric sales resulting from our energy efficiency efforts. Kilowatt hour sales to Missouri industrial customers increased 1.5% excluding sales to the New Madrid smelter, which shut down operations during the first quarter of 2016 and excluding leap-day and MEEIA effects.

Weather normalized kilowatt-hour sales to Illinois residential and commercial customers on a combined basis decreased 1%, primarily driven by energy efficiency, while kilowatt hour sales to Illinois industrial customers decreased 3%, primarily due to lower sales to a large low margin processor of agricultural products. Recall, the changes in electric sales in Illinois, no matter because do not impact our earnings since the Future Energy Jobs Act provided full revenue decoupling beginning in 2017.

Turning now to page 14. Before I discuss our new five year capital investment plans and 2018 earnings and cash flow outlook, I would like to discuss the impacts of federal income tax reform. Working together with many of our nation's investor-owned utilities, we were able to retain important tax benefits for both customers and shareholders as outlined on the top portion of this page.

In terms of impacts for Ameren, as noted at the bottom of the page, we expect that the combination of the lower tax rate on new deferred taxes, the end of bonus depreciation and the flow back of excess deferred taxes will decrease cash flow from operations and increase rate base by approximately $1 billion over the 2018 through 2022 period. In addition, we expect our parent company interest expense to be deductible. However, the lower federal rate reduced the tax benefits associated with parent company and other unrecoverable costs.

Finally, the change in the federal tax rate resulted in the non-cash, non-core charge to 2017 earnings that I discussed earlier. Overall, federal corporate income tax reform delivers significant benefits to customers and supports our strong earnings growth outlook as Warner mentioned.

Moving to page 15 of the presentation. Here we provide an overview of our approximately $11 billion of planned capital expenditures for the 2018 through 2022 period by business segment that supports the rate base growth Warner discussed earlier. Note, the capital expenditures and rate base shown on this page exclude Ameren Missouri's proposed wind generation and incremental grid modernization investments related to pending Missouri legislation.

Turning to page 16. Here we outlined the expected funding sources including significant income tax deferrals and substantial tax assets for the infrastructure investments noted on the prior page. The tax deferrals are driven primarily by timing differences between financial statement depreciation and accelerated depreciation for tax purposes under makers, which was retained in the new federal tax law. The tax assets include approximately $250 million at the parent company that are not currently earning a return.

Given our expected cash flows from operations including the cash flow impact of tax reform that I just discussed, as well as our capital expenditures and other cash requirements, we are now using newly issued rather than market purchased shares for our dividend reinvestment and employee benefit plans and we expect to continue to do so over the five year guidance period. We expect this to provide equity funding of approximately $80 million annually. This action will enable us to maintain strong credit metrics and a capitalization target of approximately 50% equity.

Moving to page 17 of our presentation. I would now like to transition to a discussion of key drivers impacting our 2018 earnings guidance. As Warner stated, we expect 2018 diluted earnings to be in the range of $2.95 to $3.15 per share. On this page and the next, we have listed key earnings drivers of and assumptions behind our 2018 earnings guidance broken down by segment as compared to 2017 results. The difference between current EPS variances noted and comparable variances provided to you on our 2017 quarterly earnings calls reflect the change in the federal income tax rate.

Beginning with Ameren Transmission. Earnings are expected to benefit from additional investments in Ameren Illinois and ATXI projects made under FERC's formula ratemaking. Our guidance assumes continuation of the current 10.82% allowed ROE, which includes a 50 basis point adder from MISO membership. The second MISO ROE complaint case remains pending at the FERC and we don't know when the case will be decided.

For Ameren Illinois Electric Distribution, we anticipate increased earnings in 2018 compared to 2017 from additional infrastructure investments made under Illinois formula ratemaking. Our guidance incorporates a formula based allowed ROE of 8.9%, using a forecasted 3.1% 2018 average yield for the 30-year Treasury bond, compared to an allowed ROE of 8.7% in 2017.

Completing the discussion of our Illinois businesses, Ameren Illinois Natural Gas distribution earnings are expected to benefit from qualified investments that are included in rates on a timely basis under the state's gas infrastructure rider. I'd also like to mention that we have provided the earning sensitivity to changes in the allowed ROEs for the Ameren Transmission and Ameren Illinois Electric Distribution segments on this page.

