Q2 2014 Earnings Call

Company Participants

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

Other Participants

- Andrew Bischof, Morningstar Research
- Julien Dumoulin-Smith, UBS Securities LLC
- Michael J. Lapides, Goldman Sachs & Co.
- Paul Patterson, Glenrock Associates LLC
- Stephen C. Byrd, Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator

Greetings and welcome to the Ameren Corporation Second Quarter 2014 Earnings Call. At this time, all participants are in a listen-only mode. A 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, Mr. Douglas Fischer. Thank you. You may 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. 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. To access this presentation, please look in the Investors section of our website under Webcasts and 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 a review of second quarter 2014 earnings and full year guidance. He will then provide an update on regulatory and business matters. Marty will follow with a more detailed discussion of second quarter results as well as 2014 earnings and cash flow guidance. He will also provide details related to pending rate cases. 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 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, and good morning, everyone, and thank you for joining us. Today, we announced second quarter 2014 earnings of $0.62 per share compared to second quarter 2013 earnings of $0.44 per share. This increase reflected the absence of Callaway Energy Center nuclear refueling outage expenses in the second quarter of this year as well as the absence of last year's second quarter charge related to the Missouri fuel adjustment clause.

This year, the Callaway refueling outage is scheduled for the fourth quarter, while last year, the refueling outage occurred in the second quarter. The earnings comparison also benefited from this year's warmer early summer temperatures, which drove Missouri native load electric sales volumes higher. Other positive factors included increased rates. Effective at the beginning of this year for FERC regulated electric transmission and Illinois natural gas delivery services as well as decreased interest expense. These positives were partially offset by a higher effective income tax rate.

Today, we also affirmed our earnings guidance for this year. We continue to expect 2014 earnings to be in the range of $2.30 to $2.50 per share. Marty will provide further details on the second quarter earnings and other financial matters in a few minutes.

Before he does so, I would like to update you on recent regulatory and business developments at our Missouri and Illinois utilities, as well as our FERC regulated electric transmission activities.

Turning now to page five, I will begin with a discussion of Missouri operations. At Ameren Missouri, early last month, we filed a request with the Missouri PSC for an electric service rate increase to recover higher costs for providing our customers with more dependable energy from a cleaner and more diverse energy portfolio. Nearly half of the $264 million annual request is for recovery of increased net energy costs that would otherwise be recovered through the Missouri fuel adjustment clause. The balance of the request provides for recovery of and a return on important new electric infrastructure investments to benefit our customers, including investments for nuclear safety, environmental controls, new substations, and renewable generation. It also provides for recovery of increased income and property taxes, as well as rebates paid for customer installed solar generation.

Ameren Missouri has worked aggressively to manage those costs that are under its control. Our success in this area has led to electric rates that are the lowest of any investor-owned utility in Missouri and are well below the Midwest and national averages. This disciplined cost management benefits our customers, and is evident in this rate filing. In particular, our current request incorporates $67 million of annual reductions in operating costs, essentially passing those savings on to our customers. We expect the Missouri PSC to issue a decision in this case by May of next year.

Turning now to page six. In addition to our pending electric rate case, our Missouri regulatory team has also been busy addressing the electric rate shift, and earnings complaint cases filed by Ameren Missouri's largest industrial customer, Noranda, which operates an aluminum smelter in the Southeastern portion of the state. In both of these cases, the burden of proof is squarely on Noranda. When Noranda's electric rate shift proposal is revenue neutral to Ameren Missouri, we believe Noranda's proposed rate reduction would lower its rates significantly below its cost of service. This proposal is not justified. It would result in poor public policy and therefore is not in the best long-term interest of our other 1.2 million collective customers. The Missouri PSC staff has agreed with this view, and filed testimony stating that Noranda's proposed rate shift should not be approved. Missouri PSC is scheduled to issue a decision this month.

Moving to the earnings complaint case, Noranda has argued that Ameren Missouri's electric service rates should be reduced because we are earning a return on equity that Noranda alleges to be above the level it believes is appropriate. The Missouri PSC staff has filed testimony that clearly opposes Noranda's proposal that our rates be reduced. And, of course, we strongly disagree with Noranda's claim and our recently filed electric rate case, which I just discussed, clearly demonstrates why our rate should be increased, not reduced. Hearings in the earnings complaint case were completed early last week and the Missouri PSC is scheduled to issue a decision in September.

I will conclude my Missouri update by discussing four key infrastructure projects that we expect to complete by the end of this year, and which are included in the rate base amount used to compute our requested revenue requirements in the pending electric rate case.

To begin, we will be replacing the reactor vessel head at our Callaway Nuclear Energy Center during our scheduled fourth quarter refueling and maintenance outage. I am pleased to report that the new reactor vessel head arrived at the Callaway site in June and our team is in the final stages of preparing to complete this important safety project.

The second key project, upgrading the electrostatic precipitators at our coal-fired Labadie Energy Center is scheduled for completion by year-end. This added environmental equipment is being installed to ensure compliance with the U.S. EPA's Mercury and Air Toxic Standards.

