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Ameren Illinois Company

Statements in this presentation not based on historical facts are considered "forward-looking" and, accordingly, involve risks and uncertainties that could cause actual results to differ materially from those discussed. Although such forward-looking statements have been made in good faith and are based on reasonable assumptions, there is no assurance that the expected results will be achieved. These statements include (without limitation) statements as to future expectations, beliefs, plans, strategies, objectives, events, conditions, and financial performance. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, Ameren is providing this cautionary statement to identify important factors that could cause actual results to differ materially from those anticipated. In addition to factors discussed in this presentation, Ameren's Annual Report on Form 10-K for the year ended December 31, 2013 and its other periodic reports filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934 contain a list of factors and a discussion of risks which could cause actual results to differ materially from management expectations suggested in such "forward-looking" statements. All "forward-looking" statements included in this presentation are based upon information presently available, and Ameren, except to the extent required by the federal securities laws, undertakes no obligation to update or revise publicly any "forward-looking" statements to reflect new information or current events.

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I. Background

This report has been prepared consistent with a similar report filed in Docket No. 14-0317. By way of background, in Docket No. 14-0317 the Company filed a report in accordance with the Illinois Commerce Commission's ("ICC" or "Commission") Final Orders in Ameren Illinois Company's ("AIC" or the "Company") rate filings in Docket Nos. 12-0001, 12-0293, and 13-0301, and consistent with the Commission's Final Order in Commonwealth Edison Company's ("ComEd") initial formula rate filing (Docket No. 11-0721). In Docket No. 11-0721 the Commission's Staff ("Staff") and the Illinois Industrial Energy Consumers ("IIEC") noted their concerns regarding the appropriate relative levels of debt and equity capital in ComEd's capital structure; those concerns were expressed in light of the new formula ratemaking construct implemented pursuant to Section 16-108.5 of the Public Utilities Act. Because the effect of the Illinois Formula Rate Law on ComEd's business risks were yet unknown, the Commission ordered ComEd to work with Staff and IIEC "to explore more leveraged capital structures and/or an equity cap for future years."[1]

In AIC Docket No. 12-0001, the Commission referred to the direction given ComEd in Docket No. 11-0721, noting that "the Commission supports the concept of discussing outside of a formal proceeding a more leveraged capital structure for AIC as well as AIC's inclusion of a report on those efforts with its 2013 formula rate filing."[2] There was no limit imposed by the Commission as to what period of time the parties might agree to a more leveraged capital structure. Consistent with the Commission's Order, the Company held informal conversations with Staff, agreeing to provide certain information regarding projected financial information.[3]

Importantly, the report in Docket No. 14-0317 also noted Standard & Poor's ("S&P") raised the

[1] *Id.*, at 134.
[2] Ameren Illinois Company, Illinois Commerce Commission, Docket No. 12-0001, (Order Dated September 19, 2012), at 121.
[3] Throughout this report, AIC and Staff are referred to as the "parties".

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issuer credit ratings of Ameren Corporation ("Ameren"), AIC, and Ameren Missouri from BBB to BBB+ after Ameren's divesture of Ameren Energy Resources ("AER") to Illinois Power Holdings, LLC, a wholly owned subsidiary of Dynegy, Inc. S&P noted Ameren's divestiture of AER as a key factor in its ratings action. On January 31, 2014, Ameren sold three gas-fired generation plants to Rockland Capital, LLC, completing the divestiture of its merchant generation business.

The report was submitted as evidence in Docket No. 14-0317 by the Company as Ameren Exhibit 5.1. As explained by Mr. Ryan Martin for the Company, the report (also referred to therein as the "whitepaper") detailed the capital structure which AIC, Staff and IIEC believed the Commission should use to set rates in that case and in the Company's 2015 and 2016 electric formula rate update cases (for rates that go into effect in 2015, 2016, and 2017, respectively). Further, AIC, Staff and IIEC's agreement as to the capital structure was memorialized in the Ameren Illinois Company – Formula Rate Capital Structure Agreement attached as Ameren Exhibit 5.2. In its Final Order in Docket No. 14-0317 entered on December 10, 2014, the Commission found and accepted the capital structure agreed to by the AIC, Staff and IIEC as being just and reasonable.

The logic associated with the Commission's directive that the parties explore the means by which to settle on a reasonable capital structure applies equally to the Company's gas operations. AIC's capital structure does not support only its electric operations; it supports the Company as a whole including its gas operations. In its most recent gas rate case in Docket No. 13-0192, the Company had proposed a capital structure with a common equity ratio of 51.816% for its 2014 future test year; the Commission's Final Order found a common equity ratio of 51.68% to be just and reasonable.[4] In this context and for purposes of this report the parties are setting forth the

[4] *See* Ameren Illinois Company, Illinois Commerce Commission, Docket No. 13-0192, Rebuttal Testimony of Ryan J. Martin, at 18; *See also*, Ameren Illinois Company, Illinois Commerce Commission, Docket No. 13-0192, (Order Dated December 18, 2013), at 166.

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considerations and discussion for determining a just and reasonable capital structure for the Company with regard to its planned 2015 gas rate case using a 2016 future test year.

As discussed throughout this report, "reasonableness" is assessed primarily by reference to rating agency criteria and industry practice. While straightforward in concept, that assessment often is difficult in practice and inherently requires an element of subjectivity. AIC and Staff fully recognize that ratings actions are not entirely quantitative in nature, and that qualitative assessments weigh significantly in ratings determinations. AIC and Staff also realize that no one parameter, such as the amount of equity in the capital structure, will determine the Company's credit rating. The parties also appreciate that ratings are heavily dependent on measures of expected cash flow, which are determined (at least in part) by the Commission-approved capital structure. In essence, the assessment of capital structure reasonableness requires the use of quantitative analyses, but ultimately depends on the reasoned judgment and practical experience of the parties.

