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Date 9-13-12 Reporter CB

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Credit Opinion: Ameren Illinois Company

Global Credit Research - 13 Jun 2012

Peoria, Illinois, United States

Ratings

Category	**Moody's Rating**
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
Parent: Ameren Corporation	
Outlook	Stable
Issuer Rating	Baa3
Senior Unsecured	Baa3
Subordinate Shelf	(P)Ba1
Pref. Shelf	(P)Ba1
Commercial Paper	P-3

Contacts

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Key Indicators

[1]**Ameren Illinois Company**

	LTM 3/31/2012	**2011**	**2010**	**2009**
(CFO Pre-W/C + Interest) / Interest Expense	**4.4x**	**4.1x**	**4.8x**	**4.4x**
(CFO Pre-W/C) / Debt	**25%**	**23%**	**26%**	**25%**
(CFO Pre-W/C - Dividends) / Debt	**11%**	**8%**	**20%**	**20%**
Debt / Book Capitalization	**39%**	**39%**	**40%**	**39%**

[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

- Recent legislation reduces uncertainty, although regulatory framework remains challenging

- Formula rate plan provides improved clarity on cost recovery

- Financial and cash flow metrics are commensurate with a strong Baa rating

- High capital expenditures over the next several years

Corporate Profile

Ameren Illinois Company (Ameren Illinois, Baa2 senior unsecured and Issuer Rating, stable outlook) is a regulated electric and natural gas transmission and distribution utility with a service territory in central and southern Illinois. Ameren Illinois is a wholly-owned subsidiary of Ameren Corporation (Ameren, Baa3 Issuer Rating, stable outlook). It was formed in 2010 by the merger of Ameren's three Illinois utility subsidiaries: the former Central Illinois Light Company (AmerenCILCO), Central Illinois Public Service Company (AmerenCIPS) and Illinois Power Company (AmerenIP).

SUMMARY RATING RATIONALE

The rating of Ameren Illinois reflects a below average regulatory framework in Illinois offset by improved cost recovery prospects following the passage of the state's Energy Infrastructure Modernization Act (EIMA) earlier this year. The rating also reflects financial metrics that are appropriate for its rating, an adequate liquidity position, and its relatively low risk transmission and distribution business risk profile.

DETAILED RATING CONSIDERATIONS

- Recent legislation reduces uncertainty, although regulatory framework remains challenging

Ameren Illinois operates in what Moody's has considered for some time to be a below average regulatory framework for investor owned utilities. Although recent legislation has improved the company's cost recovery prospects, the regulatory and political environment remains unpredictable with adverse regulatory decisions continuing to be a distinct possibility. The company's last gas rate case order, decided in January 2012, authorized a $32.2 million gas rate increase, a 9.06% return on equity, and an 8.33% return on rate base. While the authorized rate increase was approximately 65% of the company's final $49.5 million request, the 9.06% return on equity is a low return compared to most other gas utilities.

On May 29, 2012, the ICC rejected the smart grid investment plan filed by the company under provisions of the recently passed legislation, citing a lack of details and specificity. Neighboring utility Commonwealth Edison recently received an adverse rate order in its first formula rate case filing. The ICC approved a significantly larger rate reduction than Commonwealth Edison had proposed, disallowed pension assets in rate base, and utilized an average rate base and capital structure rather than a year-end rate base and capital structure.

- Formula rate plan legislation provides improved clarity on cost recovery

On December 30, 2011, the Illinois legislature passed the Energy Infrastructure Modernization Act (EIMA), which requires Ameren Illinois to invest at least $265 million over ten years in electric system investments and at least $360 million over ten years in its transmission and distribution system and in smart-grid upgrades. The legislation should 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 legislation allows Ameren Illinois to participate in a performance-based formula ratemaking process for its electric rates (gas rates were not included in the legislation). The formula provides for recovery of costs for electric delivery service, reflects Ameren Illinois' actual regulated capital structure, and applies an ROE based upon a spread over an average of the 30-year US treasury bond. All actions are subject to review by the ICC, as are the "prudence and reasonableness" of the company's expenditures and capital structure. The ICC must also approve all of the company's formula rate filings.

Largely because of this legislation, while some uncertainty persists, Factor 2 of Moody's Regulated Electric and Gas Utility Methodology, the Ability to Recover Costs and Earn a Return, is now scored at Baa compared to Ba previously. This improvement in the scoring reflects the expected stability on cost recovery and reduction in regulatory lag that the formula rate plan should provide.

On January 3, 2012, Ameren Illinois filed initial performance-based formula rates with the ICC. The initial filing, based on 2010 costs and 2011/2012 expected plant additions, would result in a rate decrease of $19 million. The ICC staff recommended an $25 million decrease, while the Illinois Attorney General, Citizens Utility Board, and Industrial Energy Customers recommended larger rate decreases ranging from $43 to $56 million. On April 20, 2012, Ameren made a second formula rate filing based on 2011 costs and 2012 plant additions resulting in a $15 million decrease below what had been filed for in January. An ICC decision on the company's initial filing is required by September 28, 2012.