Turning to page 18. Our Ameren Missouri earnings are expected to rise in 2018. Earnings are expected to be favorably affected in the first quarter by increased Missouri electric service rates that took effect April 1st 2017. In addition, there is no scheduled nuclear refueling and maintenance outage for our Callaway Energy Center this year, since these outages are on an 18-month cycle. The absence of these expenses is expected to benefit 2018 earnings by approximately $0.11 per share, compared to 2017. The next Callaway refueling and maintenance outage is scheduled for the spring of 2019.

Further a return to normal weather in 2018 would increase Ameren Missouri earnings by approximately $0.06 per share compared to 2017. And we expect lower interest expense, driven by the refinancing of debt in 2017 and 2018 to favorably impact 2018 results. Partially offsetting these positive earnings drivers, we expect higher other operations and maintenance expenses, primarily the result of higher than normal scheduled non-nuclear plant outages. In addition, we expect Ameren Missouri's 2018 results to reflect regulatory lag associated with increased depreciation expenses.

Moving now to Ameren-wide drivers and assumptions, we expect an effective income tax rate of approximately 22% this year, a decrease from last year's core tax rate of 37%, reflecting the substantially lower federal corporate rate and flow back of excess deferred taxes. I would note that our 2018 guidance excludes any possible temporary retention of cash flow or earnings benefits from this lower federal tax rate.

The benefits of lower tax rates will be reflected in Ameren Transmission and Ameren Illinois Electric Distribution service rate reviews as of the beginning of the year as a result of formula ratemaking. While the timing of reflecting these benefits in our Ameren Illinois Natural Gas and Ameren Missouri customer rate reviews has not been determined, we do expect customer rates to be adjusted in 2018 for the lower federal tax rate. Further, we expect the comparison of earnings to last year to be unfavorably impacted by $0.03 per share for the reduced tax benefit associated with parent company and other unrecoverable expenses. Finally, we expect to use of newly issued shares for our dividend reinvestment and employee benefit plans to unfavorably impact earnings by $0.01 per share.

I'd also like to take a minute to discuss our 2018 electric sales outlook. We expect weather normalized Missouri kilowatt hour sales to residential and commercial customers, as well as to our industrial customers to be flat to up slightly, compared to last year, excluding the effects of our MEEIA energy efficiency programs.

Turning to Illinois. We expect our weather normalized kilowatt hour sales to residential and commercial customers in that state to be roughly flat and sales to industrial customers to decline about 2% this year, compared to last. Again, I would remind you the changes in electric sales in Illinois do not impact our earnings due to revenue decoupling.

Turning then to page 19. For 2018, we anticipate negative free cash flow of approximately $900 million. On the right side of this page we provide a breakdown of our $2.2 billion of planned

2018 capital expenditures by business. We expect to fund this year's negative free cash flow and debt maturities, primarily through a combination of short and long-term debt issuances and borrowings, as well as the previously mentioned issuance of common shares for our dividend reinvestment and employee benefit plans.

Moving now to page 20 for the discussion of Select Regulatory Matters. For Ameren Transmission, the second complaint case that seeks to reduce the base allowed ROE from MISO transmission owners remains pending at the FERC as previously mentioned. We expect that the FERC commissioners will take time to consider the court ruling in the New England ROE case, as well as the MISO transmission owners recent motion to dismiss the second MISO ROE complaint case, as both may influence the FERC.

Moving to Ameren Illinois Electric Distribution. In December, the ICC approved a rate change consistent with our filing in the annual rate update proceeding with new rates effective at the beginning of this year. This outcome is assigned at Illinois formula electric distribution ratemaking continues to work as intended.

Moving to page 21 in Ameren's Natural Gas Regulatory Matters. Last month, we filed a request for a $49 million annual increase in gas distribution rate using a 2019 future test year with the ICC. This 49 million includes an estimated $42 million of annual revenues that would otherwise be recovered in 2019 under Ameren Illinois Qualifying Infrastructure Plant or QIP rider. Particulars of this gas rate case filing are noted on this page. An ICC decision is required by December of 2018 with new rates expected to be effective in January 2019.

