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Moody's Investors Service

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Credit Opinion
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Credit Opinion: Central Illinois Light Company

Central Illinois Light Company

Peoria, Illinois, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Ba1
Senior Secured	Baa2/LGD2
Senior Unsecured Shelf	(P)Ba1
Preferred Stock	Ba1/LGD4
Ult Parent: Ameren Corporation	
Outlook	Stable
Issuer Rating	Baa3
Senior Unsecured Shelf	(P)Baa3
Subordinate Shelf	(P)Ba1
Preferred Shelf	(P)Ba2
Commercial Paper	P-3
Parent: CILCORP Inc.	
Outlook	Stable
Corporate Family Rating	Ba1

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Key Indicators

[1]
Central Illinois Light Company

	LTM 9/30/08	2007	2006	2005
(CFO Pre-W/C + Interest) / Interest Expense	7.5x	5.7x	7.2x	7.2x
(CFO Pre-W/C) / Debt	37%	26%	32%	31%
(CFO Pre-W/C - Dividends) / Debt	36%	26%	18%	25%
(CFO Pre-W/C - Dividends) / Capex	63%	59%	69%	91%
Debt / Book Capitalization	37%	43%	40%	36%
EBITA Margin %	14%	15%	11%	8%

[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

- Limited financial flexibility due to the expiration of its bank facilities in less than 12 months

- Some lingering political and regulatory uncertainty in Illinois

- Execution risk in the implementation of new power procurement procedures in Illinois

- Significant environmental capital expenditures at its generation subsidiary

Corporate Profile

Central Illinois Light Company d/b/a AmerenCILCO (CILCO; Ba1 Issuer Rating, stable outlook), a subsidiary of Ameren's intermediate holding company CILCORP, Inc. (Ba2 senior unsecured, stable outlook), is a regulated electric and natural gas transmission and distribution utility with a service territory in southern Illinois. It also includes the unregulated generation subsidiary AmerenEnergy Resources Generating Company (AERG), which is unrated. CILCORP is a wholly-owned subsidiary of Ameren Corporation (Ameren; Baa3 Issuer Rating, stable outlook).

Recent Events

In December 2008, CILCO issued $150 million of 5-year senior secured notes at a rate of 8.875%, the proceeds of which were used to pay off short-term debt, including draws under Ameren's Illinois utility bank credit facility.

On September 24, 2008, the Illinois Commerce Commission (ICC) approved a rate order authorizing a $3 million electric delivery service rate decrease and a $9 million gas delivery service rate decrease, based on a 10.65% return on equity for electric delivery service and a 10.68% return on equity for natural gas delivery service. This rate order compares to a revised CILCO rate request of a $3 million increase in electric delivery service rates and a $7 million decrease in gas delivery service rates.

In September 3, 2008, Ameren announced a tender offer for approximately $334 million of bonds outstanding at CILCORP, Inc., which the company intends to finance at the parent company level. Consents from over 99% of bondholders were received in September, although the tender offer has been extended several times since then and all of the debt remains outstanding at CILCORP.

SUMMARY RATING RATIONALE

CILCO's Ba1 Issuer Rating reflects a reasonable rate order in its most recent electric and gas delivery service rate case, the negotiated 2007 rate settlement in Illinois that averted a rate freeze, a stabilized political and regulatory environment in the state, and consistently strong standalone financial metrics. Offsetting these positive credit characteristics are high short-term debt levels and limited financial flexibility due to the near-term expiration of the company's revolving credit facility on January 14, 2010. The company also faces increased operating costs; high environmental capital expenditures at its AERG unregulated generating subsidiary; the potential for continued regulatory lag with regard to the recovery of costs; and execution risk inherent in the implementation of new power procurement procedures by the newly created Illinois Power Agency.

