MOODY'S
INVESTORS SERVICE

Credit Opinion: Ameren Illinois Company

Global Credit Research - 13 Jun 2014

Peoria United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A2
Senior Secured	A2
Senior Unsecured Shelf	(P)Baa1
Pref. Stock	Baa3
Commercial Paper	P-2
Parent: Ameren Corporation	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured Shelf	(P)Baa2
Subordinate Shelf	(P)Baa3
Commercial Paper	P-2

Contacts

Analyst	Phone
Jairo Chung/New York City	212.553.5123
William L. Hess/New York City	212.553.3837

Key Indicators

[1]**Ameren Illinois Company**

	LTM 3/31/2014	12/31/2013	12/31/2012	12/31/2011	12/31/2010
CFO pre-WC + Interest / Interest	4.8x	4.7x	3.8x	4.1x	4.5x
CFO pre-WC / Debt	27%	27%	19%	23%	26%
CFO pre-WC - Dividends / Debt	23%	22%	11%	8%	20%
Debt / Capitalization	38%	38%	40%	39%	40%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

- Material improvement in regulatory environment

- Consistent financial metrics expected over the next 12-18 months

- High capital expenditures over the next five years

Corporate Profile

Ameren Illinois Company (Ameren Illinois, Baa1 senior unsecured, stable) is a regulated electric and natural gas transmission and distribution utility with approximately 1.2 million electric and 807,000 gas customers in its central and southern Illinois service territory . Ameren Illinois is a wholly-owned subsidiary of Ameren Corporation (Ameren, Baa2 Issuer Rating, stable). Ameren Illinois contributed 31% of net income from continuing operations and 37% of operating margins to Ameren in 2013. Ameren Illinois 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 more credit supportive regulatory environment in Illinois aided 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 Senate Bill 9 (SB 9) enacted in 2013. The rating also reflects strong financial metrics, an adequate liquidity position, and its relatively low risk transmission and distribution business risk profile.

On January 31, 2014, the rating of Ameren Illinois was upgraded by one notch, reflecting our more favorable view of the relative credit supportiveness of the US utility regulatory environment.

DETAILED RATING CONSIDERATIONS

- Material improvement in regulatory environment

While the Illinois regulatory environment for investor owned utilities had historically been below average compared with other state jurisdictions in the US, the passage of a number of key legislative provisions has improved that environment. We believe it is unlikely that Illinois will reverse its current course of regulatory improvement over the near term to the degree that would result in negative credit consequences.

In 2011, EIMA was passed, providing a foundation for formulaic ratemaking for infrastructure investments. Specifically, return on equity (ROE) is now calculated with a formula based on the 30-year treasury yield with adjustments for quantitative performance measures. In May 2013, SB 9 was passed to further clarify issues pertaining to formulaic ratemaking, namely that year-end rate base and capital structures will be used in all rate reconciliations. Despite opposition from the governor and the utility commissioners, these statutes were passed to create defined and more certain parameters for utility rate making in Illinois.

In December 2013, Ameren Illinois' latest rate case concluded. In this rate case, the Illinois Commerce Commission (ICC) voted to reduce Ameren Illinois' electric distribution revenue requirement by 5.5% or $44.7 million effective January 1, 2014, in line with the formulaic ratemaking procedures specified in EIMA and SB 9. We note that the authorized allowed ROE was 8.72% with a 51% equity ratio. Ameren Illinois had requested a $37.1 million rate decrease in its initial filing and a $38.0 million rate decrease in its rebuttal. Although the decision was a net decrease to electric base rates, the gap between the company's revised request and the commission's final outcome was fairly narrow. In addition, the formulaic ratemaking process was less contentious, which reduced regulatory lag, a credit positive. Prior to the passage of the EIMA, the ICC had a history of authorizing below average rates of return and disallowances that led to sometimes contentious relationships with the utilities.

On April 17, 2014, Ameren Illinois filed a new rate increase request with the ICC for its 2015 formula rate plan (FRP) proceeding. The filing requested a net annual revenue requirement increase of $206 million, including $69 million of 2013 recovery costs and 2014 net plant addition per the rate formula, and $70 million and $67 million related to 2013 and 2012 revenue requirement reconciliations, respectively. We expect a decision in December 2014 and are monitoring the ratemaking process for signs of continued improvement. The new rate making framework creates greater transparency and streamlines the rate making process, which we view as credit positive.

Ameren Illinois' most recent gas general rate case concluded in December 2013 and the new rates became effective in January 2014. In its decision, the ICC approved a $32.5 million rate increase based on a 9.08% ROE. The 9.08% is below both the national average of 9.68% and their requested ROE of 10.4%. The allowed ROE authorized in the prior rate case was 9.06%. Although lower than average allowed ROE is a credit negative, we note that rates were determined based on a forward-test year and Ameren Illinois expects to begin to use an infrastructure rider for its gas investments in 2015, reducing some regulatory lag in cost recovery.