Turning to Missouri Regulatory Matters. Earlier this week, the commission staff issued its report recommending the Missouri PSC open a proceeding for each utility to pursue rate reductions to pass savings from the lower federal income tax rate on to customers. Of course, a Senate Bill 564 is enacted as currently written, Ameren Missouri would pass savings from the lower federal income tax rate on to electric customers in a timely fashion pursuant to its provisions.

Finally, turning to page 22, I will summarize. We delivered strong core earnings growth in 2017 and expect to again deliver strong earnings growth in 2018 as we continue to successfully execute our strategy. As we look ahead, we continue to expect strong earnings per share growth driven by rate base growth and disciplined financial management. Further, we expect this growth to compare favorably with the growth of our regulated utility peers and Ameren shares continue to offer investors an attractive dividend. In total, we have an attractive total shareholder return story that we believe compares favorably to our peers.

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

Questions And Answers

Operator

Thank you. We will now be conducting a question-and-answer session. (Operator Instructions) Our first question is from Julien Dumoulin-Smith with Bank of America Merrill Lynch. Please proceed with your question.

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

Hey, good morning. Congratulations.

A - Warner Baxter {BIO 1858001 <GO>}

Good morning, Julien. How are you doing?

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

Great. Thank you. So wanted to first ask real quickly on the legislation and the previously contemplated billion dollar program. How much inflation in bills, does that billion dollars contemplate. How much latitude does that give you when you kind of hash that out against the tax reform, et cetera, against these new rates that they're putting in there?

A - Michael Moehn {BIO 5263599 <GO>}

Julien, this is Moehn. I don't -- we haven't really said. I mean, what we've been clear about is that we think as this legislation written 564, it certainly would support the incremental billion dollars in investment and we think that we could do it underneath that prescribed gap.

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

Got it. Excellent. And then, clearly, there's a multitude of factors that would drive your financing needs higher than your tax reform and incremental spend is successful on either front. How are you thinking about your FFO to debt commitments? Clearly I hear you saying you're committed to your existing strong credit metrics, but how committed? Perhaps, can you elaborate a little bit on the equity financing needs if you get either of the two incremental projects?

A - Martin Lyons {BIO 4938648 <GO>}

Hi, Julien. This is Marty. Good morning. Yeah, when you look at the credit metrics and the credit ratings that we have today, we are very happy with the credit ratings that we have today. Our issuer ratings today for Ameren at S&P are BBB plus, as show in the materials, and with Moody's Baa1. To give you a sense, I mean, our FFO to debt metric, the threshold that S&P has for us out there that BBB plus is 13%. In Moody's, the threshold for the Baa1 for FFO to debt is 20%.

So look, as we go through time, and you can see this in the materials we provided today, we've always looked to maintain a strong balance sheet, strong credit metrics. We worked hard over the past several years to improve, I'd say the business risk profile of the company, and we're going to continue to work on both of those fronts as we move forward.

As we look at the capital investment plan that we laid out today, the rate base growth plans, and we looked to our cash flows including the impacts of tax reform, we ended up thinking it was certainly prudent that we go ahead and issue some equity under the dividend reinvestment and employee benefit programs. Again, with the goal of keeping the balance sheet strong and in keeping strong credit metrics. As we look ahead and as we update the capital expenditure plans looking ahead, the rate base growth plans, we'll step back and assess the overall capital plan, the funding needs, but again, with that backdrop, I wanted to keep a strong balance sheet, strong credit metrics. And importantly, make sure we're positioning those investments for success in the regulatory environment as we seek to earn a fair equity returns on those investments.

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

Just a further new nuance on this, if you can. What's the timing of the commencement of expense, specifically into the legislation as contemplated. When could you actually start spending and over what period of time at present do you intend to spend that $1 billion under earlier program of proposal?

A - Warner Baxter {BIO 1858001 <GO>}

Hi, Julien. This is Warner. I think what we said is, we would spend these expenditures through 2023, that's what it would be, and a lot of this would be predicated and when the legislation is ultimately passed, but we've been clear, we have a plan out there that that's a five year plan for $1 billion. And so, so through 2023 is what we've been talking about.

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

Got it. And so fairly rateable?

A - Warner Baxter {BIO 1858001 <GO>}

I'm sorry.

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

Fairly ratable?

A - Warner Baxter {BIO 1858001 <GO>}

Yes, relatively speaking, I think fairly ratables, a good way to think about it.