Third, to enhance reliability in downtown St. Louis, we are scheduled to complete construction of a new substation, also by year-end.

Finally, construction of the O'Fallon Renewable Energy Center, Missouri's largest investor-owned utility solar facility, is under way and is expected to be completed in the fourth quarter.

Moving now to page seven, and an update on our Illinois activities, I'll begin with electric and natural gas delivery services. In June, we installed our first AMI electric meters as part of our plan to deploy over 750,000 such smart meters through 2019. The installation of these meters is a key component of our Illinois Modernization Action Plan, or MAP. This plan is made possible by the Illinois Energy Infrastructure Modernization Act and resulting formula rate making for our electric delivery service. It is designed to benefit customers by significantly enhancing our Illinois electric delivery system, growing Illinois' economy by creating well-paying jobs, and providing our shareholders timely cost recovery of and a fair return on infrastructure investments we make to benefit our customers. Along with the installation of AMI electric meters, we are also installing approximately 450,000 automated natural gas smart meters. The concurrent installation of electric and gas meters saves our customers' money compared to their separate installation. Over time, the new electric meters, along with other MAP upgrades, will improve service by helping Ameren Illinois detect and isolate outages faster.

Further, the new electric and gas meters will provide customers with more information and new tools and new programs to better manage their energy costs. The gas meter installations, like other gas delivery infrastructure investments, are being made under our rate making framework, which permits rates to be established using a future test year and provides an infrastructure rider for qualified investments. We plan to begin using this rider next year.

Moving on to our Illinois electric delivery business, we filed for a $205 million formula rate update. This case is pending at the ICC. The new rates will be effective in January of next year. Marty will discuss this matter further a little bit later.

Finally, I will provide you with an update on our FERC regulated electric transmission operations. We are in the early stages of construction of our largest single project approximately $1.1 billion Illinois Rivers regional multi-value project. This 345-kilovolt transmission line will stretch from Eastern Missouri across the State of Illinois to Western Indiana.

Substation construction and right-of-way acquisition are underway, and line construction is expected to begin later this year. The first sections are expected to be completed in 2016, with the last section slated for completion by 2019.

Next, I would like to update you on our Spoon River project, another MISO-approved regional multi-value transmission line that will extend between Peoria and Galesburg, Illinois. This line is expected to be in service by 2018.

We have completed a series of open-house meetings designed to inform area residents about the project and to receive input. And we plan to request a Certificate of Public Convenience and Necessity from the ICC this month. We expect a decision on this request in mid-2015. Spoon River's cost is estimated at approximately $130 million to $150 million, depending on the route approved by the ICC.

On the transmission rate front, in November of last year, our customer group filed a complaint case with FERC, seeking a reduction in the allowed ROE for MISO transmission owners. This complaint case could result in a reduction to Ameren, Illinois and ATXI's allowed ROE, retroactive to November of last year. Our allowed ROE is currently 12.38%.

In June, 2014, in a separate proceeding, FERC issued an order that reduced the base allowed ROEs for New England transmission owners, from 11.14% to 10.57%. The order used market data from October 2012 to March 2013 to determine this new allowed ROE. Although we believe some of the FERC's reasoning in the New England case may establish precedence for other cases, it is not clear at this time to what extent, if any, the MISO ROE will be reduced. In fact, FERC has taken no action regarding the MISO case.

Turning to page eight, I would now like to discuss an important energy policy matter for our company and our country. In early June, the U.S. EPA issued its Clean Power Plan, a proposed rule governing carbon dioxide emissions from existing power plants. This proposal targets a 30% reduction in carbon dioxide emissions from the power sector by 2030, based on 2005 emission levels and includes aggressive interim goals beginning in 2020.

Ameren believes the EPA's proposed rule is currently unworkable in many respects and will result in significant cost increases to our customers, raise system reliability risks, cause job losses and damage the economy. We also believe that if this rule was finalized in its proposed form, it would certainly be challenged in the courts.

To be clear, at Ameren, we are committed to transitioning to a cleaner, more diverse energy portfolio, but that must be done in a responsible fashion. Indeed, we have developed and are executing on a plan that will achieve the EPA's goals of reducing carbon emissions by 30%. But we intend to complete that plan by 2035 as opposed to EPA's proposed 2030 date for its aggressive interim targets. We will formally outline our plan in our Missouri Integrated Resource Plan filing this October.

Importantly, our plan can be achieved at a cost that is significantly less than that of the EPA's proposal and will better protect jobs and the overall economic competitiveness of our region.

Looking ahead, we will work in a constructive fashion with key stakeholder, including the EPA, to implement energy policies that will allow us to execute our transition plan for the long-term benefit of our customers, our communities, the environment, and our shareholders.

Turning now to page nine, I would like to conclude my prepared remarks, by discussing why I'm so firmly convinced that Ameren is positioned to deliver superior value to our shareholders and customers, as we execute our well-defined strategic plan. That plan calls for investing in and operating our utilities in a manner consistent with existing regulatory frameworks, as well as working to enhance those frameworks and advocating for responsible energy policies at both the federal and state levels.

