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Credit Opinion: Ameren Corporation

Global Credit Research - 12 Aug 2011

St. Louis, Missouri, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa3
Senior Unsecured	Baa3
Subordinate Shelf	(P)Ba1
Pref. Shelf	(P)Ba2
Commercial Paper	P-3
Union Electric Company	
Outlook	Stable
Issuer Rating	Baa2
First Mortgage Bonds	A3
Senior Secured	A3
Bkd Sr Unsec Bank Credit Facility	Baa3
Pref. Stock	Ba1
Commercial Paper	P-3
Ameren Energy Generating Company	
Outlook	Negative
Bkd Sr Unsec Bank Credit Facility	Ba1
Senior Unsecured	Ba1

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Key Indicators

[1]**Ameren Corporation**

	LTM 6/30/2011	2010	2009	2008
(CFO Pre-W/C + Interest) / Interest Expense	**4.4x**	**4.2x**	**4.1x**	**3.6x**
(CFO Pre-W/C) / Debt	**23%**	**21%**	**21%**	**15%**
(CFO Pre-W/C - Dividends) / Debt	**18%**	**17%**	**17%**	**9%**
Debt / Book Capitalization	**43%**	**45%**	**46%**	**50%**

[1] All ratios calculated in accordance with the Global Regulated Electric Utilities Rating Methodology using Moody's standard adjustments.

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Below average regulatory frameworks in Missouri and Illinois

Low power prices negatively affecting merchant generation margins

Exposure to EPA mandated environmental compliance requirements

Stable consolidated cash flow coverage metrics that are supportive of its current rating

Corporate Profile

Ameren Corporation (Ameren, Baa3 Issuer Rating, stable outlook) is the holding company for regulated electric and gas utility subsidiaries Union Electric Company (Ameren Missouri), Ameren Illinois, and unregulated subsidiaries AmerenEnergy Generating Company (Ameren Genco), Ameren Energy Resources Generating Company (AERG), and AmerenEnergy Marketing Company.

SUMMARY RATING RATIONALE

Ameren's rating reflects below average regulatory frameworks in both Missouri and Illinois; an underperforming merchant generation segment; exposure to EPA mandated environmental compliance requirements; and stable consolidated financial metrics that are adequate for its current Baa3 rating. Ameren's rating also reflects its position as a parent holding company and considers the company's diversification with regulated utilities operating in two states along with two unregulated generating subsidiaries, as well as the modest $425 million of long-term debt at the parent company level.

- Below average regulatory frameworks in both Missouri and Illinois

Both of Ameren's regulated utilities operate in what Moody's considers to be below average regulatory frameworks, resulting in significant regulatory lag, preventing both Union Electric and Ameren Illinois from earning their allowed returns on equity. In Missouri, factors contributing to this assessment include lengthy 11 month base rate case timelines; the lack of interim rate relief; the use of historical test years; and less than full recovery of fuel costs in rates. Union Electric's most recent rate case outcome, in July 2011, was more supportive of credit quality than some previous rate cases, however, with the Missouri Public Service Commission (MPSC) approving a $173 million rate increase based on a 10.2% return on equity, including $52 million related to higher fuel costs than had been authorized in its last rate order. This outcome compared to an amended company request of $211 million. The order also approved the continued use of certain cost trackers, including vegetation management, infrastructure, and pension and post retirement benefits. Union Electric was denied recovery of $89 million costs related to enhancements to its Taum Sauk pumped storage facility in excess of those covered by insurance.

On February 18, 2011, Ameren Illinois filed for a $60 million electric rate increase based on an 11.25% return on equity and for a $51 million gas rate increase based on an 11.0% return on equity, using a forward test year. On June 29, 2011, the Illinois Commerce Commission (ICC) staff recommended a $10.3 million electric rate reduction based on a 9.72% return on equity and a $16.2 million gas rate increase based on an 8.9% return on equity. The substantial $70 million difference in the company's electric rate request and the ICC staff recommendation, most of which relates to the disparity in recommended return on equity, is of particular concern from a credit standpoint. Ameren Illinois has since filed rebuttal testimony requesting a total of $90 million of rate increases (down from its original $111 million request) and reduced its requested return on equity by .25% in both the electric and gas rate cases, reflecting an updated assessment of capital market conditions.