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

Excellent. Thank you.

A - Warner Baxter {BIO 1858001 <GO>}

Sure. Thank you, Julien.

Operator

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

Q - Paul Patterson {BIO 1821718 <GO>}

Good morning and congratulations on everything.

A - Warner Baxter {BIO 1858001 <GO>}

Good morning, Paul. How you are doing?

Q - Paul Patterson {BIO 1821718 <GO>}

I'm doing great. The idea of not having to listen to another filibuster makes me feel even better, but congratulations guys. Just with respect to the 3.5% rate base growth in your slide for Missouri, does that include pretty much what you see happening in this long-term rate base growth, does that include the legislative impact?

A - Martin Lyons {BIO 4938648 <GO>}

Paul, this is Marty. No, it does not. So when you look at that slide, it includes the $4.3 billion of expenditures that are shown in the table to the left. And then, as Warner pointed out on the conference call, it includes the impacts of tax reform and the impacts on rate base we see from changes in deferred taxes versus what we otherwise would have expected.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. So to Julien's point, I guess, this additional upside that we could see in this?

A - Martin Lyons {BIO 4938648 <GO>}

Yes. Yes.

Q - Paul Patterson {BIO 1821718 <GO>}

Is that a good way to think about?

A - Warner Baxter {BIO 1858001 <GO>}

Yes.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. And then, when we look at this 7% growth rate and we look at your previous growth rate in rate base and what have you. And I know that you guys have a higher base in what have you, but the lower sales growth -- sorry, the lower earnings -- long-term earnings growth on the top of the range if lowered a little bit, is that just simply a function of the change. And could you just walk through that a little bit compared to now that you've got a higher growth in rate base? Do you follow what I'm saying is not completely intuitive, maybe why the top end of the earnings growth rates gone down?

A - Martin Lyons {BIO 4938648 <GO>}

Yeah, well, look I think we have a very strong rate base growth plan of 7% and I think our EPS growth that goes along with it at 5% to 7%. Compound annual is also very strong. Especially coming off of the strong 2017 earnings base that we have of $2.83, so that is the base for that. And I would say that, Paul as you think about it, it includes also all of our assumptions about funding that I just laid out, including the use of equity for those dividend reinvestment and employee benefit plan, again that should produce about $80 million of equity annually. And I think the 5% to 7% which is again we think very strong incorporates a variety of assumptions in terms of treasury rate assumptions, spending levels, rate case outcomes, economic conditions and the like, but it does, it's what we believe is certainly the right growth given the rate base and funding plans that we've laid out.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. Fine. And this is -- there was some discussion yesterday at the Missouri PSC among the commissioners regarding another utility and it looks like majority of them don't -- basically or not necessarily supportive of a consolidated cap structure. And I'm just wondering now you guys make comments about your commitments to obviously the credit ratings in what have you, but just in general, I'm just wondering is there any, perhaps, have you guys have been taking perhaps there could be additional server opportunity on double leverage or anything like that?

A - Martin Lyons {BIO 4938648 <GO>}

Paul, I think if you look at your time, may we've always worked to maintain a strong balance sheets and credit metrics with all of our legal entities both the parent company, as well as our subsidiaries. We laid out on the slides that our target capitalization over time is around 50-50. And I would say, as it relates to Ameren Missouri for third time, we had ratemaking in Missouri for our Ameren Missouri utilities that was based on the utility's capital structure and we would expect that to be the case through time.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. Great. Thank you so much.

Operator

Our next question is from Steve Fleishman with Wolfe Research. Please proceed with your question.

Q - Steve Fleishman {BIO 1512318 <GO>}

Yeah. Hey. Good morning.

A - Warner Baxter {BIO 1858001 <GO>}

Good morning, Steve. How are you?

Q - Steve Fleishman {BIO 1512318 <GO>}

Hi, Warner. So just when you first talked about doing the wind projects you suggested and here we could see some modification of the base plan as part of it? At this point now, should we assume this as the base plant, and then, if you do the wind and if you do the -- if the legislation passes, those are just additive that there is not likely to be any meaningful adjustment to this base?

