MOODY'S INVESTORS SERVICE

Credit Opinion: Ameren Corporation

Global Credit Research - 10 Aug 2012

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
Senior Unsecured Shelf	(P)Baa2
Pref. Stock	Ba1
Commercial Paper	P-3
Ameren Energy Generating Company	
Outlook	Negative
Bkd Sr Unsec Bank Credit Facility	Ba3
Senior Unsecured	Ba3

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Key Indicators

[1]**Ameren Corporation**

	LTM 3/31/2012	2011	2010	2009
(CFO Pre-W/C + Interest) / Interest Expense	4.2x	4.3x	4.2x	4.1x
(CFO Pre-W/C) / Debt	21%	21%	22%	21%
(CFO Pre-W/C - Dividends) / Debt	16%	16%	17%	17%
Debt / Book Capitalization	44%	42%	45%	46%

[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 framework in Missouri, although recent rate case outcome was more credit supportive

Formula rate plan legislation in Illinois has improved cost recovery prospects, although regulatory framework remains challenging

Low power prices and higher expenses negatively affecting merchant generation margins

Exposure to EPA mandated environmental compliance requirements

Stable consolidated cash flow coverage metrics and low parent company debt are supportive of credit quality

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, Baa2 senior unsecured, stable outlook), Ameren Illinois Company (Baa2 senior unsecured, stable outlook), and unregulated subsidiaries AmerenEnergy Generating Company (Ameren Genco, Ba3 senior unsecured, negative outlook), Ameren Energy Resources Generating Company (AERG), and AmerenEnergy Marketing Company.

SUMMARY RATING RATIONALE

Ameren's rating reflects below average but improving regulatory frameworks in both Missouri and Illinois; a highly challenged merchant generation segment; exposure to EPA mandated environmental compliance requirements; and stable consolidated financial metrics that are supportive of 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, a relatively small merchant generation segment as a percentage of its total business, as well as the modest $425 million of long-term debt at the parent company level.

DETAILED RATING CONSIDERATIONS

- Below average regulatory framework in Missouri, although recent rate case outcome was more credit supportive

Ameren's largest subsidiary, Union Electric, operates in what we have considered to be a below average regulatory framework, which has resulted in significant regulatory lag and prevented the utility from earning close to its allowed return on equity over the years. 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; less than full recovery of fuel costs in rates; and a requirement that fuel costs be recovered through normal base rate proceedings rather than through a more timely automatic fuel cost adjustment mechanism.

The utility's most recent rate case outcome, in July 2011, was more supportive of credit quality than some previous rate cases, with the Missouri Public Service Commission (MPSC) approving a $172 million rate increase based on a 10.2% return on equity. 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 of costs related to enhancements to its Taum Sauk pumped storage facility in excess of those covered by insurance.

On February 3, 2012, Union Electric filed for a $376 million electric rate increase or an approximate 14.6% increase in customer rates. The request included $103 million for higher fuel costs, $85 million for reliability, environmental, and renewable energy regulations, and $81 million for proposed energy efficiency spending. The rate increase is premised on a 10.75% ROE, a 52% capital structure, and an electric rate base of $6.8 billion.

On July 6, 2012, the MPSC Staff recommended a $210 million rate increase based on a 9% return on equity, the upper end of the Staff's indicated ROE range of 8% to 9%. The bulk of the difference between the two rate increase amounts comes from the lower ROE recommended by the Staff. Of concern from a credit standpoint is the Staff's recommendation that the percentage of fuel costs to be recovered from customers be reduced to 85% from 95% currently, which we would view as credit negative. Most utilities in credit supportive regulatory environments recover 100% of fuel costs. The Staff's position is consistent with previous Staff recommendations that we have viewed as potentially detrimental to the utility's credit quality. However, based on previous experience, we expect the MPSC to approve a more credit supportive rate outcome when it comes to a decision or the parties reach a settlement by December.

- Formula rate plan legislation in Illinois has improved cost recovery, although regulatory framework remains challenging

Ameren Illinois also operates in what we have considered for some time to be a below average regulatory framework for investor owned utilities. On December 30, 2011, however, the Illinois legislature passed the Energy Infrastructure Modernization Act (EIMA), which requires Ameren Illinois to spend 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.

Although this 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.

