Ameren Illinois Company

A Subsidiary of Ameren Corporation
Full Rating Report

Ratings

Long-Term IDR	BBB–
Short-Term IDR	F3
Secured	BBB+
Senior Unsecured	BBB
Preferred Stock	BB+

IDR – Issuer default rating.

Rating Outlook

Long-Term IDR	Positive

Financial Data

Ameren Illinois Co.

($ Mil.)	12/31/11	12/31/10
Revenue	2,787	3,014
Gross Margin	1,442	1,471
Operating EBITDA	673	708
Net Income	193	252
Cash from Operations	504	597
Total Adjusted Debt	1,689	1,838
Total Capitalization	4,110	4,383
Capex/Depreciation (x)	1.6	1.4

Related Research

Ameren Corporation, March 13, 2012

Ameren Energy Generating Company, March 13, 2012

Union Electric Co., March 13, 2012

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Key Rating Drivers

New Regulatory Model: A new regulatory paradigm implemented in Illinois reduces regulatory and financial risk. Legislation enacted during 2011 establishes a formula rate plan (FRP) for electric delivery service that provides annual recovery of invested capital and operating costs. Under the new legislation, rates are adjusted annually to reflect actual costs of service, including a return of and on invested capital. The FRP incorporates a legislatively set return on equity (ROE) formula that further reduces regulatory uncertainty.

Solid Financial Profile: Financial performance measures have generally trended upward over the past three years, and Fitch Ratings expects them to remain strong. Over the next several years, Fitch estimates Debt to EBITDA to approximate 3.0x, EBITDA to interest to be in excess of 5.0x, and FFO to interest to range between 4.0x and 5.0x. Rate increases and cost control account for the improvement.

Low-Risk Utility Profile: Ameren Illinois Company's (AIC) regulated transmission utility business provides a predictable source of earnings and cash flow, and rate base growth opportunities related to transmission and other infrastructure investments.

Rising Capex: AIC plans on spending approximately $2.9 billion over 2012–2016, compared to an estimated $1.6 billion (excluding discontinued operations) over the prior five-year period. Approximately 30% of the forecast expenditures are transmission investments. Under the new regulatory framework, AIC will be able to earn a timely return on the incremental capital investments.

Adequate Liquidity: An $800 million committed credit facility that extends to September 2013 provides sufficient liquidity for working capital needs. There were no drawings under the credit facility in 2011. There are no debt maturities before 2013.

Commodity Price Risk: AIC bears no commodity price risk, which reduces cash flow volatility and business risk. AIC serves as the default provider for customers that do no choose an alternative energy supplier. The Illinois Power Authority is responsible for developing the procurement plan for each utility in the state. All procurement costs are deemed to have been prudently incurred and recoverable through rates.

What Could Trigger a Rating Action

Sustained Financial Performance: Maintenance of AIC's existing financial condition and successful implementation of the FRP should result in a one-notch upgrade.

Regulatory Risk: Changes in the commodity cost recovery provisions in Illinois or the inability to recover capital and operating costs on a timely basis are the primary rating risks.

Liquidity and Capital Structure

AIC has sufficient liquidity. In addition to cash from operations, AIC's liquidity needs are supported through the issuance of commercial paper, drawings under committed credit facilities, a corporate money pool, or other short-term borrowings from affiliates. There were no credit facility borrowings, and available cash was $21 million as of Dec. 31, 2011.

AIC shares an $800 million credit agreement with Ameren Corporation (AEE). The committed credit facility extends to Sept. 10, 2013. AIC's borrowing limit is $800 million and AEE's is $300 million. Total borrowings of the two companies may not exceed $800 million. The obligations of each borrower are several and not joint. A financial covenant limits consolidated indebtedness to no more than 65% of total capital for each entity. AIC's debt ratio of approximately 40% is well within the covenant restriction.

AIC also participates in AEE's utility money pool. AEE maintains separate money pools for its utility and nonregulated entities. Ameren Services administers the money pool agreements. AIC also has the ability to access funding from credit facilities AEE shares with its other operating subsidiaries aggregating $1.0 billion.

Annual debt maturities over the next five years shown in the table at right are moderate, and should be easily manageable, but will require capital market access.

Ameren Illinois Company Debt Maturities

($ Mil.)	2012	2013	2014	2015	2016
Senior Secured Notes	—	150	—	—	129
Pollution Control Bonds	1	—	51	—	—
Total	**1**	**150**	**51**	**0**	**129**

Source: 10-K.

Capital Structure

Fitch expects AIC to manage upstream dividends to AEE and external financing requirements in a manner that preserves the company's authorized regulatory capital structure. The Illinois Commerce Commission (ICC) approved a capital structure with 53.27% common equity in a gas rate case decided in January 2012. More recently, AIC filed its initial FRP based on a 54.28% equity ratio.

Operating Environment

Illinois Regulation

Energy Infrastructure Modernization Act

Legislation enacted in October 2011 (S.B. 1652) fundamentally changes and improves regulation in Illinois. The legislation requires minimum levels of capital investment for modernization of the electric transmission and distribution system, and smart grid investments. Capital and operating costs are recovered annually through the FRP. The FRP calculations incorporate a legislatively set ROE equal to the 12-month average of the 30-year Treasury bond yield plus 590 bps in 2012 and 580 bps thereafter.

The law requires AIC to invest $625 million over 10 years, beyond the average annual investment for 2008–2010. The incremental spending comprises $265 million to improve the distribution infrastructure and $360 million for smart grid deployment. The law also requires a one-time $7.5 million and annual contributions of $1 million to the Science and Energy Innovation Trust, and $1 million annually to fund customer assistance programs.