Further, we're focused on creating and capitalizing on opportunities to invest in our rate-regulated businesses for the benefit of our customers and shareholders.

On page 10, we outline our plan to execute a key component of this strategy. As shown at the top of this page, we're allocating significant and growing amounts of discretionary capital to Ameren Illinois' energy delivery, and our FERC-regulated electric transmission businesses because we can improve the safety, dependability and sustainability of the services we provide to our customers, because these businesses operate under modern constructive regulatory frameworks.

Our solid list of transmission projects is expected to increase our FERC-regulated transmission rate base, by approximately 28% compounded annually over the 2013 to 2018 period.

In addition, our Ameren Illinois investments are expected to contribute to projected Illinois electric and gas delivery rate base growth of 5% and 7% respectively, on a compound annual basis over this period.

Our five-year outlook incorporates expected Missouri rate-base growth at only a 2% compound annual rate, reflecting the current state regulatory framework that is less constructive than those for our Illinois energy delivery and FERC-regulated electric transmission businesses.

Pulling all this together, we expect our overall rate base to grow at approximately 6% compounded annually from year end 2013 through 2018, as shown at the bottom of this page. Combining this rate base growth for strategic capital allocation and disciplined cost management, including reductions in parent company, and other costs, we expect earnings per share to grow 7% to 10% compounded annually from 2013 through 2018.

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

Martin J. Lyons {BIO 4938648 <GO>}

Thank you, Warner. Turning now to page 12 of our presentation, as Warner noted, today we reported earnings for the second quarter of 2014 of $0.62 per share compared to $0.44 per share for the second quarter of 2013.

Key drivers of the earnings improvement are listed on this page. The absence of our refueling and maintenance outage at our Calloway Nuclear Energy Center, in this year's second quarter, increased earnings by $0.08 per share.

The absence of another item, the second quarter 2013 charge related to Missouri FAC treatment of certain prior period wholesale sales had a $0.06 per share positive impact on the comparison. A third driver of the earnings improvement was this year's warmer early summer temperatures. This warmer weather drove higher Missouri native load electric sales volumes, and benefited earnings by an estimated $0.03 per share compared to the year-ago quarter and by an estimated $0.04 per share, compared to normal temperatures.

On a weather-normalized basis, we estimate that second quarter 2014 electric sales volumes to residential and commercial customers were essentially flat, compared to the second quarter of 2013. We estimate that these weather normalized sales volumes would have grown, but for energy efficiency programs, and you will recall, that the earnings effect of Missouri's energy efficiency programs are offset by revenue recovery provided for under a Missouri PSC approved energy efficiency plan.

Electric sales volumes to industrial customers declined about 1.5%, which was entirely due to lower Illinois electric delivery volumes, which were down about 3%. Our Illinois industrial customers are subject to formula-rate making, and margins on sales to these customers are relatively low. Missouri industrial sales increased about 0.5% compared to the second quarter of last year and on a year-to-date basis.

Other factors contributing to the increase in second quarter 2014 earnings compared to the second quarter of 2013 included decreased interest expense, as well as increased rates. Each January, new rates are implemented for our FERC regulated electric transmission services. Under FERC's forward-looking formula-based rate making, rates are adjusted to provide recovery of and a return on that year's infrastructure investments, as well as to reflect changes in operating costs.

Our Illinois natural gas delivery service rates were also increased effective in January of this year. This increase was based on the 2014 test year, reflecting recovery of, and a return on estimated 2014 rate base, and changes in operating costs. These positives were partially offset by a higher effective income tax rate.

Moving to page 13, as Warner mentioned, we have affirmed our full year 2014 earnings guidance range of $2.30 to $2.50 per share. Here we highlight select second half 2014 earnings per share considerations incorporated into our guidance range.

Let me begin with a discussion of weather. Our 2014 earnings guidance assumes normal temperatures for the second half of this year. But we do note that July 2014 temperatures were cooler than normal, with cooling degree days down about 35% compared to normal conditions.

We still have five months of the year remaining, including the balance of the summer, and the winter weather we experienced in the fourth quarter. But we preliminarily estimate the July temperatures reduced earnings by $0.05 to $0.10 per share compared to normal conditions. While July temperatures are not incorporated in our guidance, their effect would be accommodated by our guidance range.

Moving to other considerations, we expect second half 2014 earnings to benefit from the previously discussed 2014 increases in rates for FERC-regulated electric transmission, and Illinois gas delivery services.

Further, Illinois electric delivery earnings are expected to increase by approximately $0.05 per share in the second half of this year, compared to the second half of last year. This reflects higher revenues recognized under formula-rate making due to higher rate base, and a higher allowed ROE this year, compared to last year.

The allowed ROE for our Illinois electric delivery service is established by adding 580 basis points, to the year's average 30-year Treasury bond yield. Our 2014 guidance now assumes a formula midpoint allowed ROE of 9.4% for Illinois electric delivery service, a 50-basis point reduction from the level incorporated into our initial guidance issued in February.