A - Warner Baxter {BIO 1858001 <GO>}

Steve, this is Warner. I think, clearly we've pointed out opportunities for additions both for the wind as well as for grid modernization. We presented our base plan and we have two meaningful opportunities that we will continue to work very hard to execute on. And so it would be premature to say exactly what we'll do with the overall plan, but the bottom line, we're not saying we're going to make any changes to the plans as we see it today.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And then just on the wind projects, could you just -- be a little more explicit on how the CCN process works. You file us, once we have winners, you will file CCN, the renewable writer is kind of part of that filing. So kind of both the project and the rate treatment would all be approved in one proceeding?

A - Michael Moehn {BIO 5263599 <GO>}

Yeah, Steve. This is Michael Moehn. You got it right. So I think what we have been telling folks as we wrap up the conclusion of these contracts that we will be filing these -- for the CCN in the first half of 2018, and you're correct. I mean, as part of that filing, we would make the request to use, what's called the RESRAM, the regulatory recovery mechanism for these renewable projects. In that process, I think, we have been saying you can take anywhere from six to 10 months to complete.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. Good. I think that's it from me. Thank you.

A - Michael Moehn {BIO 5263599 <GO>}

Thanks, Steve.

A - Warner Baxter {BIO 1858001 <GO>}

Thanks, Steve.

Operator

Our next question is from Joe Zou with Avon Capital Advisors. Please proceed with your question.

Q - Andrew Levi {BIO 17235317 <GO>}

Hey, guys. It's Andy Levi. How are you doing?

A - Warner Baxter {BIO 1858001 <GO>}

Good morning, Andy. How are you?

Q - Andrew Levi {BIO 17235317 <GO>}

I'm all right. Just one, -- well, maybe two questions. But on the $0.14 of Missouri incremental O&M relating to plants, could you just kind of go more into that of exactly what's going on there, that was not part of your EEI disclosures and where that came from and whether that goes away in '19?

A - Martin Lyons {BIO 4938648 <GO>}

Yeah, Andy. This is Marty. Yeah, if we look at it overall especially in a non-Callaway outage here we thought it was certainly prudent on this particular year to have a little bit about higher than normal schedule for our non-nuclear outage cost, and that's the primary driver of that number, as well as some I'd just say some other O&M that we have in Missouri this year. I would not necessarily expect that to be a recurring number year-over-year. And look, I think when you step back overall, as you know, we've been improving our end return as a company in each of our jurisdictions through time on a consolidated basis, and in Missouri, it's our goal to continue to earn very close to our allowed returns.

Q - Andrew Levi {BIO 17235317 <GO>}

Okay. So, out of the $0.14, how much is kind of, I don't want to say one time in nature, but there -- put there because of the Callaway -- backs the Callaway outage?

A - Martin Lyons {BIO 4938648 <GO>}

Yeah. I guess, I don't have a breakdown on exactly that number for you Andy, you know other than to say I wouldn't call necessarily one-time. These kinds of outages do occur through time, just a higher concentration of them this year than in some other years.

Q - Andrew Levi {BIO 17235317 <GO>}

Okay. Got that. And then on the 2.85% increase that's capped to Missouri, does that include fuel or not?

A - Martin Lyons {BIO 4938648 <GO>}

That's an all in cap, Andy.

Q - Andrew Levi {BIO 17235317 <GO>}

So that does include fuel, so fuel would go up that would be part of the 2.85% cap?

A - Martin Lyons {BIO 4938648 <GO>}

That's correct.

Q - Andrew Levi {BIO 17235317 <GO>}

Okay. And on the wind project, is that part -- is that subject to the cap as well?

A - Martin Lyons {BIO 4938648 <GO>}

It is. Yes, it is.

Q - Andrew Levi {BIO 17235317 <GO>}

Okay. Got it. Thank you very much.

A - Warner Baxter {BIO 1858001 <GO>}

Thanks, Andy.

A - Martin Lyons {BIO 4938648 <GO>}

Sure, Andy. Thank you.

Operator

Our next question is from Ashar Khan [ph] with Verition [ph] Fund Management. Please proceed with your question.

Q - Ashar Khan {BIO 19979997 <GO>}

Good morning, congratulations. Warner, could you just --

A - Warner Baxter {BIO 1858001 <GO>}

Hey, Ashar. How are you?