DETAILED RATING CONSIDERATIONS

- Strong standalone financial metrics for its rating category are offset by significant debt at its intermediate parent company CILCORP and limited financial flexibility

CILCO's financial metrics are very strong for its rating, using guidelines outlined in Moody's rating methodology for global regulated electric utilities. This includes CFO pre-working interest coverage of 5.7 times and CFO pre-working capital to debt of 26% in 2007 and 7.5 times and 37%, respectively, for the twelve months ending September 30, 2008. CILCO's rating is constrained by the relatively high level of debt at CILCORP, which exhibits significantly lower financial metrics on a consolidated basis than its utility subsidiary. These metrics include CFO pre-working capital interest coverage of 2.8 times and CFO pre-working capital to debt of 11% in 2007 and 3.5 times and 13%, respectively, for the twelve-months ending September 30, 2008. CILCO's metrics are also likely to be pressured by an anticipated increase in environmental capital expenditures at its subsidiary AERG, discussed below. This has resulted in particularly high short-term debt levels, constraining the financial flexibility of both CILCO and CILCORP as they approach the expiration of their bank credit facility in January 2010 (discussed in more detail under the Liquidity section below).

- Some lingering political and regulatory uncertainty in a state that narrowly avoided subjecting its investor owned utilities to a rate freeze in 2007, although CILCO received a relatively reasonable rate case outcome in September 2008

CILCO's ratings reflect the stability provided by a 2007 settlement agreement on electric rates in Illinois as well as lingering uncertainty regarding the ongoing impact that the protracted electric rate controversy may have on future rate cases and on the execution and success of new power procurement policies and procedures in the state.

Although Moody's views the ICC's September 2008 rate case decision as reasonable, Ameren has indicated that it expects to file for rate relief more frequently in Illinois because of rising costs and rate base investments, which could be challenging in a recessionary environment. The ICC also rejected cost recovery mechanisms for bad debt expenses and electric infrastructure investments, riders that Moody's would have viewed as credit supportive.

- Execution risk in the implementation of new power procurement procedures in Illinois

Beginning this year, power procurement will be accomplished through a competitive requests-for-proposal (RFP) process overseen by a newly created state agency, the Illinois Power Agency (IPA). As a result, there will continue to be uncertainty regarding power procurement policies and procedures in the state at least until the first state run RFP process is completed. The IPA expects to complete its first power procurement RFP early this year for approximately one third of Illinois' generation requirements. In addition to execution risk in creating and implementing these new procedures, the IPA runs the risk of generating additional political controversy if the process does not go well or leads to large rate increases. This is somewhat mitigated by the staggered nature of the first RFP in that it only addresses one third of overall power requirements. The other two-thirds of power requirements will continue to be met by previous auction contracts in place until they roll off over the next two years, at which point the IPA will procure all of the power requirements of the state.

- Significant environmental capital expenditures at AERG

CILCO is unique among Ameren's three Illinois utilities in that it owns AERG, with 1,200 MW of unregulated generation, consisting of CILCO's former generating assets. AERG has significant capital expenditure requirements necessary to bring it into compliance with current environmental standards. CILCO's overall capital expenditures more than doubled in 2007 to $254 million from $119 million in 2006 and were a high $223 million for the first nine months of 2008, for the most part due to AERG. Of the $725 to $870 million in capital expenditures forecasted over the next five years, approximately 85%, or $620 to $760 million, is for environmental compliance. Since AERG is unregulated, these costs cannot be recovered by CILCO through rates, but rather recovery will be dependent upon AERG's contracted rates and market prices on spot sales. Ameren has announced capital expenditure reductions and deferrals for 2009 since these capital expenditure projections were provided in their SEC filings.

Liquidity Profile

CILCO's liquidity profile is currently adequate, although it maintains very limited financial flexibility due primarily to the expiration of its bank credit facilities in less than 12 months and high levels of short-term debt outstanding at both AERG and CILCORP. Although Moody's expects that at least a portion of these bank credit facilities will be renewed at some point during 2009, constrained bank and credit market conditions make the timing, structure, pricing, and size of the renewed facilities more uncertain. As of September 30, 2008, CILCO had $305 million of short-term debt outstanding, of which $155 million was at AERG, with an additional $127 million at the intermediate holding company CILCORP. In addition, CILCO had $171 million outstanding from the Ameren money pool at September 30, increasing aggregate short-term debt levels considerably. In December 2008, however, CILCO issued $150 million of long-term senior secured notes, all of which was used to reduce short-term debt at CILCO, although none of the proceeds were used to reduce short-term debt at AERG. Ameren may complete additional long-term debt financings at its subsidiaries before their bank facilities come due to lower the level of short-term debt outstanding.

