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Credit Opinion: Ameren Illinois Company

Global Credit Research - 13 Jun 2013

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
Senior Unsecured Shelf	(P)Baa2
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)Ba2
Commercial Paper	P-3

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Key Indicators

[1]**Ameren Illinois Company**

	LTM 03/31/2013	**2012**	**2011**	**2010**
(CFO Pre-W/C + Interest) / Interest Expense	**4.1x**	**3.9x**	**4.1x**	**4.8x**
(CFO Pre-W/C) / Debt	**20.9%**	**19.2%**	**22.8%**	**26.2%**
(CFO Pre-W/C - Dividends) / Debt	**13.3%**	**10.7%**	**7.5%**	**20.0%**
Debt / Book Capitalization	**39.2%**	**39.7%**	**39.3%**	**40.2%**

[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

- Supportive legislation improves rate certainty

- Regulatory environment remains challenging

- Financial metrics consistent with current ratings

- High capital expenditures over the next several years

Corporate Profile

Ameren Illinois Company (Ameren Illinois, Baa2 senior unsecured, stable) 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). 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 environment in Illinois offset by improved cost recovery prospects following the passage of the state's Energy Infrastructure Modernization Act (EIMA) in 2011 and subsequent supportive clarifications provided in the recently passed Senate Bill 9 (SB 9). 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

– EIMA and SB 9 promise more certainty in ratemaking process

Illinois has historically been a challenging regulatory environment for utilities, but the situation is slowly improving with passage of 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 relationship 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.

The ICC has a history of authorizing punitive rates of return and disallowances that led to contentious relationships with the utilities. 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 utility commissioners. Governor Quinn unsuccessfully vetoed both the EIMA and SB 9, 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 the first updated filing (for 2013 rates) under the formula rate plan. As a result, the more supportive legislature had to pass 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 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 EIM.

– Financial and cash flow metrics are commensurate with Baa rating

Ameren Illinois' cash flow to debt metrics are consistent with its outstanding ratings. The company recorded a CFO pre-WC/debt ratio of 26% and 23% in 2010 and 2011, respectively, though this credit measure declined to 19% in 2012. The decline in 2012 can be partly attributed to the 8.8% allowed return on equity (ROE) calculated under EIMA's formula rate in 2012, which is substantially lower than the ICC's 2010 electric rate order, which had established the allowed ROE at 10.2%. However, because EIMA uses the 30-year treasury rate as the base when calculating allowed ROE, a rise in the treasury rate will directly translate into a higher allowed ROE for Ameren Illinois.

- High capital expenditures over the next five years

Ameren Illinois has a substantial capital expenditure program with the company forecasting capital expenditures of $695 million in 2013 and between $2.4 billion and $3.25 billion over the 2014-2017 time period. The large capital expenditure program reflects the commitment to spend an incremental $625 million between 2012 and 2021 pursuant to EIMA as well as spending on FERC-regulated transmission projects, which is expected to account for $1 billion over the next five years (2013-2017). Currently, FERC-regulated revenue only accounts for 1% of Ameren Illinois' total operating revenue but this share will grow with the planned investments.

Liquidity

Ameren Illinois maintains an adequate liquidity profile that is supported by a five-year $800 million unsecured bank credit agreement that expires in November 2017. 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 consolidated capitalization. At March 31, 2013, the ratios for Ameren and Ameren Illinois were 52% and 42%, 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, 2013, it was in compliance with this financial covenant with a ratio of 5.1x to 1.

In addition to the credit facility, Ameren Illinois participates in a utility money pool arrangement with the parent company, giving it access to additional funds if needed. At March 31, 2013, neither Ameren nor Ameren Illinois had any borrowings under the Illinois credit facility. Ameren Illinois had $93 million of cash as of March 31, 2013, an increase from December 31, 2012 when it had no cash on hand (due in part to the pay-down of a $150 million senior secured note with operating cash flow and cash). The company has no significant long-term debt due until December 2013, when $200 million of senior secured notes are due.

Rating Outlook

The stable outlook reflects our expectation that EIMA and SB 9 will provide sufficient cost recovery on the electric portion of the business, that its regulatory framework will allow for more predictable outcomes than the past, and that financial metrics will remain supportive for its current rating.

What Could Change the Rating - Up

Should the formula rate plan prove to be effective over time in reducing Illinois's regulatory risk, Ameren Illinois' rating may be placed on positive outlook, provided that its financial metrics remain supportive of such an action.

What Could Change the Rating - Down

The rating could be downgraded if the implementation of EIMA suffers a setback and fails to establish a more transparent and predictable ratemaking framework for Ameren Illinois.

Rating Factors

Ameren Illinois Company

Regulated Electric and Gas Utilities Industry [1][2]	**LTM 03/31/2013**			**Moody's 12-18 month Forward View* As of June 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%)		Ba		Ba
b) Generation and Fuel Diversity (5%)		-		-
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	4.0-4.4x	Baa
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	23.3%	A	19-22%	Baa
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	13.6%	Baa	13-16%	Baa
e) Debt/Capitalization (3 Year Avg) (7.5%)	39.6%	A	39-42%	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 03/31/2013(LTM); Source: Moody's Financial Metrics

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