- Low power prices and higher expenses negatively affecting merchant generation margins

On April 12, 2012, merchant generation subsidiary Ameren Genco's senior unsecured rating was downgraded to Ba3 from Ba2, and assigned a negative outlook, reflecting a more constrained but still adequate liquidity position following the execution of an agreement with an affiliate to quickly raise $100 million by exercising an option to sell three gas plants to this affiliate. The affiliate's potential purchase obligation under the option agreement is guaranteed by Ameren. This agreement became necessary in light of management's expectation that Ameren Genco will lose access to Ameren's main bank credit facility by the end of the first quarter of 2013 because of covenant restrictions.

Ameren Genco's margins have been negatively affected by low power prices and the expiration of hedges that had been in place at above market prices. Parent company Ameren's rating has thus far not been affected by the declining credit quality of its merchant generation segment due to the relatively small contribution of the segment to Ameren's overall cash flow and risk profile compared to its regulated utility subsidiaries.

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

In 2011, Ameren generated 85% of its electricity from coal, making it one of the more vulnerable companies to additional costs associated with EPA mandated environmental compliance regulations at both its Missouri regulated utility and at 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 has entered into a long-term contract for the purchase of 91 million tons of ultra-low sulfur coal that will allow the utility 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 our expectation that the utility will be able to recover its environmental compliance expenditures in rates, although there could be delays, contributing to regulatory lag.

However, Ameren's merchant generating subsidiaries will need to recover such expenditures through unregulated rates and, in contrast to some of its generating company peers, the company's merchant generation fleet is only partially scrubbed. Pending environmental compliance requirements represent a substantial long-term challenge for Ameren Genco, and drastic cutbacks in capital spending for scrubber installation at its Newton coal plant announced in February 2012 could hamper the ability of the company to fully dispatch is fleet as early as 2015, when Illinois multi-pollutant standards tighten. On May 3, 2012, Ameren's merchant generation subsidiary filed a petition requesting flexibility in meeting these standards, with the outcome of this request still pending.

- Stable consolidated cash flow coverage metrics and low parent company debt are supportive of credit quality

Ameren's consolidated cash flow coverage metrics have been stable over the last few 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 4.3x in 2011, up slightly from 4.2x in 2010, on a Moody's adjusted basis, while cash flow from operations before working capital adjustments to debt has been in the 21% range for the past three years, up from 15% in 2008. While part of this improvement resulted from 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 have also benefited from bonus depreciation over the last two years, which we view 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 Genco has limited access to the joint parent company facility due to covenant limitations that have restricted borrowings. The parent company 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, 2012, Ameren had no borrowings under any of its credit agreements but $15 million of letters of credit outstanding. Ameren also maintains an active commercial paper program, with $30 million of commercial paper outstanding as of June 30, 2012. 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, 2012, 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 48%, 48%, 41% and 45%, respectively, at June 30, 2012. 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 2.0x to 1.0 and at June 30, 2012, that ratio was 5.1x 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, 2011, and for the first half of 2012, improving the system's overall liquidity. As of June 30, 2012, Ameren had $117 million of cash and cash equivalents on hand, down from $255 million at December 31, 2011. The company had $179 million current portion of long-term debt at June 30, 2012 consisting for the most part of $173 million of Union Electric senior secured notes that are due September 1, 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.

Rating Outlook

The stable rating outlook reflects its recently credit supportive rate case outcome in Missouri; an improved but still challenging regulatory framework in Illinois following the passage of formula rate plan legislation; consolidated cash flow coverage metrics are supportive of credit quality, a modest amount of debt at the parent company, and the stable rating outlooks at its two major utility subsidiaries, offsetting the negative outlook on its smaller merchant subsidiary.

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 stable 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 is downgraded; if the parent provides material financial support or capital contributions to its merchant generation segment; if the company issues significant additional debt at the parent company; or if there is 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 3/31/2012		Moody's 12-18 month Forward View* As of August 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 (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%)	4.2x	Baa	4.0x - 4.5x	Baa
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	21.6%	Baa	18% - 22%	Baa
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	17.2%	A	15 - 18%	Baa
e) Debt/Capitalization (3 Year Avg) (7.5%)	44.6%	A	42 - 45%	A
Rating:				
a) Indicated Rating from Grid		Baa2		Baa2
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 3/31/2012; Source: Moody's Financial Metrics

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