In addition, we expect second half earnings to benefit compared to the second half of last year from lower interest expense, largely due to the May maturity of $425 million of parent company senior notes with an 8.875% coupon. We funded this maturity with low cost short-term debt.

The final positive I would like to note is the absence of a fourth quarter 2013 Illinois debt redemption cost disallowance. Factors that we expect to negatively affect the second half earnings comparison include expenses associated with the 2014 Callaway Energy Center nuclear refueling outage, which will take place in the fourth quarter.

Further, we expect increases in other operations and maintenance, depreciation, and property tax expenses for Missouri electric and gas service, and Illinois gas delivery service in the second half of this year, as compared to the second half of last year.

Finally, we expect the full year 2014 effective income tax rate to be approximately 39.5%, which is higher than last year's full year rate of 37.5%, and also higher than the approximately 38.5%, which was incorporated into our initial earnings guidance issued in February.

Looking ahead to 2015, we expect that our effective income tax rate will be more in line with the level incorporated into this year's initial guidance range, assuming no change in federal and state law. Of course, these are only some of the factors that will have an effect on our second half earnings comparison.

Turning to page 14, I will move from earnings to our updated 2014 free cash flow guidance. We now anticipate 2014 negative free cash flow will be approximately $700 million, compared to our guidance back in May of negative $775 million. This change reflects improved cash flows provided by operating activities. Our capital expenditure plans, which are driving our earnings expectations, are unchanged.

Regarding the Illinois Rivers project, we plan to provide you with an updated cost on our fourth quarter call when we routinely update our five-year capital spending plan. The new estimate will incorporate the final ICC approved route, which is somewhat longer than the originally proposed and accommodates certain property owner environmental concerns. As I stated on our first quarter call, we expect this new cost estimate to be modestly higher than the current estimate.

Moving now to page 15, Warner discussed our recently filed request for increased Missouri electric service rates. We provide more details on this page. As you can see, the request is primarily driven by increased net energy costs, which include fuel and purchase power cost net of off-system sales, and our need to recover and earn a return on important new infrastructure investments made for the benefit of our customers.

Further, we have significantly reduced operating costs and will pass these cost reductions on to our customers. Schedule for the case has not yet been established, but we expect the Missouri PSC to decide the case by May of next year and new rates expected to be effective in June, 2015.

Turning to page 16 in a more detailed update on our pending Illinois electric delivery rate case. 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 return on equity and the ICC authorized equity ratio.

Illinois' formula rate making requires Ameren Illinois to file for annual rate updates to systematically update cash flows over time, for changes in cost of service, and to true up any prior period over or under recovery of such costs.

In April of this year, Ameren Illinois filed an update case, seeking an increase in electric rates to reflect 2013 actual costs, expected 2014 infrastructure investments, and changes in prior period over and under recovery balances. The requested increase was updated in a rebuttal testimony filed Friday, and is now $205 million, a decrease of just $1 million from our initial request.

While the filing with the ICC would result in an increase in 2015 electric delivery service rates, total electric bills in 2015 are still expected to remain below 2011 levels for most customers. Because the parties have gained experience with Illinois' formula rate making, and because we reached agreement with the ICC staff on key issues that were disputed in our prior formula rate cases, the positions of the parties are closer to one another in this case than they have been in the past. This is reflected in the testimony filed by the ICC staff and interveners. They have recommended annual revenue requirements that range from $3 million to $7 million less than our updated request. An ICC order is expected by December of this year, and new rates will be effective in January of next year.

Turning finally then to page 17, I will summarize. We are executing on a well-defined strategy, as outlined by Warner. Our second quarter 2014 earnings results were solid, and we affirmed our earnings guidance range for this year.

Further, we continue to expect earnings per share to grow at a 7% to 10% compound annual rate from 2013 through 2018. This above peer group average growth rate is driven by our investment plan, including our strong rate base growth, strategic allocation of capital, and disciplined cost management.

Further, Ameren's $1.60 per share annualized dividend rate provides investors with an yield of approximately 4%. We believe this expected earnings growth, coupled with our current dividend yield, add up to a very attractive total return proposition for investors. Finally, we aspire to grow our dividend as earnings grow, and expect our dividend payout to be between 55% and 70% of annual earnings.

That concludes our prepared remarks and we now invite your questions.

Q&A

Operator

At this time, we will be conducting a question-and-answer session. Our first question comes from the line of Julien Dumoulin-Smith with UBS. Please proceed with your question.

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

Can you hear me?

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

We can now.

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

Excellent. Well, I wanted to first ask, obviously you made an announcement about Meramec. I wanted to first – with respect to your current contemplated CapEx budget, how does that change anything? Obviously it's pretty long dated. And then secondly, obviously your IRP is still coming up here, but with respect to the balance of your portfolio, and thinking Rush Island or others, how could that eventually shift here as well? How are you thinking about in compliance for those plans?

