



Credit Opinion: Ameren Corporation

Global Credit Research - 23 Aug 2013

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 Illinois 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

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Key Indicators

[1]

Ameren Corporation

	LTM 06/30/2013	2012	2011	2010
(CFO Pre-W/C + Interest) / Interest Expense	4.2x	4.1x	4.3x	4.2x
(CFO Pre-W/C) / Debt	21.7%	20.3%	21.0%	21.7%
(CFO Pre-W/C - Dividends) / Debt	16.9%	15.6%	16.4%	17.4%
Debt / Book Capitalization	43.1%	46.3%	42.2%	45.0%

[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 but improving regulatory environment in both Illinois and Missouri
- EIMA and SB 9 promise more certainty in ratemaking process
- Sale of merchant generation operations a credit positive
- Credit metrics supportive of current Baa3 rating

Corporate Profile

Ameren Corporation (Ameren, Baa3 stable) is the holding company of regulated electric and gas utility subsidiaries Union Electric Company (Ameren Missouri, Baa2 stable), Ameren Illinois Company (Ameren Illinois, Baa2 stable), and unregulated subsidiaries Ameren Energy Generating Company (Ameren Genco, B3 negative), Ameren Energy Resources Generating Company (AERG), and Ameren Energy Marketing Company. Ameren's unregulated operations, which include Ameren Genco, AERG and Ameren Energy Marketing Company are expected to be sold off by year's end.

SUMMARY RATING RATIONALE

Ameren's rating reflects below average but improving regulatory environment in both Missouri and Illinois and financial metrics that are supportive of its current Baa3 rating. Ameren's rating also reflects its position as a parent holding company that is diversified with regulated utilities operating in two states, and the modest \$425 million of long-term debt at the parent company level. The sale of the merchant operation, once accomplished, will eliminate a significant credit overhang.

DETAILED RATING CONSIDERATIONS

- Regulatory environment in Missouri is improving but still below average

Historically, Missouri has been considered one of the more difficult regulatory jurisdictions in the US for electric utilities, characterized by regulatory lags and contentious disallowances a times. It also has an active intervener base and a restrictive regulatory commission. Though the situation has improved over the last few years, we still consider it somewhat below average. Union Electric's gas operation enjoys a considerably more favorable regulatory treatment but is a small part of its total operations.

To reduce regulatory lag, Union Electric has been filing rate cases frequently (four in last five years) and is likely to continue to do so given the level of capital spending and anemic sales volume growth. In the past few cases, the company was successful in raising rates substantially and made significant progress with the implementation of a fuel adjustment clause and cost trackers for pension/OPEB, vegetation management and storm costs. The company's request for a tracker on assets placed in service in between rate cases was rejected in the 2012 rate order. An effort to establish a rider for infrastructure replacement investments through legislation also failed to pass in May 2013. The approved parameters of the last rate case, which went into effect on January 2, 2013, were well within the industry norm - 9.8% return on equity with 52.3% common equity layer.

- EIMA and SB 9 promise more certainty in ratemaking process in Illinois

Illinois has historically been a challenging regulatory environment for utilities, but the situation is slowly improving with the passage of the Illinois Energy Infrastructure Modernization Act (EIMA) in late 2011 and SB 9 in 2013. Depending on how it is implemented, the EIMA could significantly reduce ratemaking uncertainty. Execution risk remains a concern given Illinois' history of contentious relationships between the Illinois Commerce Commission (ICC) and the state's investor-owned utilities, as most recently evidenced by the dispute between the ICC and investor-owned utilities over the application of EIMA in recent rate cases.

Ameren Exhibit 20.2

The ICC has a history of authorizing below average rates of return and various disallowances that has led to this contentious relationship. The poor regulatory treatment has been a key negative credit factor for utilities operating in Illinois. The EIMA has the potential to reduce much of the uncertainty because it provides a formulaic ratemaking paradigm. Return on equity is calculated with a formula based on the 30-year treasury yield, with adjustments for quantitative performance measures. In contrast, the traditional rate case paradigm gives the utility commission much wider discretion over the ratemaking process and outcome.

There are concerns regarding implementation of the EIMA because it was opposed by both Governor Quinn and the ICC. Governor Quinn unsuccessfully vetoed EIMA, and the ICC opposed the initial passage of EIMA and used unfavorable parameters, such as average instead of year-end rate base, during Ameren Illinois' initial filing (for 2012 rates) and its first updated filing (for 2013 rates) under the formula rate plan. As a result, the more supportive legislature had to pass the follow-up SB 9 bill in May 2013 to clarify the parameters to be used, which are favorable to the company.

The passage of SB 9 should alleviate the disagreement between the ICC and the company over the implementation of EIMA in the near term, thus bringing EIMA one step closer to achieving its potential of encouraging more investment in utility infrastructure, mitigating regulatory lag, and creating a more transparent and less politically charged rate-setting process for the company. The outcome of the current formula rate filing (for 2014 rates), expected in December 2013, will go a long way in demonstrating the effectiveness of EIMA.

- Sale of merchant generation operations a credit positive

On March 14, 2013, the company announced that Dynegy, Inc. (B2 Corporate Family Rating, stable) agreed to acquire Ameren Genco and the rest of Ameren's merchant coal-fired generating portfolio. We view the planned sale as credit positive for Ameren as it will eliminate its higher-risk, merchant generating business.

- Credit metrics supportive of current rating levels

Consolidated interest coverage, as measured by CFO Pre-WC plus interest to interest, was 4.1x in 2012, down slightly from 4.3x in 2011, while CFO Pre-WC to debt has been in the 21% range for the past four years. Even though these credit metrics are strong for the rating, they benefited from very low tax burden arising from bonus tax depreciation and net operating losses, which may or may not continue. Going forward, Ameren's cash flow to debt metrics could decline but we expect the CFO Pre-WC/debt to remain above 15%, consistent with its rating level.

Liquidity Profile

Ameren has adequate liquidity. The company will likely generate negative free cash flow over the next few years due to rising capital expenditures at Ameren Illinois and Ameren Transmission Company of Illinois. However, Ameren's access to capital markets should not be an issue given its stable rate-regulated utility operations. Liquidity available to Ameren includes \$2.1 billion of bank credit facilities, of which the company reported very minor usage as of June 30, 2013. Long-term debt maturities over the next twelve months on a consolidated basis total \$884 million.

Rating Outlook

The stable rating outlook reflects the improving regulatory environment in both Missouri and Illinois and consolidated cash flow coverage metrics that are supportive of credit quality.

What Could Change the Rating - Up

The rating could be upgraded if the regulatory environment in Missouri and Illinois continue to improve, assuming that the merchant unit is successfully divested and the credit metrics are supportive of an upgrade.

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 unresponsive rate case outcomes, or if there is a decline in financial metrics, including CFO Pre-WC to debt below 15% for a sustained period.

Rating Factors

Ameren Corporation

Regulated Electric and Gas Utilities Industry [1][2]	LTM 06/30/2013		Moody's 12-18 month Forward View* As of August 2013	
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	3.7x-4.2x	A
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	21.7%	Baa	19%-21%	Baa
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	16.9%	Baa	13%-16%	Baa
e) Debt/Capitalization (3 Year Avg) (7.5%)	43.1%	A	42%-44%	Baa
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 06/30/2013(LTM); Source: Moody's Financial Metrics



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