Q - Ashar Khan {BIO 19979997 <GO>}

Could you just describe the timing of the wind RFP, you said you know kind of approvals for the first half of this year, could you just tell us how we should look at that -- the timing of some kind of announcement as we look in the next three, four months?

A - Warner Baxter {BIO 1858001 <GO>}

Micheal, you want to address that please.

A - Michael Moehn {BIO 5263599 <GO>}

Yeah. Again, as we talked a couple of times, we have been going through this RFP process in our -- in the middle of serious contract negotiations, which we -- hope to be wrapping up soon and we've just committed to following the CCN in the first half of 2018.

Q - Ashar Khan {BIO 19979997 <GO>}

Okay. And then, once you file it, how should -- what approval time frame should we look at?

A - Michael Moehn {BIO 5263599 <GO>}

The CCN process, as we've been saying that it typically falls about of 6 to 10 month kind of approval process?

Q - Ashar Khan {BIO 19979997 <GO>}

Six to 10 months. Okay. Thank you so much .

Operator

Our next question is from Paul Ridzon with KeyBanc Capital Markets. Please proceed with your question.

Q - Paul Ridzon {BIO 1984100 <GO>}

Good morning, Warner. Good morning, Marty.

A - Warner Baxter {BIO 1858001 <GO>}

How are you, Paul?

Q - Paul Ridzon {BIO 1984100 <GO>}

Well, thanks. Just -- because there has been so much focus on this Senate and clearly you've cleared that hurdle, but can you give us a sense of the tone in the house?

A - Warner Baxter {BIO 1858001 <GO>}

Yeah, Paul. This is Warner now. I'll ask Michael to comment. Look, I think that the bottom line is, as we said, the passage of this bill in the Senate is a positive step forward, but now we are going to turn our attention to the house representatives. And what we do is we're going look forward to discussing the real significant benefits of Senate Bill 564 with all the members of the house. You have to keep in mind that the Senate just passed this bill, so it's now moved on over to the house. And so we're looking forward to having those conversations.

A - Michael Moehn {BIO 5263599 <GO>}

Yeah, I would just add. Look this bill is the result of a lot of hard work and compromise. I mean, it is an excellent bill. I think as Warner said, we're going to demonstrate the benefits to our customers. Obviously, the benefits to us and benefits of the State of Missouri, so we look forward to engaging with the house.

A - Martin Lyons {BIO 4938648 <GO>}

Michael, just to add a little bit to that. And it gets a little bit maybe to Steve's question as before. When we look at this bill, and we've been clear that a Senate Bill 564 is passed, we will spend significantly more investments or make significantly more investments in State of Missouri, $1 billion. This is what we're talking about. And so that is absolutely our plan. And so with that, come significant benefits to our customers in terms of not just modernizing the grid, but also again in the tools that they want to manage their energy usage. Michael talked about this compromise. This compromise took what was already a bill that have robust consumer protections made an even more robust. So these are the types of things that we're going to talk about with the house of representatives, including a significant number of jobs that will be driven by the bill.

Q - Paul Ridzon {BIO 1984100 <GO>}

Thank you. That's good color.

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 - Warner Baxter {BIO 1858001 <GO>}

Good morning, Neil. How are you?

Q - Neil Kalton {BIO 6409354 <GO>}

Good. Thanks. Just a question on the wins in Missouri. I think Empire sequence maybe a little bit before us. Is that proposal a good proxy for your project or would you advise us not to sort of look too closely to that proposals between you and Empire are unique?

A - Warner Baxter {BIO 1858001 <GO>}

In which aspects Neil are you referring to? I mean, in terms of their --

Q - Neil Kalton {BIO 6409354 <GO>}

Well, what I'm getting to is simply depending on how that process goes is there something that's negative that kind of comes out? Would that be a good read through to your proposal or would you advise us that proposal is unique versus the entire proposal?

A - Martin Lyons {BIO 4938648 <GO>}

Look, I think our proposal, again, if you just step back and you think about why we're doing that, I mean, you have the renewable standards, it's out there. It requires us to have the renewables and placed by 2021 and that's really the driver behind this. We went through a robust RFP process, which we're in the process of bringing to a conclusion. We're working through all the transmission issues the come along with that and then we're going to file the CCN. And so, that's the process that I think typically filed with the commission here in the State of Missouri. So I think we feel very, very good about our overall process. I can't really comment about Empires but feel strong about ours.