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

Sure, Julien. This is Marty; I will start and see if anybody else, Warner, wants to add anything. But with respect to our overall capital expenditure plan that we have laid out for the five years that was in the slide Warner covered and we've shared previously, really, we don't see any change there, resulting from the Meramec decision. Really there, the Meramec decision in the context of certainly the rate case filing is probably where the biggest impact – where we're looking to shorten up the depreciable life of Meramec to coincide with the expected retirement date of that plant. And you know, that's driving I guess about $17 million of the overall increase we are requesting as part of the Missouri rate case.

But overall, no change in our capital expenditure plans. And I'd say that in terms of how Meramec will impact our future generation resources and plans, as well as other considerations regarding the rest of our fleet, as you point out, will really be laid out as part of our October Integrated Resource Plan filing.

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

And ,Julien, this is Warner. I think you asked a question about Rush Island. As Marty said, we will talk about the specifics of our Integrated Resource Plan in October, but in general, our objective is to take our existing coal-fired facilities and utilize them towards the end of the useful lives, which is what we're doing with Meramec, and that's how we would think about Rush Island as well. And so we will be able to spell that out in more specificity, but we are not contemplating accelerating the retirement of our coal-fired units as part of our Integrated Resource Plan because we think that's in the long-term interest of our customers and the State of Missouri.

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

Great. And then, secondly, on FERC, obviously a lot of activity in the quarter. First, could you comment on potentially filing for incentives to the extent to which that the ROE itself gets adjusted here? And then, secondly, from your point of view, what do you perceive the timeline as being for the MISO 206 at this point in time?

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

This is Maureen Borkowski. Obviously, we can't speculate on either a timeline or any results at FERC. With regard to the question about incentives, we obviously already have certain incentives like QUIP for the Illinois River, Spoon River, and Mark Twain projects. We are also, we believe, entitled to an extra 50 basis points adder that's not included in the 12.38% MISO base rate today. We, in our answer to the complaint that was field in November, asked FERC to affirm that we were entitled to that 50 basis points. So obviously to the extent FERC chose to take some action at some point, we believe we are entitled to that adder.

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

But just to be clear, when would you file for that adder? Would that be subsequent to any resolution?

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

I really can't speculate on that at this point. As I said, we actually did already request FERC to affirm that when we filed our answers. So, to the extent FERC took any action, they may address it at that point.

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

Great. Excellent. And then lastly, on financing, just at the parent, any updated thoughts on timelines in terms of getting that done and perhaps just more broadly, I'm not sure I heard it, how are you thinking about taking down the parent expense, any updated thoughts there, just post Genco, et cetera?

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

No, fair question, Julien, but I wouldn't say any updated considerations. I think as we pointed out in our talking points, we were able to utilize commercial paper borrowings in order to handle the maturity of the $425 million parent company debt. Obviously, very low costs there associated with those commercial paper borrowings less than 50 basis points of ongoing costs.

We'll evaluate the need for – and the amount of parent company financing -- long-term parent company financing, over time, both in terms of considering how much short-term debt we would ideally keep outstanding and then how much long-term funding we would need.

Certainly some of that parent company financing right now is really going to support the transmission build out that is occurring. And so longer term, we will be considering whether to issue the – more permanent financing at the parent company, or at the Transmission Company level. And that's something that will play out over the next couple of years as we build out that transmission business.

So, may or may not do some parent company long-term financing later this year or into next, we'll be evaluating that through time. In terms of other financing activities, later this year, we do still plan to issue additional long-term debt at our Ameren Illinois utility company, again there because of the capital expenditures for our electric and gas distribution businesses, but also for some of the transmission growth that we're seeing there as well.

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

Excellent. Thank you.

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

Thanks Julien. Welcome.

Operator

Our next question is from Stephen Byrd with Morgan Stanley. Please proceed with your question.

Q - Stephen C. Byrd {BIO 15172739 <GO>}

Good morning.

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

Good morning, Stephen.

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

Good morning, Stephen.

Q - Stephen C. Byrd {BIO 15172739 <GO>}

I wondered if you could just give us an update on expected timing for your transmission plans relating to the integration of Entergy into MISO. And just more broadly milestones or other steps we should be on the lookout as you think further about growth in transmission.

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

This is Maureen again. Any integration with regard to Entergy has to go through the MISO transmission expansion planning process. We are actively engaged in that with the intent of identifying future projects that might both provide better reliability and integrate Entergy fully into the marketplace, but that has to go through the timeline that MISO has established.

Q - Stephen C. Byrd {BIO 15172739 <GO>}

Okay. And...

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

Hey, Stephen, this is Warner. I would just add that Maureen and her team have been working actively on this, not just for the last several months, but frankly, for the last year. And we'll continue to do so. As we even said in our last conference call, we see real opportunities in MISO, but also beyond MISO in PJM and SPP as well as transmission growth opportunities.

Q - Stephen C. Byrd {BIO 15172739 <GO>}

Is there anything specific in regards to upcoming MISO events or timelines that we should be focused on?

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

I would say, at this point in time, the MISO planning process is like a 15-month process, so the one that we're beginning now that we'll be actively studying the transmission opportunities for between Entergy and the rest of MISO would ultimately come to fruition at the end of 2015.