As noted above, the Company has continued its informal discussions with Staff regarding the appropriate capital structure for AIC. The balance of this report summarizes the current status of those discussions, describes the data and analyses provided to Staff by the Company, and states the positions taken by the parties with respect to establishing the Company's capital structure in future gas rate case filings.

Executive Summary of Conclusions

AIC and Staff each indicate the areas of joint agreement and dissenting views at the end of each section of this paper. Generally, however, both parties jointly conclude the following:

- AIC's capital structure needs to balance the desires and objectives of three stakeholder

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groups: customers, debt investors, and equity holders.

- The parties agree that there exists a range of reasonableness of capital structures within which the three stakeholder groups' interests are aligned. Specifically, the parties agree that, with regard to the gas rate case planned to be filed in the first quarter of 2015 pursuant to Section 9-201, a common equity ratio of up to and including 50% is a reasonable percentage of equity as a component of AIC's average 2016 capital structure for ratemaking purposes. The parties also acknowledge that the percentage of equity agreed upon in this paragraph shall be calculated by eliminating goodwill and purchase accounting in a manner consistent with Commission practice as approved in Docket No. 12-0001[5].
- AIC's credit ratings are heavily influenced by the rating agencies' qualitative assessments of the Illinois regulatory environment and AIC's ability to recover its costs. AIC's prospects for ratings upgrades are limited absent an improvement in the agencies' assessments of these qualitative factors from a creditor perspective.
- Among the quantitative metrics used by rating agencies to develop credit metrics, measures of cash flow are given greater weight than other measures. While capitalization ratios are meaningful as a credit metric, they also have a significant impact on expected cash flows and expected cash flow-based coverage ratios. Also, equity ratios allowed by regulators contribute to rating agency assessment of the regulatory environment.
- Credit ratings affect not only the cost of debt, but also the Company's ability to access external capital. Because AIC's operations are capital intensive, its capital structure should support credit ratings needed to access external capital when needed and at reasonable cost rates, including under certain downside scenarios considered in this document.

[5] AIC and Staff agree that the ratemaking equity ratio shall be calculated to remove goodwill and purchase accounting entries in a manner consistent with the accounting treatment approved by the Commission in 12-0001. All purchase accounting adjustments shall be collapsed into account 114 corresponding to the annual period used to set rates and shall be consistent with ICC Form 21 reporting.

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Nature of Discussions

The parties have worked together and held joint and collaborative discussions related to the Company's capital structure:

- AIC and Staff held a series of meetings in February through April, 2014. Financial plans and alternate scenarios were reviewed. A capital structure whitepaper and stipulated agreement were developed for AIC's electric distribution operations and filed in Docket No. 14-0317.
- AIC, IIEC and Staff met on October 28th, 2014 to discuss the scope of the report to be produced and review AIC's financial modeling process, updated base case six-year Long Range Financial Plan and capital structure forecasts, and credit rating assumptions.
- The parties participated in a final review meeting on November 5, 2014.
- The parties exchanged drafts of this report and exchanged views on the conclusions reflected herein.

The parties note that the opinions and conclusions offered in this report are based on the most recently available financial data, projections, and credit rating analyses as of the date of this report. The parties acknowledge that material changes in those factors could lead to changes in the conclusions expressed in these discussions and summarized in this report.

II. Capital Structure and Financing Policy

Balancing Debt and Equity in the Capital Structure

Utilities such as AIC are capital intensive in nature, with many of their assets having relatively long lives. Utility capital structures include the securities issued (and earnings retained) to finance those assets. Because they must support long-lived assets, utility capital structures tend to include long-

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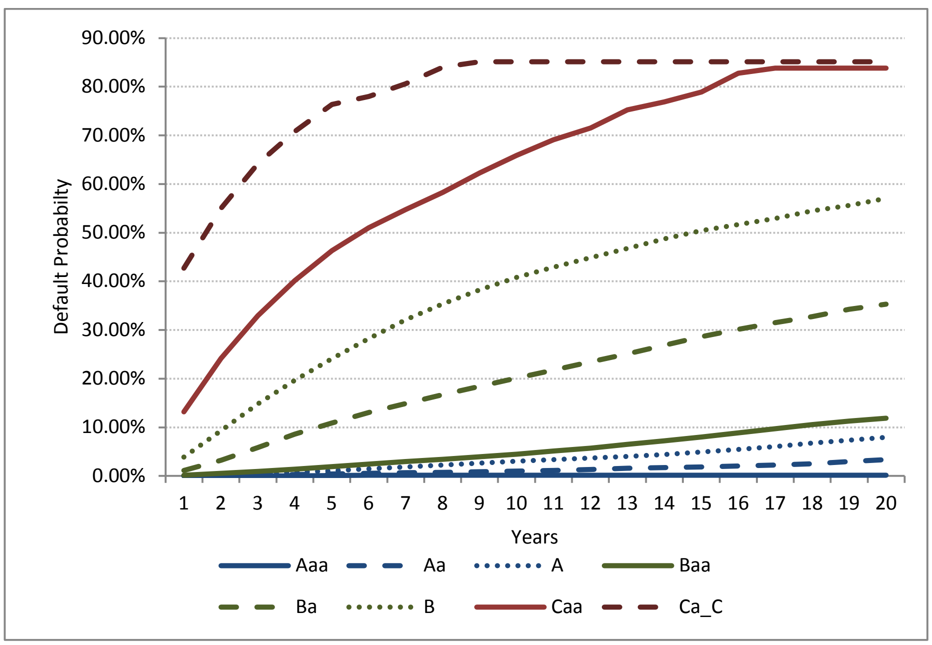
term securities, generally a combination of equity and long-term debt. Although there are other forms of capital, such as preferred equity (which has both equity and debt-like elements), the principal components of long-term capital tend to include common equity and long-term debt. In Docket No. 13-0301, AIC's year-end capital structure consisted largely of those two capital classes.[6]

Regarding the probability of default, Moody's Investor Service global issuer default rates from 1983 to 2013 indicate that a firm in the first sub-investment grade rating group ("Ba") has a cumulative probability of default of roughly 35% over a twenty-year period. That is, a firm rated just below investment grade has a roughly 3.5 in 10 chance of defaulting over a twenty-year period. For a firm in the lowest investment grade rating group ("Baa"), that cumulative default probability is only approximately 12%.

