STANDARD & POOR'S
RATINGS SERVICES

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Summary:
Ameren Illinois Co.

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Summary:

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Corporate Credit Rating	BBB/Watch Pos/A-2

Profile Assessments

BUSINESS RISK	EXCELLENT	Vulnerable — Excellent
FINANCIAL RISK	SIGNIFICANT	Highly leveraged — Minimal

Rationale

Business Risk: Excellent	Financial Risk: Significant
• Rate-regulated, monopolistic, and essential service provider • Lower-risk transmission and distribution operations • Slow economic and sales growth within its service territory • Business operations within a "less credit supportive" regulatory jurisdiction	• Consistent consolidated historical financial measures that we expect the company will maintain (debt to EBITDA of about 4x) • Consolidated high annual capital spending of about $1.5 billion or greater • Consolidated dividend minimally maintained at existing level • Historical consolidated positive discretionary cash flow that we expect will revert to negative, primarily reflecting higher capital spending

CreditWatch: Watch Pos

The ratings on Ameren are on CreditWatch with positive implications, reflecting the high probability of another upgrade following the completion of the merchant sale to Dynegy Inc. The CreditWatch status also reflects our base-case forecast following the transaction's completion, and includes funds from operations (FFO) to debt of about 20% and debt to EBITDA of about 4x. These financial measures are consistent with the "significant" financial risk profile category and, when viewed together with Ameren Corp.'s "excellent" business risk profile, could support a modestly higher rating. Key risks to our forecast include the outcomes of future rate cases and our expectation for continued weak economic growth within the company's regulated service territories. We could upgrade Ameren and its regulated subsidiaries if the company closes the transaction in a timely manner while meeting our expected financial measures.

Standard & Poor's Base-Case Scenario

Assumptions

- The company completes the sale of its merchant assets to Dynegy by the fourth quarter of 2013
- Continued weak economic growth that supports our expectation for flat regulatory sales growth
- Operating measures for safety and generation reliability continue to gradually improve
- No material improvement assumed to the company's management of regulatory risk

Key Metrics

	2012A	2013E	2014E
Debt/EBITDA (x)	3.7	3.7-4.2	3.7-4.2
FFO/debt (%)	20.5	18-21	18-21
EBITDA interest coverage (x)	4.3	4.2-4.7	4.2-4.7

Standard & Poor's adjusted consolidated financial ratios for Ameren include debt adjustments for operating leases ($190 million) and pension-related items ($760 million). EBITDA adjustments include operating leases ($13 million), pension-related items ($28 million), and asset-retirement obligations ($24 million). FFO adjustments include operating leases ($22 million) and pension-related items ($80 million). A--Actual. E--Estimate.

Business Risk: Excellent

Our assessment of Ameren Illinois' (AI) business risk profile as excellent takes into account its lower-risk, monopolistic, rate-regulated utility pure transmission and distribution (T&D) businesses that provide an essential service. The company serves about 1.2 million electric customers and about 800,000 gas customers in central and southern Illinois, regulated by the Illinois Commerce Commission. In addition, the Federal Energy Regulatory Commission regulates the company's electric transmission lines, which constitute about 13% of the company's total rate base and provide some added diversification. Overall, we view the T&D businesses as lower risk than the generation businesses that are included in many fully integrated electric utilities.

We also recognize AI's continuing efforts to manage regulatory risk in Illinois. AI took the initiative in engaging state legislators and regulators to effect reform in the utility regulatory process. As a result, at the end of 2011, the Illinois' governor signed House Bill No. 3036 into law, which allows for a formula process for determining rates, including the recovery of actual costs and a formula for calculating return on equity. However, since the new law took effect, the company received its first commission order, which reduced annual rates by $48 million and a subsequent rate-case order that reduced annual rates by about $5 million. The company currently has pending electric and gas-rate cases before the commission, requesting a rate decrease of about $31 million in the electric rate case and about a $50 million rate increase in the gas rate case.

Important to the company's credit rating is its ability to demonstrate improved effective management of regulatory risk within Illinois, which we assess as less credit supportive. Recently, the company worked with legislators to pass a senate bill that allows the Illinois electric utilities to use a year-end rate base and capital structures as well as the weighted cost of capital for reconciliations. We view this change as supportive of credit quality. In addition, the company continues to work with legislators to allow for a natural gas infrastructure rider for certain infrastructure investments. We believe this rider could potentially reduce the regulatory lag and support credit quality.