This most recent ICC staff recommendation follows an unsupportive rate case outcome in Ameren Illinois' last rate case, in May 2010, in which the ICC approved a $35.1 million electric rate increase and a $20.5 million gas rate reduction combined for the three Ameren Illinois utilities that were later merged to form Ameren Illinois. This was far below the company's original request for a $180.7 million electric rate increase and a $45.1 million gas rate increase, which it later lowered to $115 million and $15.3 million, respectively. Notably, the amounts approved by the ICC in this previous case were well below the recommendations of both the ICC staff and Administrative Law Judges, a particularly negative development from a credit standpoint. Ameren Illinois did later obtain some additional rate relief following rehearings on several aspects of the order, but the unexpectedly low initial rate case outcome renewed Moody's concerns about the credit supportiveness of the regulatory and political environment in Illinois.

- Low power prices negatively affecting merchant generation margins

On March 1, 2011, the rating of Ameren Genco was downgraded to Ba1 (senior unsecured) from Baa3 and assigned a negative rating outlook as a result of declining cash flow coverage metrics, low power prices that are weighing heavily on margins, and the company's vulnerability to higher environmental spending requirements. Ameren Genco is one of two unregulated generating subsidiaries of Ameren, along with AERG, which is unrated. The company's margins have been constrained by a combination of low power prices and weak economic conditions in the Midwest, reducing overall demand for power. Moody's believes that the prospect for substantial near-term improvement in the company's margins are limited given the current outlook for natural gas prices, power prices, and regional economic conditions.

- Exposure to new EPA environmental compliance mandates in both its Missouri regulated and its merchant generation business

In 2010, Ameren generated 85% of its electricity from coal, making it one of the more vulnerable utility systems to additional costs associated with EPA mandated environmental compliance regulations at both its Missouri regulated utility and at both of its merchant generation subsidiaries. The company is likely to incur significant costs to comply with regulations curbing emissions from its coal plants, some of which may ultimately be retired. Union Electric recently entered into a contract for the purchase of 91 million tons of ultra-low sulfur coal that will allow the company to avoid some environmental expenditures by 2014 and delay the installation of additional scrubbers until after 2017. Union Electric's current rating and stable outlook incorporates Moody's expectation that the company will be able to recover its environmental compliance expenditures in rates, although there could be delays, adding to regulatory lag.

However, Ameren's merchant generating subsidiaries will need to recover such expenditures in their unregulated rates and, in contrast to some of its generating company peers, the company's merchant generation fleet is only partially scrubbed. Higher capital expenditures over the next several years increases the prospect that the company's merchant generation operations will be free cash flow negative and that additional debt financing or parent company support could be needed. Ameren currently projects its merchant generation capital expenditures to increase from $188 million in 2011 to $240 million in 2012 and $254 million in 2013, before falling off in 2014 and 2015. The company has indicated that this level of planned capital expenditures for the years 2011 through 2015 is approximately $200 million below the company's previous estimates, although they may be again increased as new environmental compliance requirements are put in place.

- Stable consolidated cash flow coverage metrics and low parent company debt are supportive of its current rating

Ameren's consolidated cash flow coverage metrics have been stable over the last two years after improving in 2009 following a dividend cut and after several rate increases at its regulated utilities. It also has a comparatively low $425 million of long-term debt at the parent company level. Consolidated interest coverage, as measured by CFO pre-working capital plus interest to interest, was above just 4.0x in both 2009 and 2010, up from 3.6x in 2008, on a Moody's adjusted basis, while cash flow from operations before working capital adjustments to debt increased to the 21% range in both 2009 and 2010, up from 15% in 2008. While part of this improvement resulted from the several rate cases, financial ratios also benefited from income tax refunds at Union Electric, higher deferred taxes, and Taum Sauk pumped storage facility insurance recoveries. Ameren's financial ratios may also benefit from bonus depreciation over the next two years, which Moody's views as a temporary acceleration of future cash flows.

Liquidity Profile

Ameren maintains an adequate liquidity profile, maintaining three separate bank credit facilities totaling $2.1 billion that each expire in September 2013: an $800 million facility jointly with Union Electric (the Missouri credit agreement); an $800 million facility jointly with Ameren Illinois (the Illinois credit agreement); and a $500 million facility jointly with Ameren Genco (the Genco credit agreement). Ameren has a $500 million sublimit under both the Missouri and Genco credit agreements and a $300 million sublimit under the Illinois credit agreement. As of June 30, 2011, Ameren had $200 million outstanding under the Missouri credit agreement and no outstandings under either of the other two credit agreements. Ameren also maintains an active commercial paper program, with $317 million of commercial paper outstanding as of June 30, 2011. Ameren may, at its discretion, use any of its three credit facilities to support the commercial paper program.