Chart 1: Default Probability Over 20 Year Period by Credit Rating[7]



[6] See Ameren Exhibit 4.0, page 5 of 11.
[7] Moody's Investors Service Annual Default Study: Corporate Default and Recovery Rates, 1920 – 2013, Exhibit 34, published February 28, 2014.

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III. Capital Structure and Credit Ratings

Purpose and Meaning of Credit Ratings

As opposed to equity investors, debt investors generally do not benefit from the growth prospects of the issuer.[8] In exchange for forgoing those potential benefits, debt investors are contractually assured of receiving the debt service payments (that is, interest and principal) on pre-determined dates, regardless of the issuer's business or financial condition. Credit analysis is focused on measuring the risks that such assurances will not be kept, and evaluating the remedies available to creditors under such circumstances. A credit rating, then, is an evaluation of a borrower's ability to meet its financial obligations in a timely manner. Moody's, for example, notes that:

> …long-term obligation ratings are opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honored as promised. Such ratings use Moody's Global Scale and reflect both the likelihood of default and any financial loss suffered in the event of default.[9]

A credit rating can be either short or long-term in nature and may address a specific financial obligation or the creditworthiness of an obligor (i.e., the company issuing debt) with respect to a specific obligation (i.e., a specific debt issuance). A long-term *issuer* rating, therefore, evaluates the issuing company's ability to meet its financial obligations on a timely basis, and may address issues such as collateral security and subordination with respect to a specific security. A long-term *issuer* credit rating is an opinion of the subject company's overall financial capacity to pay its

[8] It is possible that growth may increase the overall creditworthiness of the issuing company, thereby increasing the value of outstanding debt securities.
[9] Moody's Investors Service, *Ratings Symbols and Definitions*, June 2009, at 8.

financial obligations, and does not apply to a specific financial obligation.[10] As noted earlier, lower credit ratings are indicative of higher levels of default risk and, as such, securities with lower credit ratings must offer higher yields as compensation for that additional risk. Also, the investor base for low-rated, higher-risk securities can at times be shallow and volatile, particularly during periods of market disruptions. Credit ratings, therefore, have a significant effect on the utility's ability to attract capital and on the pricing and contractual terms at which it may issue debt securities.

The three principal rating agencies rank issues and issuers based mainly on the agency's assessment of the issuers' willingness and capacity to meet their obligations. Although rating agencies use somewhat different ratings descriptions, their ratings generally can be mapped to each other (see Table 1, below).

[10] Standard & Poor's Ratings Direct, *Standard & Poor's Ratings Definitions*, June 22, 2012, at 6.

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Table 1: Ratings Descriptions

<table>
<tr><th>Moody's</th><th>S&P</th><th>Fitch</th><th>Rating Description</th></tr>
<tr><td>Aaa</td><td>AAA</td><td>AAA</td><td rowspan="4">Investment Grade</td></tr>
<tr><td>Aa1
Aa2
Aa3</td><td>AA+
AA
AA-</td><td>AA+
AA
AA-</td></tr>
<tr><td>A1
A2
A3</td><td>A+
A
A-</td><td>A+
A
A-</td></tr>
<tr><td>Baa1
Baa2
Baa3</td><td>BBB+
BBB
BBB-</td><td>BBB+
BBB
BBB-</td></tr>
<tr><td>Ba1</td><td>BB+</td><td>BB+</td><td rowspan="5">Speculative Grade</td></tr>
<tr><td>Ba2
Ba3</td><td>BB
BB-</td><td>BB
BB-</td></tr>
<tr><td>B1
B2
B3</td><td>B+
B
B-</td><td>B+
B
B-</td></tr>
<tr><td>Caa1
Caa2
Caa3
Ca</td><td>CCC+
CCC
CCC-
CC
C</td><td>CCC</td></tr>
<tr><td>C</td><td>D</td><td>DDD</td></tr>
</table>

The issuer ratings of the vast majority of investor-owned regulated gas and combination gas/electric utility operating companies tend to fall in the “BBB/Baa” and “A” range (see Charts 2, 3, and 4 below).

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Chart 2: Standard & Poor's Distribution of Issuer Credit Ratings: Investor-Owned Natural Gas and Combination Gas/Electric Operating Utilities[11]

