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December 29, 2010

Ameren Illinois Co.

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Table Of Contents

Major Rating Factors

Rationale

Outlook

Related Criteria And Research

Ameren Illinois Co.

Major Rating Factors

Corporate Credit Rating
BBB-/Stable/NR

Strengths:

- A fully regulated electric and gas company;
- Lower risk transmission and distribution businesses; and
- Near-term improved financial measures.

Weaknesses:

- Affiliation with the higher-risk operations and less dependable cash flows from Ameren's merchant generation business; and
- Rising regulatory risk in Illinois.

Rationale

The ratings on Ameren Illinois reflect Ameren Corp.'s (Ameren) consolidated credit profile. The ratings also reflect Ameren Illinois' excellent business risk profile and Ameren's consolidated significant financial risk profile. Ameren's subsidiaries include rate regulated utilities Ameren Illinois and Ameren Missouri, and merchant energy company AmerenEnergy Generating Co. (GenCo.) As of Sept. 30, 2010, Ameren had about $7.7 billion of total debt outstanding. Based on the combination of future earnings, cash flow, capital expenditures, and credit risk exposure, we view Ameren as about 75% regulated and 25% merchant generation.

Ameren Illinois' excellent business risk profile reflects its lower-risk pure transmission and distribution (T&D) operations. The company serves about 1.2 million electric customers and 813,000 gas customers in central and southern Illinois, whose rates are regulated by the Illinois Commerce Commission (ICC). Additionally, the company's electric transmission lines, which constitutes about 13% of the company's total rate base and is regulated by the Federal Energy Regulatory Commission, provides some added diversification. Overall, we view the T&D businesses as lower risk than the generation businesses that are included in many fully integrated electric utilities.

Ameren Illinois' business risk profile is also affected by its ability to manage its regulatory risk. Earlier in 2010, Standard & Poor's revised its assessment of the Illinois regulation to 'less credit supportive' from 'least credit supportive'. The change reflected our view that the Illinois legislative and regulatory environment had returned to relative stability following the disruption during the state's transition to competition. Our revised assessment was partially based on the 13 constructive rate case orders from 2008 until the early 2010. These developments clearly pointed to a decreasing regulatory risk. However, in April 2010, Ameren received a $4.7 million rate case order for its Illinois electric and gas businesses that we viewed as not conducive to credit quality. Since then, based on error corrections and a rehearing, Ameren's net rate order was increased to $44 million. Overall, we view the company's regulatory risk as rising. Should this persist, it could pressure the company's business risk profile, which could harm its credit quality.

Ameren's consolidated satisfactory business risk profile reflects the combination of the excellent business risk profiles of Ameren's regulated businesses offset by the fair business risk profile of Ameren's merchant energy businesses.

Ameren Missouri's excellent business risk profile reflects its recent rate cases and regulatory mechanisms that overall indicate a decreasing regulatory risk. Ameren Missouri is a rate-regulated utility that serves 1.2 million electric and 126,000 gas customers in portions of central and eastern Missouri. The company also has 10,400 megawatt (MW) of generating capacity of which 5,400 MW is base load coal and 1,200 MW is nuclear generation. In 2009 and 2010, the company received credit supportive rate case orders from the Missouri Public Service Commission that includes more than $390 million of base rate increases, a fuel adjustment clause, pension and OPEB trackers, and a cost tracker for vegetation management and infrastructure inspections. Recently, the company filed for a $12 million gas revenue increase and a $263 million electric rate increase. The commission's orders for the gas and electric rate cases are expected by April 2011 and July 2011, respectively. We expect that Ameren Missouri will continue to file rate cases on a frequent basis to reduce its regulatory lag.

GenCo.'s business risk profile is fair. Ameren has 6,500 MW of merchant generation, of which 4,600 MW represent base load coal generation. Although GenCo. has consistently implemented a three-year hedging policy, its long-term profitability is ultimately dependent on the market price of energy. While the unregulated businesses are considerably hedged for 2011, their margins already declined in 2010 due to weak market power prices and are expected to further decline over the intermediate term based on the forward curve. While the company continues to effectively manage those areas that it can directly influence, including reducing its O&M costs and capital spending, sustained weak energy power prices or increased mandated environmental capital expenditures would pressure the merchant business over the intermediate term.

For Ameren Corp. to improve its consolidated business risk profile, it must reduce its merchant business risks by either selling its merchant assets, committing its merchant generation to long-term contracts, or by completing the necessary environment capital expenditures at its merchant business.

Ameren's significant financial risk profile reflects management's proactive 2009 and 2010 decisions to reduce its dividend, issue equity, and reduce O&M costs and capital spending. More recently, the company's financial measures have improved reflecting warmer-than-expected weather, continued cost reductions, and rate case increases. For the 12 months ended Sept. 30, 2010, adjusted funds from operations (FFO) to total debt increased to 23.9% from 21.4% at the end of 2009, adjusted debt to EBITDA improved to 3.8x from 4.3x, and adjusted debt to total capital strengthened to 53.4% from 54.1%. While Ameren's financial measures are expected to remain improved for the short term, we expect that over the intermediate term the financial measures will weaken because of increasing environmental capital expenditures and gradually weaker cash flows from the merchant generation business.