- Consistent financial metrics expected over the next 12-18 months

We expect Ameren Illinois' financial metrics to be consistent over the next 12-18 months. In 2013, the 3-year average CFO pre-W/C to debt, interest coverage and RCF to debt were 23%, 4.2x, and 13.4%, respectively. These are commensurate with the high-end of the Baa-scoring category according to the grid provided for low business risk utilities in our Regulated Electric and Gas Utility Methodology published in December 2013. For the year-end 2013, CFO pre-W/C to debt, interest coverage and RCF to debt were 27%, 4.7x, and 21.9%, compared to 19.2%, 3.8x, and 10.7%, respectively, in 2012. Cash flows benefited in 2013 from the absence of $76 million in premiums paid in 2012 related to a debt repurchase that year, along with decreased interest payments, receipt of storm restoration assistance, and higher electric and natural gas margins. Metrics were further strengthened in 2013 by a material reduction in the debt adjustment associated with its underfunded defined pension obligations; $180 million in 2013, compared to $379 million in 2012. In the near-term, we expect credit metrics to remain strong. 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' 2014-2018 capital expenditures are expected to be up to $3.7 billion and $800 million of capital expenditures are planned for 2014. In 2013, Ameren Illinois invested $701 million, significantly higher than the average level of $358 million for the 2010-2012 period. Pursuant to EIMA, Ameren Illinois is required to invest an incremental $625 million between 2012 and 2021 above an historical baseline to modernize its distribution system; $61 million has been spent toward this requirement as of year-end 2013. In addition, Ameren Illinois plans to invest in FERC-regulated electric transmission projects. Between 2014 and 2018, Ameren Illinois plans to invest $850 million in these types of projects and we estimate the 2014 capital expenditures to be approximately $270 million. We expect these energy delivery and transmission investments to be the foundation in strengthening the financial metrics and credit profile as Ameren Illinois.

Liquidity

In May 2014, Ameren Illinois reinstituted its commercial paper program at $300 million, which is supported by their existing credit facility shared with Ameren. Under the $1.1 billion 2012 Illinois Credit Agreement, Ameren has a sublimit of $300 million and Ameren Illinois has a sublimit of $800 million, well in excess of the size of the commercial paper program. As of May 9, 2014, Ameren Illinois had the full amount of $800 million available under the Credit Agreement. The Credit Agreement will expire in November 2017 and contains a financial covenant which requires Ameren and Ameren Illinois to each maintain consolidated indebtedness of not more than 65% of its consolidated total capitalization. As of March 31, 2014, Ameren and Ameren Illinois reported 50% and 44%, respectively.

In addition, the issuance of short-term debt securities by Ameren Illinois is subject to approval by FERC under the Federal Power Act. In September 2012, FERC authorized the issuance of up to $1 billion of short-term debt securities by Ameren Illinois. The authorization terminates on September 30, 2014 and Ameren Illinois plans to file for a two-year extension of the FERC short-term borrowing authorization.

On March 31, 2014, Ameren Illinois had $1 million cash on hand. Ameren Illinois does not have any long-term debt maturing until 2016 when two senior secured notes totaling $129 million ($75 million 6.25% due 2016 and $54 million 6.20% due 2016) are due.

Rating Outlook

The stable outlook reflects our expectation that the constructive regulatory framework in Illinois will continue to be credit supportive and that Ameren Illinois' financial metrics will be maintained within the appropriate range for its rating.

WHAT COULD CHANGE RATING -- UP

Ratings could be upgraded if there is further significant improvement in the regulatory framework in Illinois, which results in a meaningful increase in Ameren Illinois' financial metrics. If the company's financial metrics, such as CFO pre-working capital to debt and CFO pre-working capital interest coverage, continue to improve to levels above the current high-end of the Baa rating category, an upgrade is a strong possibility. If CFO pre-working capital to debt and CFO pre-working capital interest coverage are maintained consistently above 20% and 4.5x, respectively, it could trigger an upgrade.

WHAT COULD CHANGE RATING - DOWN

It is unlikely that Ameren Illinois would be downgraded if the current course of regulatory improvement and strong financial metrics remain unchanged. However, the rating could be downgraded if there is a significant and sudden deterioration in the credit supportiveness of the regulatory environment in Illinois. In our view, this could result in Ameren Illinois' inability to maintain its financial metrics within the range appropriate for its rating. If CFO pre-working capital to debt and CFO pre-working capital interest coverage decline below 11% and 3.0x, respectively, it could trigger a downgrade.

Rating Factors

Ameren Illinois Company

Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 3/31/2014**		[3]**Moody's 12-18 Month Forward ViewAs of June 2014**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Baa	Baa	Baa	Baa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Aa	Aa	Aa	Aa
b) Sufficiency of Rates and Returns	Ba	Ba	Ba	Ba
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity				
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.4x	Baa	3.0x - 4.5x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	24.1%	A	19% - 27%	A
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	15.5%	Baa	15% - 23%	A
d) Debt / Capitalization (3 Year Avg)	38.8%	Aa	35% - 40%	Aa
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A3		A3
HoldCo Structural Subordination Notching				
a) Indicated Rating from Grid		A3		A3
b) Actual Rating Assigned		Baa1		Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 3/31/2014(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.