Under the terms of these agreements, Ameren, Union Electric, Ameren Illinois and AmerenGenco must each maintain a total debt to capitalization ratio of no greater than 65%. As of June 30, 2011, all four companies were in compliance with this financial covenant. The ratio of total indebtedness to total capitalization (calculated in accordance with the agreement) for Ameren, Union Electric, Ameren Illinois, and Ameren Genco was 49%, 47%, 40% and 45%, respectively, at June 30, 2011. In addition, under the Genco and Illinois credit agreements, Ameren is required to maintain a ratio of funds from operations plus interest to interest of 2.0 to 1.0 and at June 30, 2011, that ratio was 5.0x to 1.

The company's cost controls, capital expenditure cutbacks, and the dividend reduction it enacted in 2009 has reduced external financing requirements and resulted in consolidated positive free cash flow in 2010 and for the first two quarters of 2011, improving the system's overall liquidity. The company expects to be free cash flow positive for all of 2011. As of June 30, 2011, Ameren had $378 million of cash and cash equivalents on hand, down from $545 million at December 31, 2010. The company had $5 million current portion of long-term debt at June 30, 2011 and the company's next major debt maturity is $173 million of senior secured notes due at Union Electric in September 2012.

Ameren operates two money pools (a utility money pool and a non-regulated subsidiary money pool) among its various subsidiaries to more efficiently provide for short-term cash and working capital requirements throughout the organization. Subsidiary AERG is not a party to the Illinois revolving credit facilities and relies on borrowings under the Ameren money pool and other sources for its external liquidity needs.

Rating Outlook

The stable rating outlook reflects the recently credit supportive rate case outcome at Union Electric, consolidated cash flow coverage metrics that have improved over the last two years, a modest amount of debt at the parent company level, and stable rating outlooks at its two major utility subsidiaries, offsetting the current negative outlook on Ameren Genco.

What Could Change the Rating - Up

The rating could be upgraded if there is a substantial improvement in the regulatory environments in Missouri and Illinois such that its utility subsidiaries are upgraded; if the financial performance of its merchant generation subsidiaries improves; if consolidated financial metrics continue to exhibit positive trends, including CFO pre-working capital interest coverage of at least 4.0x and CFO pre-working capital to debt of at least 20% on a sustained basis.

What Could Change the Rating - Down

The rating could be lowered if there are adverse regulatory or political developments in either Missouri or Illinois, including unsupportive rate case outcomes; if either of its utilities or Ameren Genco is downgraded; if there is a continued decline in the performance of its merchant generation business; if the company issues significant additional debt at the parent company, or if there a decline in financial metrics, including CFO pre-working capital interest coverage below 3.5x or CFO pre-working capital to debt below 15% for a sustained period.

Rating Factors

Ameren Corporation

Regulated Electric and Gas Utilities Industry [1][2]	**Current 12/31/2010**		**Moody's 12-18 month Forward View* As of August 2011**	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Regulatory Framework		Ba		Ba
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		Baa		Baa
Factor 3: Diversification (10%)				
a) Market Position (5%)		A		A
b) Generation and Fuel Diversity (5%)		Ba		Ba
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)				
a) Liquidity (10%)		Baa		Baa
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	4.0x	Baa	4.0x - 4.5x	Baa
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	18.9%	Baa	20% - 25%	Baa
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	14.1%	Baa	15 - 20%	Baa
e) Debt/Capitalization (3 Year Avg) (7.5%)	47.1%	Baa	42 - 45%	Baa
Rating:				
a) Indicated Rating from Grid		Baa3		Baa3
b) Actual Rating Assigned		Baa3		Baa3

* THIS REPRESENTS MOODY'S FORWARD VIEW; NOT THE VIEW OF THE ISSUER; AND UNLESS NOTED IN THE TEXT DOES NOT INCORPORATE SIGNIFICANT ACQUISITIONS OR DIVESTITURES

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 12/31/2010(L); Source: Moody's Financial Metrics

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