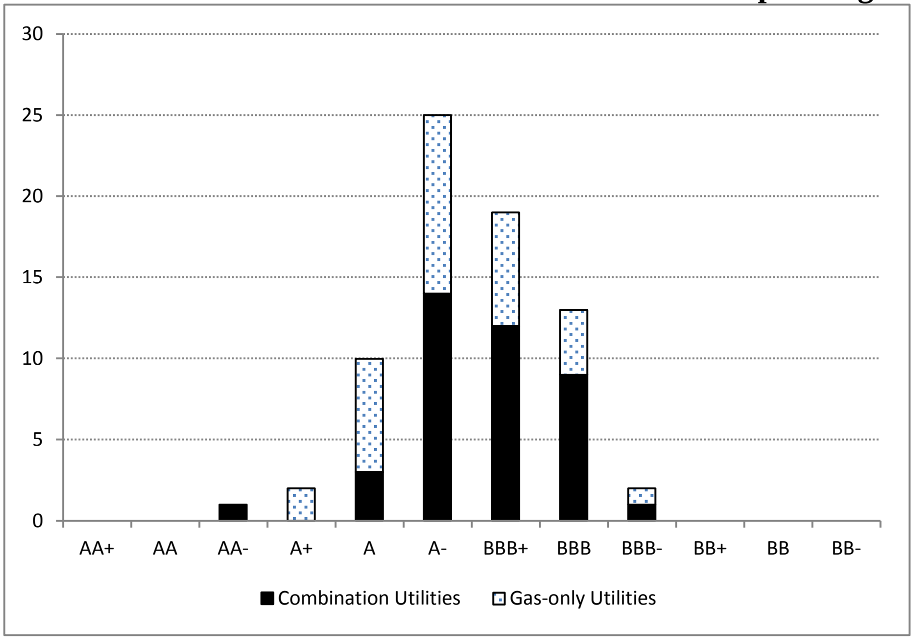
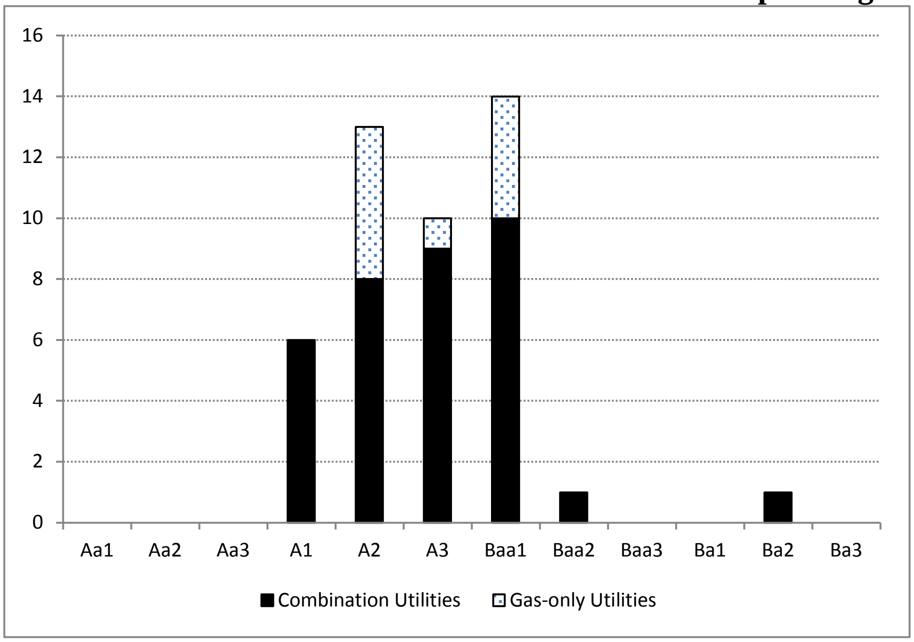


Chart 3: Moody's Investors Service Distribution of Issuer Ratings: Investor-Owned Natural Gas and Combination Gas/Electric Operating Utilities[12]



[11] Source: SNL Financial. Ratings as of September 30, 2014.
[12] Source: SNL Financial. Ratings as of September 30, 2014.

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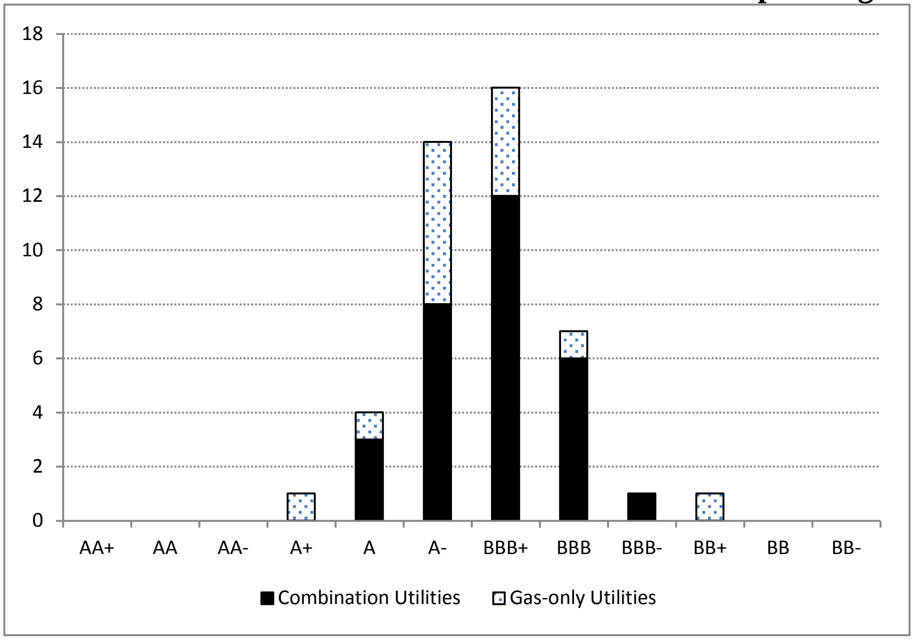
Chart 4: Fitch Ratings Distribution of Issuer Default Ratings: Investor-Owned Natural Gas and Combination Gas/Electric Operating Utilities[13]



The perspectives of the three major credit rating agencies – Standard & Poor's, Moody's Investors Service, and Fitch Ratings – therefore are very relevant to discussions of utility capital structures. As noted earlier, those ratings substantially affect the cost at which the utility can access the debt capital markets and, in extreme cases, whether capital can be accessed at all.

AIC's Credit Rating History

From an issuer credit rating perspective, AIC currently is rated Baa1, BBB+, and BBB by Moody's, Standard & Poor's, and Fitch Ratings, respectively. In January 2014, Moody's upgraded the Company's issuer credit rating by one notch, from Baa2 to Baa1. That upgrade took place in the context of an overall industry review, in which Moody's upgraded the ratings of 147 of the 174 electric and gas utility companies whose ratings it had placed under review. In May 2014, Moody's confirmed the Company's Baa1 credit rating.

S&P upgraded AIC's issuer credit rating by a single notch, from BBB to BBB+ in December 2013.

[13] Source: SNL Financial. Ratings as of September 30, 2014.

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Fitch Ratings upgraded AIC's issuer default rating from BBB- to BBB in March 2014.

As Table 2 (below) demonstrates, until August 2009, AIC had been rated below investment grade by at least one of the three major rating agencies. Since then, both Moody's and S&P have raised the Company's ratings by two notches; Fitch Ratings has raised the Company's ratings by one notch.