Liquidity

The short-term rating on Ameren is 'A-3'. We view its liquidity as adequate under Standard & Poor's corporate liquidity methodology, which categorizes liquidity in five standard descriptors (exceptional, strong, adequate, less than adequate, and weak). Adequate liquidity supports Ameren's 'BBB-' corporate credit rating. Projected sources of liquidity--mainly operating cash flow and available bank lines--exceed projected uses, necessary capital expenditures, debt maturities, and common dividends by about 1.2x. Ameren's ability to absorb high-impact, low-probability events with limited need for refinancing, its flexibility to lower capital spending, its well established bank relationships, its general high standing in the credit markets, and prudent risk management further support our assessment of its liquidity as adequate.

As of Sept. 30, 2010, Ameren and its subsidiaries had more than $1.6 billion available on its $2.1 billion credit facilities after reducing for outstanding borrowings. The company recently entered into the existing credit facilities and they do not terminate until September 2013. The credit facilities require Ameren and its subsidiaries to maintain a maximum debt-to-capital ratio of 65% and as of Sept. 30, 2010, the company was in compliance with this financial covenant.

Ameren's current positive discretionary cash flow is expected to turn negative over the intermediate term as capital expenditures increase. Long-term maturities are manageable with $155 million due in 2011 and $199 million due in 2012. In the fourth quarter of 2010, GenCo. used cash on hand to pay down its $200 million long-term debt maturity. We fundamentally expect that Ameren will continue to meet its cash needs in a manner that is credit neutral.

Recovery analysis

We assign recovery ratings to First Mortgage Bonds (FMBs) issued by investment-grade U.S. utilities, which can result in issue ratings being notched above a utility's corporate credit rating (CCR) depending on the CCR category and the extent of the collateral coverage. The investment grade FMB recovery methodology is based on the ample historical record of nearly 100% recovery for secured bondholders in utility bankruptcies and our view that the factors that supported those recoveries (limited size of the creditor class and the durable value of utility rate-based assets during and after a reorganization given the essential service provided and the high replacement cost) will persist in the future. Under our notching criteria, we consider the limitations of FMB issuance under the utility's indenture relative to the value of the collateral pledged to bondholders, management's stated intentions on future FMB issuance, as well as the regulatory limitations on bond issuance when assigning issue ratings to utility FMBs. FMB ratings can exceed a utility's CCR by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories.

Ameren Illinois FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of about 1.3 times supports a recovery rating of a 1 and an issue rating one notch above the CCR. The FMB of the former Central Illinois Light Co. are covered by a separate indenture that enhances its collateral coverage to about 1.7 times that supports a recovery rating of a 1+ and an issue rating two notches above the CCR.

Outlook

The stable outlook on Ameren reflects Standard & Poor's baseline forecast that its adjusted FFO to debt and adjusted debt to total capital will, over the intermediate term, approximate 21% and 50%, respectively. Fundamental to our forecast is the outcome of the company's rate case filings and the market power prices. However, because of the business risk pressures that Ameren Illinois and GenCo. are currently facing, there is less of a cushion at the 'BBB-' corporate credit rating. A downgrade could result if the company is unable to effectively manage its regulatory risk or dark spreads continue to compress so that FFO to debt drops to below 20% on a sustained basis. An upgrade is possible if management decides to no longer support its merchant business.

Table 1.

Ameren Corp. -- Peer Comparison*

Industry Sector: Combo

	Ameren Corp.	Allegheny Energy Inc.	Dominion Resources Inc.	Edison International	PPL Corp.
Rating as of Dec. 21, 2010	BBB-/Stable/A-3	BBB-/Stable/--	A-/Stable/A-2	BBB-/Stable/--	BBB+/Stable/--
	--Average of past three fiscal years--				
(Mil. $)					
Revenues	7,491.7	3,260.6	15,690.5	13,108.7	3,174.5
Net income from cont. oper.	611.7	400.2	1,942.7	1,057.0	351.1
Funds from operations (FFO)	1,671.8	793.3	2,278.0	2,660.8	992.0
Capital expenditures	1,785.1	976.9	3,085.4	3,150.8	999.8
Debt	9,055.8	4,288.6	17,740.2	17,398.6	4,834.9
Equity	7,305.2	2,844.1	11,113.6	10,001.5	2,758.6
Adjusted ratios					
Oper. income (bef. D&A)/revenues (%)	28.5	32.3	26.9	34.1	31.4
EBIT interest coverage (x)	3.1	3.2	2.8	2.3	2.8
EBITDA interest coverage (x)	4.4	3.9	3.9	3.3	3.7
Return on capital (%)	8.1	10.7	8.9	9.3	9.2
FFO/debt (%)	18.5	18.5	12.8	15.3	20.5
Debt/EBITDA (x)	4.3	4.0	4.3	4.1	5.0

*Fully adjusted (including postretirement obligations).