- Financial and cash flow metrics are commensurate with strong Baa rating after adjustments

The cash flow coverage metrics of Ameren Illinois stayed strong in 2011 despite lower cash flow from operations partly because debt was reduced slightly following the redemption of $150 million of first mortgage bonds in September 2010. Higher pension contributions, lower electric margins, and higher storm restoration costs were somewhat offset by lower collateral postings, an acceleration of certain payments from MISO, and lower interest expense. CFO pre-W/C to debt was 25% in 2009, 26% in 2010 and 23% in 2011, although closer to 20% after adjusting for both bonus depreciation and operating cash flows from discontinued operations in 2009 and 2010. The latter consisted of Ameren Energy Resources Generating Company, a former subsidiary of AmerenCILCO, which was transferred to Ameren as part of the 2010 corporate reorganization that created Ameren Illinois. Going forward, Moody's expects Ameren Illinois to exhibit financial metrics that should remain supportive of a strong Baa rating, including CFO pre-working capital interest coverage of at least 4.0x and CFO pre-working capital to debt above the 20% range. The utility's metrics should also be more stable than previously if the legislatively approved formula rate plan is implemented as intended.

- High capital expenditures over the next five years

Ameren Illinois has a substantial capital expenditure program with the company forecasting capital expenditures of $535 million in 2012 and between $2.0 billion and $2.7 billion over the 2013-2016 time period. The company's capital expenditures are primarily for electric and gas transmission and distribution related investments, including capital expenditures to modernize its distribution system pursuant to the EIMA. As a result, we would expect much of this spending to be recoverable through annual formula rate filings There is still some uncertainty on the amount and timing of some of this spending, as demonstrated by the ICC's recent rejection of the company's smart grid installation and spending plan.

Liquidity

Ameren Illinois maintains an adequate liquidity profile that is supported by a three year $800 million unsecured bank credit agreement that expires in September 2013. The Illinois credit facility is shared with the parent company, whose maximum borrowing amount available is $300 million. Because the two entities share the same credit facility, Ameren Illinois maintains a short-term rating for commercial paper of Prime-3, the same short-term rating of the parent company. The credit facility includes covenants requiring that Ameren and Ameren Illinois maintain consolidated indebtedness of not more than 65% of its consolidated capitalization. At March 31, 2012, the ratios for Ameren and Ameren Illinois were 49% and 41%, respectively. In addition, Ameren is required to maintain a ratio of consolidated funds from operations plus interest expense to consolidated interest expense of 2.0 to 1. At March 31, 2012, it was in compliance with this financial covenant with a ratio of 5.0x to 1.

In addition to this credit facility, Ameren Illinois also participates in a utility money pool arrangement with the parent company, giving it access to additional funds if needed. At March 31, 2012, neither Ameren nor Ameren Illinois had any borrowings under the Illinois credit facility. Ameren Illinois had $187 million of cash on hand as of March 31, 2012, an increase from December 31, 2011 when it had $21 million of cash. The company has no significant long-term debt due until December 2013, when $150 million of senior secured notes are due, except for $1 million of pollution control bonds maturing in 2012.

Rating Outlook

The stable outlook reflects Moody's expectation that recently passed EIMA legislation will provide sufficient cost recovery on the electric portion of the business, that its regulatory framework will be more predictable than historically, and that financial metrics will remain strong for its current rating.

What Could Change the Rating - Up

Given the relatively recent passage of the EIMA legislation, the ICC commission rejection of its smart grid plan, and its two pending formula rate plan filings, an upgrade is unlikely over the near term. An upgrade could be considered, however, if there if an improvement in the supportiveness of the regulatory environment in Illinois and the company continues to maintain strong financial metrics, including CFO pre-working capital above 22% and CFO pre-working capital interest coverage above 4.5x on a sustained basis, after adjustments for bonus depreciation.

What Could Change the Rating - Down

The rating could be downgraded if the EIMA formula rate making rate process is not implemented as legislatively intended, if there are unsupportive rate case outcomes or other regulatory outcomes, if there is unfavorable or adverse political intervention in the regulatory process, or if financial metrics deteriorate such that CFO pre-working capital to debt falls below 16% or CFO pre-working capital to interest expense falls below 4.0x for an extended period.

Rating Factors

Ameren Illinois Company

Regulated Electric and Gas Utilities Industry [1][2]	**Current 12/31/2011**		**Moody's 12-18 month Forward View* As of June 2012**	
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 (10%)		Ba		Ba
b) Generation and Fuel Diversity (0%)		-		-
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%)	4.4x	Baa	4.5 - 5.0x	A
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	24.5%	A	18% - 23%	A / Baa
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	15.8%	Baa	15 - 20%	A / Baa
e) Debt/Capitalization (3 Year Avg) (7.5%)	39.3%	A	38 - 42%	A
Rating:				
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned		Baa2		Baa2

* 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 12/31/2011; Source: Moody's Financial Metrics

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