Table 2: AIC Credit Rating History

	Moody's	S&P	Fitch Ratings
Ameren Illinois Co.			
Issuer Ratings	Baa1 (OS) Affirm 5/9/2014	BBB+ (OS) Upgrade 12/4/2013	BBB (OS) Affirm 10/1/2014
	Baa1 (OS) Upgrade 1/31/2014	BBB (WP) Upgrade 3/14/2013	BBB (OS) Upgrade 3/14/2014
	Baa2 (WP) Affirm 11/8/2013	BBB- (OS) Affirm 4/3/2012	BBB- (OS) Affirm 3/15/2013
	Baa2 (OS) Upgrade 6/12/2012	BBB- (OP) Affirm 11/22/2011	BBB- (OS) Affirm 1/28/2013
	Baa3 (WP) Affirm 2/29/2012	BBB- (OS) Upgrade 9/11/2008	BBB- (OP) Affirm 1/27/2012
	Baa3 (OS) Upgrade 8/13/2009	BB (OP) Affirm 8/29/2007	BBB- (OS) Affirm 5/23/2011
Note: OS = Outlook Stable; WP = Watch Positive; OP = Outlook Positive			

Ratings Methodologies

Although the three rating agencies use somewhat different methodologies, all three consider both financial risks and business risks when arriving at a rating determination. The assessment of business risk tends to be qualitative in nature and is determined by factors such as the extent to which the subject company's operations are diversified, its operating efficiency, its ability to recover its costs and earn returns, the supportiveness of its regulatory environment, its profitability, and the volatility of its profitability, among others. In the case of profitability (and the volatility of profitability), Standard & Poor's focuses on quantifiable metrics including the EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) margin, the return on capital, and the return on equity.[14] Even when empirical metrics are used, S&P still applies its judgment in assessing the utility's ability to consistently earn its authorized return.

While they vary among the agencies (and take different forms), measures of financial risk considered by the agencies generally include metrics such as the ratio of debt to total capitalization (i.e., financial leverage), earnings or cash flow to interest expense, and cash flow from operations to debt. Despite the quantifiable nature of such metrics, in the case of Moody's, they account for only 40% of the factors used in determining credit ratings. Moreover, the criteria for a given rating threshold may be somewhat wide. The ratio of funds from operations to debt used by Moody's, for example, can range from 11% to 19% for a Baa-rated utility with low business risk.

Although none of the three agencies has a precise formula to determine credit ratings, and all ratings are ultimately the product of agency judgment, Moody's offers the most specific guidance as to which quantitative and qualitative factors it considers, and the weights it applies to each. While S&P and Fitch may use different approaches that may yield somewhat different credit rating results, Staff and AIC agree that the Moody's methodology offers a reasonable proxy for S&P's and Fitch's.

The Moody's rating grid for AIC as of June 2014 is shown below in Table 3. The rating grid outlines the four ratings factors, their respective sub-factors, and the weights applied to each.

[14] Standard & Poor's Ratings Services, *Key Credit Factors for the Regulated Utilities Industry*, November 19, 2013, at 12.

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Table 3: Moody's Ratings Grid for AIC, June 2014[15]

	Weight	Metrics	Indicated Rating	
Factor 1: Regulatory Framework				**Baa**
a) Legislative and Judicial Underpinnings	12.50%		A	
b) Consistency and Predictability of Regulation	12.50%		Baa	
	25.00%			
Factor 2: Ability to Recover Costs and Earn Returns				**Baa**
a) Timeliness of Recovery of Operating and Capital Costs	12.50%		Aa	
b) Sufficiency of Rates and Returns	12.50%		Ba	
	25.00%			
Factor 3: Diversification				**Baa**
a) Market Position	5.00%*		Baa	
b) Generation and Fuel Diversity	5.00%**		-	
	10.00%			
Factor 4: Financial Strength		Low Business Risk		**A**
a) CFO pre-WC + Interest/Interest	7.50%	--	Baa	
b) CFO pre-WC/Debt	15.00%	19% - 27%	A	
c) CFO pre-WC - Dividends/Debt	10.00%	7% - 15%	Baa	
d) Debt/Capitalization	7.50%	29% - 40%	Aa	
	40.00%			
Rating				
Indicated Rating				**A3**
Actual Rating (as of June 13, 2014)				**Baa1**
***10% weight for issuers that lack generation; **0% weight for issuers that lack generation**				

Based on the weighting shown above, qualitative factors dominate the Moody's ratings methodology. In particular, the assessment of the regulatory framework (Factor 1) and the ability to recover costs and earn returns (Factor 2) combine to account for 50% of the total credit rating. The quantifiable financial metrics account for 40% of the rating, and diversification accounts for the remaining 10%. Therefore, regardless of its quantitative financial strength, as measured by the ratio calculations, AIC's rating is limited by Moody's assessment of the regulatory environment in Illinois and the Company's ability to recover its costs. As discussed later in this report, absent a significant reduction in financial leverage or significant improvement in cash flow coverage ratios, the rating agencies likely would have to conclude that the Illinois regulatory environment has

[15] Sources: Moody's Investors Service, *Rating Methodology: Regulated Electric and Gas Utilities*, December 23, 2013; Moody's Investors Service, *Credit Opinion: Ameren Illinois Company* June 13, 2014.

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substantially improved from a creditor perspective before the Company's credit rating would be further upgraded.

In its June 2014 Credit Opinion of Ameren Illinois Company, Moody's notes that AIC's rating outlook is stable and that AIC's rating "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 clarification provided in Senate Bill 9 (SB 9) enacted in 2013." Moody's noted that a ratings upgrade could occur "if there is further significant improvement in the regulatory framework in Illinois, which results in a meaningful increase in Ameren Illinois' financial metrics." On the other hand, Moody's noted that "the rating could be downgraded if there is significant and sudden deterioration in the credit supportiveness of the regulatory environment in Illinois" and that 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."[16]

Conclusions

- Despite AIC's recent upgrades, the rating agencies note that further upgrades would largely depend on a change in their assessments of the regulatory environment in Illinois, even if financial metrics stabilize or improve over the Financial Plan horizon.