Table 2.

Ameren Corp. -- Financial Summary*

Industry Sector: Combo

	--Fiscal year ended Dec. 31--				
	2009	**2008**	**2007**	**2006**	**2005**
Rating history	BBB-/Stable/A-3	BBB-/Stable/A-3	BBB-/Stable/A-3	BBB/Watch Neg/A-3	BBB+/Watch Neg/A-2
(Mil. $)					
Revenues	7,090.0	7,839.0	7,546.0	6,880.0	6,780.0
Net income from continuing operations	612.0	605.0	618.0	547.0	628.0
Funds from operations (FFO)	2,006.6	1,581.5	1,427.2	1,384.8	1,225.4
Capital expenditures	1,784.0	2,086.3	1,485.0	1,131.5	1,010.2
Cash and short-term investments	622.0	92.0	355.0	137.0	96.0
Debt	9,379.0	9,457.8	8,330.8	7,336.6	6,723.6
Preferred stock	97.5	97.5	97.5	195.0	195.0
Equity	7,962.5	7,081.5	6,871.5	6,794.0	6,172.4
Debt and equity	17,341.5	16,539.3	15,202.3	14,130.6	12,896.0
Adjusted ratios					
EBIT interest coverage (x)	2.8	3.1	3.3	3.6	4.3
FFO int. cov. (x)	4.7	4.4	4.2	4.7	4.7
FFO/debt (%)	21.4	16.7	17.1	18.9	18.2

Table 2.

Ameren Corp. -- Financial Summary* (cont.)					
Discretionary cash flow/debt (%)	(1.1)	(11.1)	(10.6)	(5.1)	(4.4)
Net Cash Flow / Capex (%)	92.6	50.5	61.0	76.2	70.7
Debt/debt and equity (%)	54.1	57.2	54.8	51.9	52.1
Return on common equity (%)	7.6	8.7	9.0	8.4	10.1
Common dividend payout ratio (un-adj.) (%)	59.6	89.7	86.8	95.4	81.4

*Fully adjusted (including postretirement obligations).

Table 3.

Reconciliation Of Ameren Corp. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*

--Fiscal year ended Dec. 31, 2009--

Ameren Corp. reported amounts	Debt	Shareholders' equity	Operating income (before D&A)	Operating income (before D&A)	Operating income (after D&A)	Interest expense	Cash flow from operations	Cash flow from operations	Dividends paid
Reported	8,167.0	8,060.0	2,141.0	2,141.0	1,416.0	508.0	1,977.0	1,977.0	359.0
Standard & Poor's adjustments									
Operating leases	243.3	--	38.0	16.3	16.3	16.3	21.7	21.7	--
Intermediate hybrids reported as equity	97.5	(97.5)	--	--	--	5.0	(5.0)	(5.0)	(5.0)
Postretirement benefit obligations	761.2	--	28.0	28.0	28.0	--	44.9	44.9	--
Accrued interest not included in reported debt	110.0	--	--	--	--	--	--	--	--
Share-based compensation expense	--	--	--	15.0	--	--	--	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	48.0	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	(29.0)	--
US decommissioning fund contributions	--	--	--	--	--	--	(3.0)	(3.0)	--
Total adjustments	1,212.0	(97.5)	66.0	59.3	92.3	21.3	58.6	29.6	(5.0)

Standard & Poor's adjusted amounts	Debt	Equity	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid
Adjusted	9,379.0	7,962.5	2,207.0	2,200.3	1,508.3	529.3	2,035.6	2,006.6	354.0

*Ameren Corp. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Related Criteria And Research

- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009.
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008.
- Changes To Collateral Requirements For '1+' Recovery Ratings On U.S. Utility First Mortgage Bonds, Sept. 6, 2007

Ratings Detail (As Of December 29, 2010)*	
Ameren Illinois Co.	
Corporate Credit Rating	BBB-/Stable/NR
Preferred Stock (12 Issues)	BB
Senior Secured (7 Issues)	BBB
Senior Secured (6 Issues)	BBB+
Senior Secured (3 Issues)	BBB/Developing
Senior Unsecured (4 Issues)	BBB-
Corporate Credit Ratings History	
11-Sep-2008	BBB-/Stable/NR
29-Aug-2007	BB/Positive/NR
23-Apr-2007	BB/Watch Neg/NR
05-Oct-2006	BBB-/Watch Neg/NR
Business Risk Profile	Excellent
Financial Risk Profile	Significant
Related Entities	
Ameren Corp.	
Issuer Credit Rating	BBB-/Stable/A-3
Commercial Paper	
Local Currency	A-3
Senior Unsecured (2 Issues)	BB+
AmerenEnergy Generating Co.	
Issuer Credit Rating	BBB-/Negative/--
Senior Unsecured (3 Issues)	BBB-

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.