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Rating Action: Moody's Downgrades Ameren Genco to Ba2; Places Ameren Illinois on Review for Possible Upgrade

Global Credit Research - 29 Feb 2012

Approximately $825 million of Debt Securities Downgraded

New York, February 29, 2012 -- Moody's Investors Service downgraded the senior unsecured rating of Ameren Energy Generating Company (Ameren Genco) to Ba2 from Ba1. The rating outlook is negative. This action concludes the review for downgrade of Ameren Genco's ratings initiated on December 5, 2011. Moody's also placed the long-term ratings of Ameren Illinois Company (Baa3 senior unsecured) on review for possible upgrade and affirmed the ratings and stable outlook of parent company Ameren Corporation (Baa3 senior unsecured). Ameren Illinois' Prime-3 short-term rating for commercial paper is not on review.

RATINGS RATIONALE

"The downgrade of Ameren Genco's ratings reflects the worsening financial prospects for this predominantly coal-fired generating company as low power prices, higher fuel and transportation expenses, and EPA mandated environmental compliance requirements negatively affect the company's margins and cash flow generating ability", said Michael G. Haggarty, Senior Vice President. Moody's expects cash flow coverage metrics to continue to exhibit declining trends for at least the next two years, with any improvement in subsequent years highly dependent on a recovery in power prices, which may not occur. Last week, Ameren Genco announced drastic cutbacks in its environmental compliance expenditure program, specifically related to deceleration and possible cancellation of scrubber installation at its Newton plant, which could hamper the ability of the company to fully dispatch its merchant generation fleet as early as 2015, when Illinois multi-pollutant standards tighten.

Although Ameren Genco does not have any long-term debt due until 2018, it may need to finance negative free cash flow in the interim with additional borrowings, the extent of which will depend on whether it decides to again move forward with the Newton scrubber project. The company maintains adequate liquidity predominantly as a result of a $500 million joint credit facility with the parent company that matures in September 2013. Moody's notes that Ameren may not be able to refinance the Ameren Genco bank credit facility on an unsecured basis without a parent company guarantee when it comes up for renewal next year. Moody's would expect the credit facility renewal to be addressed well before the September 2013 maturity date.

The negative outlook on the ratings of Ameren Genco reflects the low power price environment, the likelihood of further deterioration in financial metrics, anticipated weak cash flow generation for the next several years, the lack of a viable capacity market in MISO, the high degree of uncertainty regarding the status of the Newton scrubber project, and the possibility that the company's generating capability could be constrained beginning in 2015.

In contrast, the review of regulated utility Ameren Illinois' long-term ratings for possible upgrade reflects financial metrics that are strong for its current Baa3 rating and a potentially improving and more certain regulatory environment in Illinois following the recent passage of the state's Energy Infrastructure Modernization Act (EIMA). Partly as a result of this legislation, Moody's anticipates that Ameren Illinois will exhibit a ratio of cash flow pre-working capital to debt in the 20% range and a ratio of cash flow interest coverage in the 4.5x to 5.0x range over the next several years. The legislation requires Ameren Illinois to invest at least $265 million over ten years in electric system and related improvements as well as at least $360 million over ten years in its transmission and distribution system and in smart-grid system upgrades. The legislation will lead to a higher level of investment in its utility infrastructure, increase rate base, mitigate regulatory lag, and result in a more transparent and less politically charged rate setting process for the company.

The review will focus on the execution of the new legislation; the size and timing of the capital expenditures required; plans for financing these expenditures, including expected debt issuances over the near to intermediate term; the impact of the company's recent gas rate case decision on coverage metrics, including the very low 9.06% awarded ROE; financial results for FY 2011 and projected financial metrics going forward; and whether recently perceived changes in the political and regulatory environment in Illinois, which Moody's had viewed as one of the most challenging in the nation, are sustainable. Ameren Illinois' Prime-3 short-term rating for commercial paper is not on review for possible upgrade because the utility shares a common bank credit facility with the Ameren parent company, which is rated Prime-3.

The affirmation of the ratings and stable outlook of the parent company Ameren considers its predominantly regulated utility businesses, consolidated cash flow coverage metrics that are supportive of its current Baa3 rating, the stable rating and credit profile of its largest utility, Ameren Missouri; the modest $425 million of debt at the parent company level; and the offsetting impact that positive rating momentum at Ameren Illinois has on the parent's credit ratings compared to the deteriorating credit rating of Ameren Genco. The affirmation also reflects Moody's view that the parent company has thus far been unwilling to provide additional direct financial support to Ameren Genco. Other than sharing a joint bank credit facility and providing parent company counterparty guarantees on behalf of Ameren Energy Marketing Company, Ameren has thus far not provided direct financial support to Ameren Genco. This was most recently demonstrated by the significant cutbacks in the Genco's environmental compliance expenditures announced last week. To the extent that Ameren does provide more material direct financial support or other guarantees to Ameren Genco, the parent's rating or rating outlook could be adversely affected.

The methodologies used in this rating were Unregulated Utilities and Power Companies published in August 2009, and Regulated Electric and Gas Utilities published in August 2009. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Ratings downgraded include Ameren Genco's senior unsecured and bank credit facility rating, to Ba2 from Ba1.

Ratings placed on review for possible upgrade include Ameren Illinois' Baa1 senior secured; Baa3 senior unsecured and Issuer Rating; and Ba2 preferred stock.

Ratings affirmed include Ameren's Baa3 senior unsecured and Issuer Rating and Prime-3 short-term rating for commercial paper.

Please see ratings tab on the issuer/entity page on Moodys.com for the last rating action and the rating history.

Ameren Corporation is a public utility holding company headquartered in St. Louis, Missouri. It is the parent company of regulated utility subsidiaries Ameren Missouri and Ameren Illinois and unregulated generation subsidiaries Ameren Energy Generating Company and AmerenEnergy Resources Generating Company.

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