Related Criteria

Corporate Rating Methodology, Aug. 12, 2011

Parent and Subsidiary Rating Linkage, Aug. 12, 2011

Recovery Ratings and Notching Criteria for Utilities, Aug. 12, 2011

Rating North American Utilities, Power, Gas, and Water Companies, May 16, 2011

The FRP establishes the data provided in the utility's Federal Energy Regulatory Commission Form I as the appropriate cost of service, and proscribes the methodology for certain historical adjustments, which should alleviate disputes over allowable costs. Although the ICC continues to have the authority to investigate the prudence and reasonableness of expenditures, the burden of proof has been shifted from the utility to the intervening parties.

The FRP also provides for the following: a reduction in the ROE if a utility fails to meet certain performance metrics; if the earned ROE is more than 50 bps above/below the authorized ROE, the company would be required to refund/collect any amounts outside of the dead band; and termination of the FRP if the average annual rate increase for the years 2012–2014 were to exceed 2.5%. The FRP will terminate Dec. 31, 2017, unless extended by the legislature.

An amendment to S.B 1652, H.B. 3036, signed by the governor in December 2011, reduced the authorized ROE from 600 bps above Treasurys to 590 bps in 2012, and 580 bps thereafter, and also amended the levels of capex.

AIC submitted its initial FRP on Jan. 3, 2012, for new rates to be effective in October 2012. The filing indicates a $19 million rate decrease based on a 10.05% ROE and a 54.28% common equity ratio. The rate base is valued as of Dec. 31. 2010, plus 2011 and 2012 expected net plant additions. The first annual update is expected to be filed in May 2012, with new rates effective Jan. 1, 2013.

Natural Gas Rate Increase

The ICC approved a $32.2 million increase in AIC's natural gas rates on Jan. 10, 2012. The new rates became effective Jan. 20, 2012. The rate increase authorized by the ICC equates to approximately 65% of the company's $49.5 million rate request. The rate decision was based on a relatively low 9.06% ROE and a 53.27% equity ratio.

Capex

Capex is projected to increase beginning in 2012. The higher spending is to meet load growth, maintain reliability, and replace an aging infrastructure. Over the five-year period 2012–2016, forecast capex aggregates $2.9 billion, or approximately 80% higher than the estimated $1.6 billion (excluding discontinued operations) expended in the prior five-year period (2007–2011). Transmission investments account for approximately 30% of the forecast expenditures.

Company Profile

AIC operates a rate-regulated electric and natural gas transmission and distribution business in Illinois. AIC was created in October 2010 by a two-step internal reorganization of Central Illinois Public Service Co. (CIPS), Illinois Power Co. (IP), and Central Illinois Light Co. (CILCO) in October 2010.

The first step of the reorganization was the merger of CILCO, IP, and CIPS to form AIC. The second step involved the distribution of CILCO's interest in AmerenEnergy Resources Generating Company (AERG), a merchant generation business, to AEE. AEE then contributed the AERG shares to Ameren Energy Resources Company, an AEE subsidiary that houses its nonrate-regulated operations.

Financial Summary — Ameren Illinois Company

($ Mil.)	2011	2010	2009	2008
Fundamental Ratios				
FFO/Interest Expense (x)	4.02	5.56	5.14	4.00
CFO/Interest Expense (x)	4.65	5.15	6.51	4.15
Debt/FFO (x)	4.05	2.80	2.90	N.A.
Operating EBIT/ Interest Expense (x)	3.32	3.46	2.33	1.23
Operating EBITDA/ Interest Expense (x)	4.88	4.92	3.71	2.65
Operating EBITDAR/ (Interest Expense + Rent) (x)	4.88	4.92	3.71	2.65
Debt/ Operating EBITDA (x)	2.51	2.60	3.24	N.A.
Common Dividend Payout (%)	169.43	53.63	40.66	68.97
Internal Cash/Capital Expenditures (%)	49.57	157.53	168.90	70.22
Capital Expenditures/Depreciation (%)	163.26	139.05	206.94	274.43
Profitability				
Revenues	2,787	3,014	2,984	3,508
Net Revenues	1,442	1,471	1,294	1,189
Operating and Maintenance Expense	640	635	590	653
Operating EBITDA	673	708	579	410
Depreciation and Amortization Expense	215	210	216	219
Operating EBIT	458	498	363	191
Gross Interest Expense	138	144	156	155
Net Income for Common	193	248	241	87
Operating Maintenance Expense % of Net Revenues	44.38	43.17	45.60	54.92
Operating EBIT % of Net Revenues	31.76	33.85	28.05	16.06
Cash Flow				
Cash Flow from Operations	504	597	859	488
Change in Working Capital	87	(60)	213	23
Funds from Operations	**417**	**657**	**646**	**465**
Dividends	(330)	(137)	(104)	(66)
Capital Expenditure	(351)	(292)	(447)	(601)
FCF	(177)	168	308	(179)
Net Other Investment Cash Flow	55	35	(5)	24
Net Change in Debt	(150)	(40)	(312)	67
Net Equity Proceeds	19	(13)	272	(16)
Capital Structure				
Short-Term Debt	0	0	0	N.A.
Long-Term Debt	1,689	1,838	1,876	N.A.
Total Debt	**1,689**	**1,838**	**1,876**	**N.A.**
Total Hybrid Equity and Minority Interest	31	31	86	N.A.
Total Common Shareholder's Equity	2,390	2,514	2,957	N.A.
Total Capital	4,110	4,383	4,919	N.A.
Total Debt/Total Capital (%)	41.09	41.93	38.13	N.A.
Total Hybrid Equity and Minority Interest/Total Capital (%)	0.75	0.71	1.75	N.A.
Common Equity/Total Capital (%)	58.15	57.36	60.11	N.A.

N.A. – Not available.
Source: Company reports and Fitch Ratings.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.