IV. Capital Structure Ratios and Peer Company Comparisons

The perspectives of the credit rating agencies are only one element of the assessment of a reasonable capital structure. For example, it is highly impractical, risky, and expensive for a utility to be predominantly capitalized with debt. While financial leverage increases the returns to

[16] Moody's Investors Service: Credit Opinion: Ameren Illinois Company, June 13, 2014.

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shareholders, it increases the risk to all investors. Too much financial leverage therefore makes an investment less attractive to utility investors, who have many options available to them as they consider where to invest their capital. At issue, then, becomes whether there are bases of comparison to similarly situated natural gas utilities that could inform an assessment of the Company's capital structure.

The parties agree that the Company will continue to be bound by the requirements of Section 9-230 of the Public Utilities Act.

As a result of ratemaking adjustments, the capital structure derived from annual state-level local distribution company ("LDC") filings or FERC Form 1 data does not necessarily reflect the structure from which the Company's rates and, therefore, its revenues are derived. Just as regulatory authorities such as the Commission make various adjustments to the capital structure for ratemaking purposes, rating agencies likewise make adjustments in their review of financial risk and key credit metrics. Moreover, the earnings and cash flow available to common equity investors are a function of the authorized rate of return on common equity and the ratemaking common equity ratio. Consequently, the ratemaking capital structure is a significantly better indicator of what the utility's equity investor would actually earn from his or her investment than the capital structure derived from annual state-level LDC filings or the FERC Form 1 balance sheet. For example in 2013, AIC's unadjusted capital structure as recorded in the FERC Form 1 was approximately 56% common equity, 1% preferred, and 43% debt. For ratemaking purposes, though, in Docket No. 14-0317 AIC's electric capital structure consisted of approximately 51% equity, 2% preferred, and 47% debt and in Docket No. 13-0192 AIC's natural gas capital structure consisted of approximately 52% equity, 1% preferred, and 47% debt. Note that the final approved values included a $366 million purchase accounting / goodwill adjustment to equity, and other

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adjustments applied to each of the capital components.[17] The final approved equity ratios are the best representation of the return to investors.

For comparison purposes, in Charts 5 and 6 AIC has provided two data sets that show the actual approved ratemaking capital structures for natural gas utilities and diversified gas and electric utilities receiving rate orders in 2013 and 2014, respectively. The Regulatory Research Associates database contains data for all rate orders issued over that period of time, with the equity capitalization percentages obtained from the final commission orders in those cases. These approved ratemaking capital structures encompass adjustments for goodwill and other items. That is, they represent the ratemaking capital structure. The data shows that the average authorized equity ratio was approximately 50% in both 2013 and 2014. As noted earlier, during that period, AIC received a rate Order from the ICC that included a 51.68% authorized equity ratio.

[17] Purchase accounting / goodwill adjustments will vary over time.

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Chart 5: Common Equity In Authorized Ratemaking Capital Structures - 2013[18]

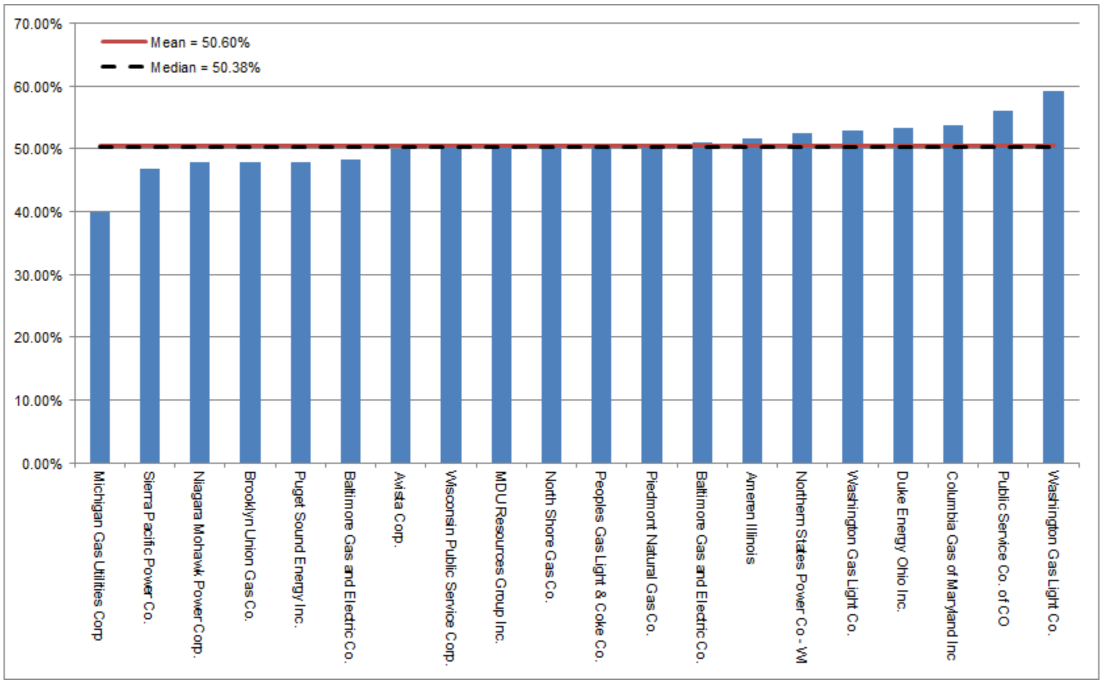
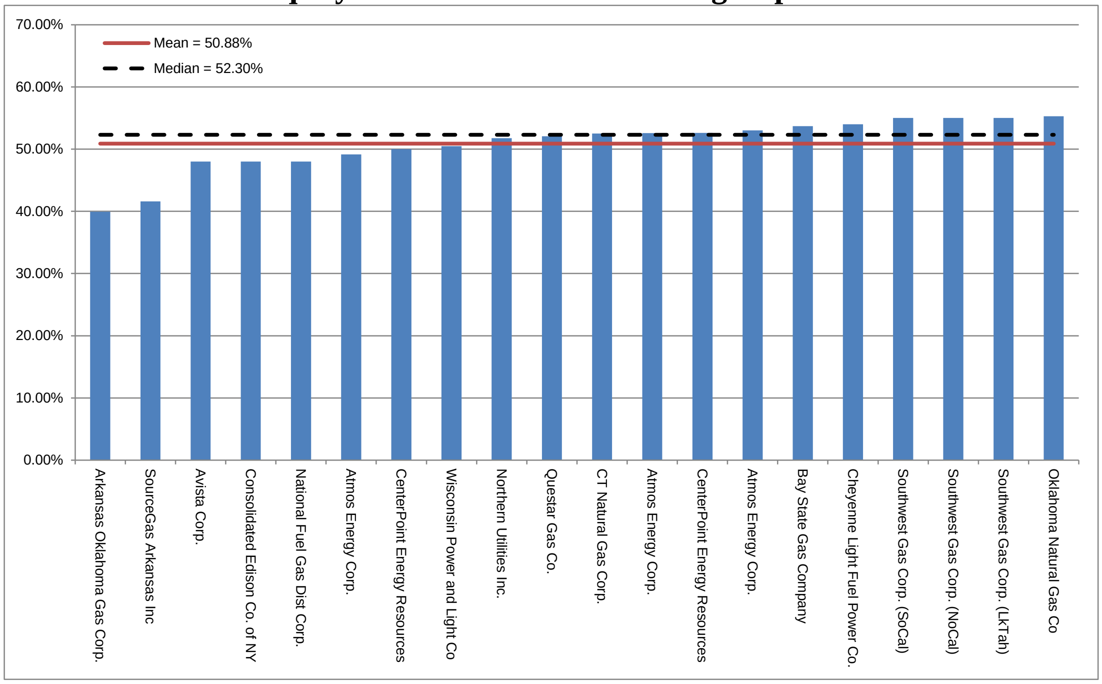