Q - Stephen C. Byrd {BIO 15172739 <GO>}

Okay. Understood. And shifting gears just over to the proposed EPA carbon regulation. Well, you mentioned that, as you looked at it, it appeared to be a fairly unworkable rule as presented. Could you talk a little bit more to the key issues that you see with the proposed EPA regulation?

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

Yeah. Sure, Stephen. And I would probably put them in probably two or three buckets. I think the most important bucket we should talk about is it's unworkable from a customer standpoint and in terms of the overall significant cost increases that they would result in. We have a baseline plan that we have put together as part of our Integrated Resource Planning effort. So our team has been able to really compare what it would take to execute the greenhouse gas proposal compared to our baseline plan. And as we identified, it would be a significant cost increase to our customers.

And that's really driven by some of the – what I would consider, some of the more operational challenges associated with the overall proposal. And you probably have heard and many of my colleagues have been out there talking, doing the same thing about the building blocks and some of the challenges that they have with those.

From our perspective, you look at the plant efficiency, building block looking for plant efficiencies of approximately 6%, simply put, those aren't achievable. Those aren't achievable. We've taken a lot of efficiencies out of the plant. We've already done a lot of those works to try and get an additional 6% is, from our perspective just simply not achievable.

And you think about the uneconomic dispatch of natural gas, which is another key driver of the increase, look, I think you have to think about the gas infrastructure first to support that. But then the uneconomic dispatch and whether – frankly states have the ability to dispatch in that way – as you know, the RTOs control that – that's just a tough – it's a tough nut to crack. I'm not sure if that is ultimately going to be fact-based and whether we can execute that.

You look at energy efficiency, which we have the largest energy efficiency program in the State of Missouri today. To be able to get an incremental 1.5% out of that not only would drive higher costs but certainly no guarantee that customers ultimately would participate at that level.

And then, I would say, lastly, we look even at – at even the renewable piece associated with the building block. And again, in Missouri, in particular, our ability to do renewables is under state law capped by the amount of renewables we can do in terms of impact on customer rates and ultimately the participants.

So you look at those things, all those factors really drive the operational issues that we have, that drive the significant cost increases to our customers which, as I said before, not only causes us concerns there, but also in terms of the economic competitiveness of our region and certainly the State of Missouri.

And lastly, but not least, I think when you – there certainly have been – as I said, we expect there could be legal challenges to the rule. There are already. And so, we too share some of those concerns. And so, you put all those things together, we have a rule – when we put it all together that we believe is certainly unworkable in its current form.

As I said too, our objective going forward is to continue to work constructively with key stakeholders, both at the federal and state level, and including consumer groups and others, to make sure, as well as the EPA, to try and put in place energy policies that ultimately – that will allow us to execute our transition plan, which we believe is in the best long-term interest of our customers, but also to ensure that we do the right things in a broadest economic sense for the state and the region.

Q - Stephen C. Byrd {BIO 15172739 <GO>}

That's great color. Thank you very much.

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

Sure. You're welcome.

Operator

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

Q - Paul Patterson {BIO 1821718 <GO>}

Good morning, can you hear me? Can you hear me?

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

Yes, Paul, we can.

Q - Paul Patterson {BIO 1821718 <GO>}

Just back on the FERC ROE case, could you can give us a little bit of a flavor of some of the differences you guys see in your situation versus New England, that might not lead to the same outcome that we saw in New England?

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

Well, you know, Paul, we laid all those out in testimony, so certainly would refer you there. I mean, I think right now certainly there is more uncertainty, because the FERC really hasn't established any kind of a time line for the MISO case and therefore it's really uncertain when they will take the case up, assuming that they do take the case up. And then, what the data will look like at the time that that data is collected to determine the appropriate range of ROEs to consider. So I'd say the biggest difference, I would point to is just timing and the uncertainty about when the FERC would potentially take the case up and how that might affect the data that underlies the ROE determination. So I'd say that's the biggest factor.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. Just to make sure I understand though, have you guys filed anything in response to the – because there is a lot of stuff going on, have you guys filed anything in response to what FERC decided in the New England case or you're just referring to stuff that you filed previously in the back and forth?

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

I was just referring to things we filed previously in the back and forth.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. I got you.

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

Hands on that specifically, we could certainly help you offline. But no, we did not file anything specifically as a response or reaction to the New England.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. Thanks, I'd appreciate that. The second thing is, with respect to the Noranda case, what I am a little bit confused by is why, and I'm talking about the rate design case, why the OPC and these other customer groups seem to be supporting this subsidy, which I would assume to be coming from their customers that they are representing? Do I understand that correctly or am I missing something or could you maybe fill me in on what's going on there?

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

Hi, this is Michael Moehn. It's hard to speculate honestly. They are certainly representing consumers. As we've argued all along in this case, we don't think it's a good policy, it's not good for our customers because of the way it shifts the costs, and it's hard to speculate why they're doing it. But it absolutely is – it doesn't seem to make sense, and that's why we are absolutely so opposed against it.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. And then, just two really quick ones. I'm sorry, I missed this, but what was the weather normalized sales growth for Q2? And then, with respect to Noranda, just if the smelter closes, does that change anyway your CapEx plans with respect to load and what have you, because these smelters sometimes use a lot of electricity? I'm wondering, if it closes, does that make, I don't know, does that change what you might need to do with respect to certain plans and stuff?