Reflected in the business risk profile is our assessment of the company's management and governance as "satisfactory". This partially reflects our expectation that management will successfully execute its strategic disciplined plan of continuing to build its regulated businesses.

Financial Risk: Significant

We consider Ameren's financial risk profile as significant, reflecting our expectation that after the merchant sale transaction closes, FFO to debt will equal about 20% and debt to EBITDA will be about 4x over the intermediate term. The company's historical financial measures have demonstrated a high degree of consistency since 2009. This is the direct result of management's proactive decisions, including a dividend reduction, equity issuance, operation and maintenance cost reductions, and effective management of capital spending. For the 12 months ended March 2013, FFO to debt rose to 22.7% compared with 20.5% at year-end 2012 and debt to EBITDA also improved to 3.4x compared with 3.7x at year-end 2012. Both of these results are consistent with the significant financial risk profile category (20% to 30% and 3x to 4x, respectively). We expect that Ameren will generally maintain its historical financial measures, reflecting the sale of its merchant business despite the eventual expiration of bonus depreciation and increased capital spending on its regulated businesses.

We expect that the company will have consolidated negative discretionary cash flow reflecting high capital spending at more than $1.5 billion annually. We also expect net cash flow (FFO less dividends) to capital spending to approximate 70%, indicating the need for external funding. Overall, we expect the company to finance its investments in a manner that preserves its credit quality.

Liquidity: Adequate

We view Ameren's consolidated liquidity as "adequate" and we believe the company could more than cover its needs during the next 12 to 18 months, even if EBITDA decreased by 15%. We expect that the company's liquidity sources for the next 12 to 18 months will exceed its uses by 1.4x. We do not expect that Ameren would require access to the capital markets for the period to meet its liquidity needs.

Principal Liquidity Sources	Principal Liquidity Uses
• Consolidated FFO of about $1.6 billion annually • Assumed consolidated credit facility availability of about $1.6 billion • Assumed working capital of about $40 million	• Consolidated capital spending of more than $1.5 billion • Consolidated long-term debt maturities of more than $500 million in 2014 • Consolidated dividends of less than $400 million

Recovery Analysis

- We assign recovery ratings to first-mortgage bonds (FMBs) issued by U.S. utilities, which can result in issue ratings being notched above a utility's corporate credit rating (CCR) depending on the rating category and the extent of the collateral coverage. The FMBs issued by U.S. utilities are a form of "secured utility bond" (SUB) that qualify for a recovery rating as defined in our criteria (see "Collateral Coverage and Issue Notching Rules for ‘1+’ and ‘1’ Recovery Ratings on Senior Bonds Secured by Utility Real Property," published Feb. 14, 2013).
- The recovery methodology is supported by the ample historical record of 100% recovery for secured bondholders in utility bankruptcies in the U.S. and our view that the factors that enhanced those recoveries (limited size of the creditor class and the durable value of utility rate-based assets during and after a reorganization given the essential service provided and the high replacement cost) will persist in the future.
- Under our SUB criteria, we calculate a ratio of our estimate of the value of the collateral pledged to bondholders relative to the amount of FMBs outstanding. FMB ratings can exceed a utility's CCR by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories depending on the calculated ratio.
- AI's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of about 3x supports a recovery rating of '1+' and an issue rating two notches above the CCR.

Related Criteria And Research

- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- 2008 Corporate Ratings Criteria: Ratios And Adjustments, April 15, 2008
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

Business And Financial Risk Matrix

	Financial Risk					
Business Risk	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA/AA+	AA	A	A-	BBB	--
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	B- or below

Note: These rating outcomes are shown for guidance purposes only. The ratings indicated in each cell of the matrix are the midpoints of the likely rating possibilities. There can be small positives and negatives that would lead to an outcome of one notch higher or lower than the typical matrix outcome. Moreover, there will be exceptions that go beyond a one-notch divergence. For example, the matrix does not address the lowest rungs of the credit spectrum (i.e., the 'CCC' category and lower). Other rating outcomes that are more than one notch off the matrix may occur for companies that have liquidity that we judge as "less than adequate" or "weak" under our criteria, or companies with "satisfactory" or better business risk profiles that have extreme debt burdens due to leveraged buyouts or other reasons. For government-related entities (GREs), the indicated rating would apply to the standalone credit profile, before giving any credit for potential government support.