Chart 6: Common Equity In Authorized Ratemaking Capital Structures - 2014[19]



[18] Source: Regulatory Research Associates. Note, a company may be listed more than once if it had more than one rate case order during the year.
[19] Source: Regulatory Research Associates. Note, a company may be listed more than once if it had more than one rate case order during the year.

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Conclusions

- AIC believes that comparisons to peer utilities offer a useful perspective on the reasonable range of equity and debt capital.
- AIC and Staff acknowledge that state-level annual LDC filing data and FERC Form 1 balance sheet data do not offer full insight into the economics of a regulated utility because of adjustments for goodwill and other ratemaking conventions.
- AIC believes that higher levels of leverage than projected in its Long Range Financial Plan reduce the attractiveness of AIC's securities in the eyes of both debt and equity investors. To that end, AIC believes that a requirement to adopt a capital structure more leveraged than projected in its Long Range Financial Plan does not strike the proper balance between the desires of customers, bondholders, and equity investors.
- AIC believes that the Regulatory Research Associates ("RRA") data on recent rate orders suggests that an equity ratio of 50% to 51% is within the range of equity ratios that would be reasonable and appropriate.
- Staff believes that comparisons of a utility's capital structure to those of its peers can be useful in assessing the former's reasonableness. Nevertheless, Staff is not confident of the accuracy of the RRA data and its comparability to AIC's ratemaking capital structure. Further, Staff believes that differences among jurisdictions regarding what sources of funds are included in the capital structure and how they are measured render comparisons of capital structures across jurisdictions problematic. Further, capital structure is but one of many components of a utility's revenue requirement. Differences across jurisdictions regarding what costs are recoverable, how those costs are recovered and when those costs are recovered can be as important, if not more important, than capital structure on the risk of a utility. Consequently, Staff cannot draw definitive conclusions from authorized equity

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ratios alone regarding whether AIC's capital structure contains a greater proportion of debt than other electric transmission and distribution companies, let alone draw any conclusions regarding the reasonableness of AIC's capital structure.

V. AIC's Long Range Financial Plan and Alternative Scenario

When developing the capital structure report filed in Docket No. 14-0317, AIC provided to Staff its five-year Long Range Financial Plan (the "LRP") including three alternative scenarios, which are described below. Those scenarios are designed to provide sensitivities for AIC's base case financial projections under several different sets of circumstances. As part of the discussions with parties regarding AIC's gas operations capital structure, AIC provided updated LRP projections which are also discussed below.

Original Base Case Long Range Financial Plan

AIC's original base case LRP projects a ratemaking capital structure and credit ratios that are generally the same as those in place at the time of the 2012 electric case. Throughout the five-year LRP window, its debt-to-total capital ratio for ratemaking purposes is within a range of XXXXXXX. AIC has annual total capital expenditures of $XXX million to $YYY million to meet its capital commitments (including the incremental spending it committed to as a participating utility under EIMA, including requirements pursuant to SB9). AIC finances these capital expenditures with a combination of incremental debt issuances, equity contributions from its parent, and retained earnings. Because of these EIMA-related capital expenditures, AIC's year-end ratemaking long-term debt balance continues to increase each year and is XXXXXX more at the end of the LRP horizon than it was at the time of the enactment of EIMA.

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Original Alternative Scenarios

The first alternative scenario assumes Treasury rates are held flat at 3.75%, with the interest rates on new debt issuances adjusted consistent with the flat Treasury assumption. In addition, the 2014 equity infusion from Ameren Corp was held at XXXXXX, as in the base case. All else equal, the assumption of flat Treasury rates would reduce the formula-based rate of return on equity and, in turn, reduce net income and retained earnings, resulting in an equity ratio in 2014-2015 that is slightly lower than in the base scenario. Since the general approach was to keep the capital structure approximately the same as the base scenario, dividends to be paid by AIC were reduced in 2016 and 2018 to offset the reduction to equity stemming from the flat Treasury assumption. The resulting revenue requirement, net income, and operating cash flows under this first alternative scenario are somewhat lower than the base case, as one would expect with lower interest rates and a lower rate of return on equity, while the rate base is slightly higher due to a lower deferred tax offset.