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

Sure, Paul, it's Marty, I'll try to take those in reverse order. Certainly not speculating on Noranda's operations and any risk or potential for closure there, but your underlying – the bottom-line question there is, would it affect any of our CapEx plans? And the answer to that is, no. That there wouldn't be any change in our – in the CapEx plans that we have outlined over this five-year period as a result of that.

Going back to your original question then which was about the sales and the economy. I took your question out of order, because I'll probably give a little more, sort of, lengthy explanation about what we're seeing in terms of sales and the economy. When we started off the year, you may recall, that we expected sales to be down, residential commercial about 1% and industrial overall down about 0.7%.

Year-to-date, what we are actually seeing on a weather normalized basis is that, our residential and commercial customers are up about 0.5% and the industrial customers are actually down about 1.5% and again, that's Ameren wide. And so, as we think about the remainder of the year, we have seen, like I said a little bit more of a positive in terms of residential, commercial, through middle of the year.

So we're factoring that in, but still expecting that, due to the energy efficiency programs, as well as federal lighting standards, etcetera that the remainder of the year, we would still expect to see a sales lag the prior year. So overall, we are now expecting about residential and commercial to decline about 0.5% versus our initial beginning of the year guidance of negative 1%.

On the industrial front, we are still seeing to see really manufacturing weakness, particularly in Illinois and so we are expecting there for the full year to see industrial sales down about 1.4%. So those are some of the factors that are going on.

Like I said, we are spending quite a bit on energy efficiency and in Illinois we're spending about $85 million this year and Missouri about $50 million this year on energy efficiency and that is impacting sales. The programs in Missouri have been ramped up here, just in the past couple of years as a result of our energy efficiency program that was approved by the commission.

So we're seeing a pretty material impact there. I mentioned that we saw residential commercial sales year-to-date up about 0.5%. In Missouri, we're actually seeing the residential and commercial sales down about 0.9%, so almost a full percent. But if you back out the effects of the energy efficiency programs, it's probably equivalent to about 1% of actual sales growth. So I guess what I'm trying to communicate there is, absent the energy efficiency spending that we've got, we are actually seeing pretty good growth in residential and commercial sales both in Missouri and Illinois, and, of course, we are compensated for the energy efficiency impacts in Missouri.

On the industrial front, I mentioned that Illinois sales were down year-to-date, they're down, as we talked about in the call, almost 3%. In Missouri, we're actually seeing some continued expansion in terms of industrial sales where we're seeing those sales up about 0.5%, and there is some impact there, again, from energy efficiency. They're probably up a full percent, backing out the impacts of energy efficiency. So we're continuing to see some good expansion of our industrial sales in Missouri.

And, I guess, my last point on all this is, I do think that sort of reflects what we're seeing in the overall economy in the two states. We're seeing an uptick in I'd say services jobs and manufacturing jobs in Missouri; seeing about flat kind of trend in services jobs in Illinois, a little bit of decline in manufacturing jobs. And that's kind of what we're seeing in the two states in both in terms of sales and in terms of jobs.

Q - Paul Patterson {BIO 1821718 <GO>}

Great. Thanks a lot.

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

Okay. You're welcome, Paul.

Operator

Our next question is from Michael Lapides with Goldman Sachs. Please proceed with your question.

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

Hey, guys. A couple of easy ones and then one on the Missouri rate case. Marty, you made some comments about O&M in the second half of the year, outside of the Callaway outage, the $0.10 impact in the fourth quarter and that's more of just a timing issue, what else is impacting O&M and is it up more than 1% or 2%?

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

Paul, it's – not Paul, I apologize. It's Michael, I apologize, and good morning to you. Yeah, just in terms of the O&M, we did comment on that. It's just general growth across the business in terms of our distribution business, our generation portfolio as well as just other areas like increasing property taxes and the like. So we're kind of seeing growth across those areas this year. I don't have anything in terms of overall percentages for you. But as we think about the rate case and the rate case that we filed in Missouri, certainly those costs are ticked up. So the test year has an update period out through December 31. And as it relates to significant drivers of, say, fuel costs or other elements of O&M, it actually will reach out and pick up, say, January 1 kinds of cost increases.

So those things are built-in and I point out in our discussion of our rate case filing that overall we're actually seeing sort of – while there's a rate increase being requested, that's net of about a $67 million reduction in operations and maintenance costs. So in that two-and-a-half-year period from the last rate case to this rate case, while there have been some elements of cost increase net, we've been able to use continuous improvement efforts to drive costs out of the business, and that's reflected in the rate case.