Q - Neil Kalton {BIO 6409354 <GO>}

Okay, fair enough. And then just a follow-up on the capital plan. So, and I know that there's a lot of moving pieces here, but if some of the incremental spend comes through in Missouri, should we think of the base plan is being the base plan and then everything else to be additive or could the base plan be somewhat fluid and there might be some capital there that will be sequenced that way?

A - Martin Lyons {BIO 4938648 <GO>}

Yeah, Neil, this is Marty again. As we've said before, the extent we have additional capital expenditures and in this case, whether they be related to the wind, whether they be related to the Senate Bill 564, we've always said we will step back and we'll reassess the overall capital plan and funding plans. But as Warner said, it's premature to discuss whether we would make any changes to the base plan that we have today. We have said repeatedly that we are certain that if we get Senate Bill 564 across the finish line that we will put significantly more capital to work in the State of Missouri. And so I'd say that those are, those are sort of our thoughts as we look ahead and think about the possibility of those incremental expenditures.

A - Warner Baxter {BIO 1858001 <GO>}

Well said Marty. And I would you said similarly with wind, right, that's bottom line. We have a very constructive regulatory mechanism that is contained and another renewable energy standard, both of those things will drive important investments in the State of Missouri.

Q - Neil Kalton {BIO 6409354 <GO>}

That makes sense. Thank you very much.

Operator

(Operator Instructions) We have a follow-up question from Avon Capital Advisors. Please proceed with your question.

Q - Andrew Levi {BIO 17235317 <GO>}

Hey, it's me again.

A - Warner Baxter {BIO 1858001 <GO>}

Hi, Andy.

Q - Andrew Levi {BIO 17235317 <GO>}

I'm not -- I mean this is just make -- I'm reading slide seven, we describe legislation and then -- most of them having read parts of the legislation. Why would the windy subject to the cap, it's not part of the infrastructure spending.

A - Warner Baxter {BIO 1858001 <GO>}

So, Andy, I'm sorry if you don't mind, could you maybe repeat your question? A little bit louder. It's hard to hear you.

Q - Andrew Levi {BIO 17235317 <GO>}

I'm sorry. I'm going to take the headset off. So battery is going down. Okay. So if you look on page seven of your slide deck, and also if -- I mean, obviously you know the legislation better than I do. But my understanding was based on your slide and reading parts of the legislation that your wind investment would be not -- would not be subject to the cap. Am I wrong on that or?

A - Warner Baxter {BIO 1858001 <GO>}

So the wind does fall underneath the cap. I think what the slide is potentially trying to explain is, if these riders causing you exceed the cap either around the FAC, the RESRAM, et cetera, you are able to defer that for a future rate case as long as your again underneath that 2.85% and get that recovered.

Q - Andrew Levi {BIO 17235317 <GO>}

Okay. So, it's like an FRP, like it is in Arkansas, where it's capped to a certain amount, but then you defer and you recover in the next rate case.

A - Warner Baxter {BIO 1858001 <GO>}

Well --

Q - Andrew Levi {BIO 17235317 <GO>}

If the rate case or rate case are true up. So let's just say, I don't know, like in '19 you max out at 2.85, but there is, I don't know, let's just say, another 50 million left over, but in '20 you are at 1%, that 50 million would be be added to the 20 number, so the 1% plus that 50 million, is that kind of what you're saying?

A - Warner Baxter {BIO 1858001 <GO>}

Yeah, that's correct.

Q - Andrew Levi {BIO 17235317 <GO>}

Okay. Right, that's how Arkansas works. Okay, that's great. That clarifies it much better. Thank you.

Operator

Ladies and gentlemen, we have reached the end of our question-and-answer session. I would like to turn the call back to Doug Fischer for the closing remarks.

A - Doug Fischer {BIO 16481971 <GO>}

Thank you for participating on this call. Let me remind you again that a replay of the call will be available for one year on our website. If you have questions, you may call the contacts listed on our earnings release. Financial analyst inquiry should be directed to me, Doug Fischer, or my associate Andrew Kirk. Media should call Joe Muehlenkamp. Our contact numbers are on the release. Again, thank you and thank you for your interest in Ameren and have a great day.

Operator

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