CILCO, CILCORP, Central Illinois Public Service Company (CIPS), Illinois Power (IP), and AERG collectively maintain two $500 million multiyear, senior secured credit facilities expiring on January 14, 2010. Borrowings under these facilities are several and not joint, and are not guaranteed by Ameren or any other Ameren subsidiary. The facilities do not contain cross-default provisions with Ameren and an event of default under these facilities does not constitute an event of default under Ameren's separate $1.15 billion parent company credit facility. CILCO, CIPS, and IP also participate in a utility money pool agreement with the parent company, giving them access to additional funds if necessary, although Moody's does not believe that the parent company credit facility by itself is of sufficient size to provide liquidity to the entire Ameren organization. The Illinois utilities will have to renew all or a large portion of their bank facilities or consider alternative sources of short-term financing in order to maintain adequate liquidity going forward. In addition, the Ameren parent company credit facility expires in less than 18 months on July 14, 2010.

CIPS, CILCORP, CILCO, IP, and AERG have aggregate sub-limits of $135 million, $175 million, $150 million, $350 million, and $300 million under the facilities, respectively and CILCO had no of cash or cash equivalents on hand at September 30, 2008. Under the terms of the credit agreements, CIPS, CILCORP, CILCO, IP, and AERG must also maintain a ratio of total debt to capitalization of no greater than 65%. At September 30, 2008, the ratios for CIPS, CILCORP, CILCO, IP and AERG were 52%, 60%, 48%, 51%, and 44%, respectively. In addition, covenants under the bank facilities limit CILCORP dividend payments to Ameren at $10 million as long as CILCORP is rated below investment grade, restricting Ameren's access to dividends from CILCO and AERG.

Rating Outlook

The stable outlook on the ratings of CILCO and CILCORP reflects the more constructive political and regulatory environment for utilities in Illinois following the August 2007 electric rate settlement, and a reasonable outcome of its most recent delivery service rate case. It also assumes that the newly created Illinois Power Agency will execute an efficient and orderly power procurement process for 2009 and going forward that will continue to reduce both political and regulatory risk in the state. The stable outlook is also based on our expectation that CILCO will successfully renew all or most of its bank facilities at some point during 2009.

What Could Change the Rating - Up

The ratings of CILCO and CILCORP could be raised if the companies enter into adequate liquidity arrangements to replace expiring bank credit facilities; if Ameren is successful in its pending tender offer for CILCORP debt, which will change the capital structure of the CILCORP corporate family considerably; if the Illinois Power Agency successfully executes power procurement procedures that continues to reduce regulatory and political risk in the state; and if future distribution rate cases provide sufficient rate relief.

What Could Change the Rating - Down

The ratings of CILCO and CILCORP could be lowered if the company does not enter into adequate liquidity arrangements well in advance of their current bank facility expiration dates in January 2010; if there is additional political intervention in the regulatory process; or if future distribution rate cases do not provide sufficient rate relief.

Rating Factors

Central Illinois Light Company

Select Key Ratios for Global Regulated Electric Utilities

Rating	Aa	Aa	A	A	Baa	Baa	Ba	Ba
Level of Business Risk	Medium	Low	Medium	Low	Medium	Low	Medium	Low
CFO pre-W/C to Interest (x) [1]	>6	>5	3.5-6.0	3.0-5.7	2.7-5.0	2-4.0	<2.5	<2
CFO pre-W/C to Debt (%) [1]	>30	>22	22-30	12-22	13-25	5-13	<13	<5
CFO pre-W/C - Dividends to Debt (%) [1]	>25	>20	13-25	9-20	8-20	3-10	<10	<3
Total Debt to Book Capitalization (%)	<40	<50	40-60	50-70	50-70	60-75	>60	>70

[1] CFO pre-W/C, which is also referred to as FFO in the Global Regulated Electric Utilities Rating Methodology, is equal to net cash flow from operations less net changes in working capital items

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