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

Okay. And I wanted to ask a little bit about the rate case only because I thumbed through some of the detail earlier. As I kind of think about the Missouri business – and please correct me if I'm using wrong data here, kind of a $7.6 billion, $7.7 billion of total rate base for next year. If you use kind of the authorized equity layers in the very low 50% range and kind of the ROEs that the Commission has given over the last one or two cases kind of around 10% or so, you kind of get close to about $400 million of authorized net income. And if I look backwards a little bit like 2012 or 2013, your UE segment kind of reported net income in that level. So I wanted to think about what's driving the actual need for the case. Just kind of back of the envelope rate base math would imply you are not too far off from actually earning your authorized, and it may have been yet abnormal weather in some of those years or abnormally low costs that are now creeping up a bit. I wasn't really sure I understood the puts and takes.

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

Well, Michael, I would say without knowing exactly what years you're looking at, certainly prior years' earnings, when you pick them up on an as-reported basis, certainly do reflect fluctuations for things like weather, for the timing of Calloway outages. So certainly you can't really look at a calendar year earnings and assume those are sort of normalized and apples-to-apples for what might be achievable in a different year.

As it relates to the rate case itself and your earnings drivers, I mean, I think you were picking up the right things overall. If you refer to slide 15 in our slide deck, we've outlined the drivers of our current rate case, and we've shown there what we expect rate base to be at the end of this year, around $7.3 billion. We talked about the equity ratio we expect for the end of this year, 51.6%. Those are the real drivers, of course, of the earnings levels. And then as part of the rate case process, you normalize the cost levels and sales levels, and things of that sort. But the real driver over time in terms of earnings, of course, is your rate base and the amount of rate base supported by your equity and your capital structure.

And as part of this rate case, just going from the last rate case to this rate case, is a result of a $1.5 billion or so of spending. Our right base has actually increased about $500 million from the last rate case to this rate case. That's a real driver of increased earnings in Missouri over time.

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

Got it. Okay. I will follow up offline. Thanks, Marty. Much appreciate. And congrats on a goods quarter.

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

All right. Michael, thank you.

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

Thanks, Michael.

Operator

Our next question comes from Andy Bischof with Morningstar Research. Please proceed with your question.

Q - Andrew Bischof {BIO 17454969 <GO>}

Hi. Good morning. Any update on the Missouri legislative front in terms of reform on reducing regulatory lag, among other things?

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

No real update for you. I refer back to our last quarter's call and the transcript there, where we were sort of right at the end of the legislative session, and I think provided pretty full comments about the situation there. I think as we go through time, I think as we've talked about, we will continue to work to educate all stakeholders in the state about the need for and the importance of investment in our aging infrastructure in Missouri. And in months like this, like any other time of the year, but particularly between active legislative sessions, we are certainly doing our best to continue to make sure that we are doing the right outreach with stakeholders and education about the importance of good strong energy policy for the State of Missouri.

Q - Andrew Bischof {BIO 17454969 <GO>}

And I appreciate the comments on the sales discussion. How are customer count numbers looking in the quarter?

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

Yeah. We continue to look at those. Our residential and commercial accounts in Missouri were actually up. If I talked about last time, they were up slightly, so less than 0.5%. But nonetheless, residential and commercial accounts were up. And I think that's a positive.

Over in Illinois, residential accounts were down a little bit. So again, just a small amount, less than 0.5%, but we did see commercial customer counts actually grow by 0.7%. So overall, I think those are good trends. They are positive.

If you want, I'll talk a little bit about the industrial sales I mentioned in Missouri that they're up. I mean, in terms of industrial sales, I mentioned about 0.5%. We are seeing good robust growth in areas like cements, automotive, food and agriculture, those kinds of industrial customers. And so that is encouraging to see that industrial sales growth. It's encouraging to see jobs grow and it's encouraging to see the customer counts go up. I think all of those things seem to be moving in a positive direction.

And in Illinois, like I mentioned, industrial sales have been down. It's more there in the steels and metals, heavy equipment manufacturing, those are some of the industries that have seen declines in sales. But as I mentioned, not much of an impact right now on residential customer counts, down just a little. It's certainly encouraging to see commercial accounts still continue to grow.

Q - Andrew Bischof {BIO 17454969 <GO>}

Great. Thank you.

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

You're welcome.

Operator

There are no further questions at this time. Would you like to make any closing remarks?

A - Douglas Fischer {BIO 1498560 <GO>}

Yes. Warner does have one remark he would like to make.

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

Yeah. Thanks, Doug. A little bit earlier, Stephen Byrd had asked me a question about the greenhouse gas proposal and elements that were unworkable and I outlined the concerns that we had in the building blocks. I just want to make sure I add one other important aspect and that relates to the target dates. The headline is that the desires to have carbon emissions 30% below 2005 levels by 2030. I think it's important to recognize that there are interim – aggressive interim target dates beginning as early as 2020. And so when you look at some of the challenges and the cost drivers, it is indeed these interim target dates and the overall target date which really drives our costs up. So I just want to make sure I added that to Stephen to your question. And so we appreciate that.

Doug, I'll turn it back over to you to wrap it up.

A - Douglas Fischer {BIO 1498560 <GO>}

Okay. Thank you, Warner. Thank you all 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. And our contact numbers are on today's news release. Again, thank you for your interest in Ameren and have a great day.

Operator

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