The second alternative scenario assumes the 2013 equity ratio for rate making purposes remains at 51%, as in the base case, but debt issuances and dividend distributions are adjusted to bring the capital structure to an approximately 49% equity ratio for the 2014-2018 period. As a result, in comparison to the base case, cash flows begin to deteriorate in 2016 when the 2014 true-up adjustments are applied to customer bills and the 2014 capital structure is used to set rates. In this scenario, the revenue requirement and net income are somewhat lower than the base case due to the lower equity ratio while the rate base is slightly higher due to a lower deferred tax offset.

The third alternative scenario considers the combination of a flat Treasury yield structure with a decline in the equity ratio. AIC's equity ratio declines from 51% in 2013 to approximately 49% in the 2014-2018 period, again driven primarily by changes in debt issuances and dividend

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distributions relative to the base case. In addition, Treasury rates are held flat at 3.75%, with the interest rates on new debt issuances adjusted consistent with the flat Treasury assumption (the flat Treasury assumption also contributes toward a lower equity ratio, as explained under the first alternative scenario). In this scenario, the revenue requirement and net income are somewhat lower than the base case, due to both a lower return on equity and a lower equity ratio. As a result, cash flows deteriorated slightly more than in either the first or the second alternative scenario. The rate base is slightly higher than the base case due to a lower deferred tax offset.

Updated Base Case Long Range Financial Plan

AIC updates the base case LRP annually. Throughout the updated six-year LRP window, its debt-to-total capital ratio for ratemaking purposes is within a range of XXXXXXXX. The targeted equity ratio reflected in the forecast supports the Company's current credit rating. AIC has annual total capital expenditures of $XXX million to $YYY million to meet its capital commitments (including the incremental spending it committed to as a participating utility under EIMA, including requirements pursuant to SB9). AIC continues to finance these capital expenditures with a combination of incremental debt issuances, equity contributions from its parent, and retained earnings. The updated base case long range plan assumes that Bonus Depreciation will be extended through 2015.

Updated Alternative Scenario

The alternative scenario assumes bonus depreciation is not extended at any point in the forecasted period. This causes an increase in debt due to less deferred tax benefits. To maintain the same 50% equity structure, long term financing changes were required. These included increased equity infusions for 2015, and the dividends to be paid by AIC were reduced in 2016, 2017 and 2018. Dividends paid by AIC increased in 2019. All else equal, net income and rate base under

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this alternative scenario are somewhat higher than the base case and the operating cash flow is lower. The debt-to-total capital ratio for ratemaking purposes is within a range of 48.7% to 49.0%. The targeted equity ratio reflected in the forecast supports the Company's current credit rating.

VI. Discussion of Common Equity Ratio Trigger

AIC and Staff have discussed the concept of a "trigger" related to the common equity in AIC ratemaking capital structure that would require a higher evidentiary showing to the extent an equity ratio exceeds a predetermined ratio. The "trigger" as discussed is intended to be very similar to that agreed to among Commonwealth Edison, IIEC and Staff with respect to the ratemaking capital structure of Commonwealth Edison Company.

In the case of ComEd, the parties agreed that if the common equity ratio was below that trigger level, then Staff and IIEC would not contest (with limited exceptions) ComEd's capital structure on the grounds of reasonableness and prudence.[20] Further, the parties agreed that if ComEd's common equity ratio was at or above the trigger level, ComEd would commit to presenting additional evidence in its direct testimony justifying its capitalization and explaining why it views that equity level to be reasonable and prudent. Reaching the trigger level would not result in a disallowance or conversion from equity to debt without an explicit ruling by the ICC. Staff and ComEd agreed upon a trigger equal to 50% for the common equity ratio for ratemaking purposes.

The Company and Staff agree that a process very similar to that used for ComEd should be applied

[20] Staff and IIEC said they would like to preserve their rights to challenge ComEd's capital structure and capital costs in two respects. First, they sought to preserve their rights to contest capital structure if they felt that ComEd's affiliation with unregulated or non-utility companies directly or indirectly affected ComEd's risk or cost of capital. Second, in the event that Section 16-108.5 was amended to use a year-end capital structure, Staff and IIEC sought to preserve their rights to challenge financial transactions that had the effect of manipulating ComEd's capital structure at the end of a year.

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to AIC's ratemaking capital structure. Thus, the Company and Staff agreed that such a trigger mechanism would be desirable, and would be a productive result of the constructive and collaborative discussions. Similar to the situation for ComEd, AIC and Staff agreed that such a trigger is best accomplished by a letter agreement or stipulation. Staff and AIC also agreed that financial conditions affecting AIC's capitalization could change over time, and that if these changes were material, certain conditions should be set forth under which the parties would re-convene to assess whether the agreed upon trigger was still proper. Finally, Staff and AIC agreed that the trigger arrangement should be in place for a set period of time, after which the parties could determine the desirability of an extension. AIC and Staff recognize that the trigger arrangement is not binding on any non-signatories to the arrangement.

With that in mind, AIC and Staff agree that, with regard to the gas rate case that is planned to be filed in the first quarter of 2015, a common equity ratio up to and including 50% is a reasonable percentage of equity as a component of AIC's average 2016 capital structure for ratemaking purposes. The parties also acknowledge that the percentage of equity agreed upon in this paragraph is calculated by eliminating goodwill and purchase accounting in a manner consistent with Commission practice as approved in Docket No. 12-0001.[21]

[21] AIC and Staff agree that the ratemaking equity ratio shall be calculated to remove goodwill and purchase accounting entries in a manner consistent with the accounting treatment approved by the Commission in 12-0001. All purchase accounting adjustments shall be collapsed into Account 114 corresponding to the annual period used to set rates and shall be consistent with ICC Form 21 reporting.