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Summary:

Ameren Illinois Co.

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Summary:

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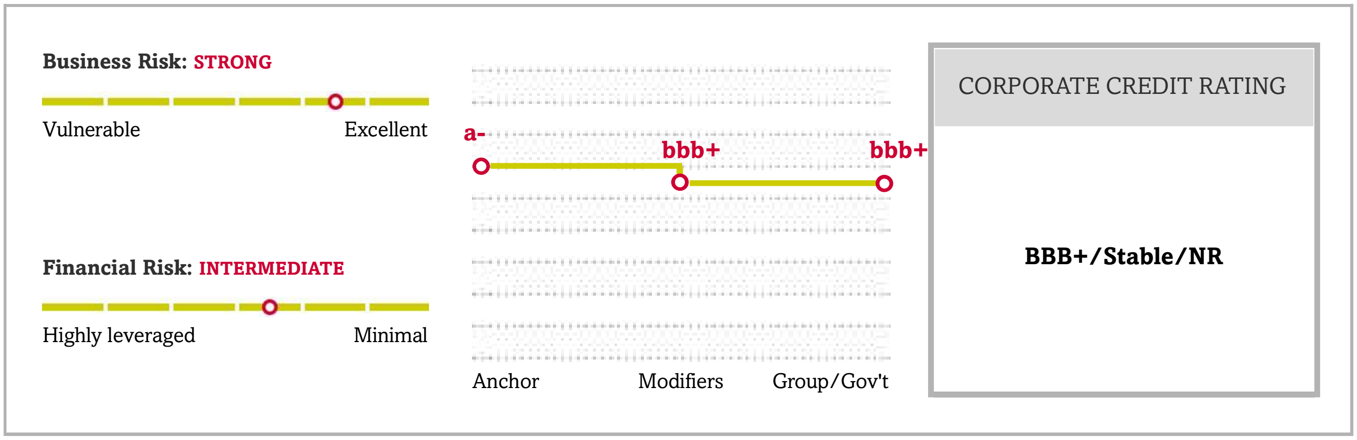

Initial Analytical Outcome ("Anchor") and Rating Result

Our 'BBB+' issuer credit rating (ICR) on Ameren Illinois Co. (AI) reflects parent Ameren Corp.'s group credit profile (GCP).

The 'a-' anchor is derived from:

- A country risk score we consider "very low" risk because all the utility's operations are in the U.S.;
- An industry risk score we consider "very low" risk, reflecting the low-risk nature of the regulated utility business;
- A business risk profile we consider "strong" based on our view of the company's competitive position as "satisfactory";
- A financial risk profile we consider "intermediate", using the medial volatility table.
- The determination of the 'a-' anchor given the two potential outcomes ('a-' or 'bbb+') for the "strong" business risk profile and "intermediate" financial risk profile, reflects our view of the company's business risk profile at the the higher end of the "strong" business risk profile category. This reflects the company's lower-risk regulated electric transmission and its regulated electric and gas distribution businesses.

All modifiers are neutral except for the comparative ratings analysis modifier that we assess as negative, which lowers the anchor by one notch, resulting in a 'bbb+' stand-alone credit profile (SACP).

Rationale

Business Risk: Strong	Financial Risk: Intermediate
• Fully rate-regulated lower-risk electric and gas utility businesses • Greater volatility of profitability compared with the regulated utility industry average • Regulatory advantage score that we assess as "strong/adequate" • Slower-than-average economic growth within the company's service territory	• Use of the medial volatility table, reflecting the regulated utility business model and a "strong/adequate" regulatory advantage assessment • Core financial measures that are consistent with the lower end of the range for the "intermediate" financial risk profile category • Higher capital spending in 2014

Outlook: Stable

The rating outlook reflects our base case forecast that parent Ameren's consolidated adjusted funds from operations (FFO) to debt will approximate 18% and debt to EBITDA of about 4x. Fundamental to our forecast is our expectation that Ameren will continue to manage its regulatory risk, enabling some of the regulated companies to earn their allowed return on equity. We also expect the company will disproportionately invest in lower-risk rate-regulated electric transmission assets that will gradually strengthen the company's business risk profile.

Downside scenario

We could lower the ratings if parent Ameren's ability to manage its regulatory risk weakens or if its financial performance unexpectedly deteriorates such that the core financial measures are consistently below the range for the "significant" financial risk profile category. This could occur if rate case outcomes are consistently weaker than expected, regulatory lag increases, or if there is a material increase to capital spending that is primarily funded with debt.

Upside scenario

We could raise the ratings if parent Ameren's business risk profile improves such that the regulatory lag consistently diminishes and the economic growth in the company's service territory strengthens. We could also raise the ratings if parent Ameren's financial measures improve above our base case forecast, such that the core financial ratios are consistently at the high end of the "significant" financial risk profile category. This could occur when the consolidated company completes its large capital projects while simultaneously effectively managing costs.

Business Risk: Strong

We consider AI's business risk profile as "strong", reflecting its lower-risk, monopolistic, rate-regulated utility 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, which is regulated by the

Illinois Commerce Commission. In addition, the Federal Energy Regulatory Commission regulates the company's electric transmission lines, which constitutes about 15% of the company's total rate base, providing some added diversification. Offsetting these credit factors, in our view, is the company's competitive position as "satisfactory", which reflects the company's greater volatility of profitability compared with the regulated utility industry average.

We view the Illinois regulatory jurisdiction as "strong/adequate" (see "Utility Regulatory Assessments For U.S. Investor-Owned Utilities," Jan. 7, 2014) and we view AI's management of regulatory risk as average compared with peers, resulting in a "strong/adequate" regulatory advantage assessment. This partially reflects the company's recent rate case increases for the gas business offset by the three consecutive rate case decreases, since September 2012, for the electric business.

Financial Risk: Intermediate

For AI, we use the medial volatility table, reflecting the company's lower-risk regulated utility business model and our assessment of the company's regulatory advantage score as "strong/adequate".

We view AI's stand-alone financial risk profile as "intermediate", reflecting our expectations that the core financial measures will continue to remain at the lower end of the range for the "intermediate" financial risk profile category. Specifically, under our base case of capital spending at about $800 million, we expect FFO to debt at about 25%.

Liquidity: Adequate

We based our analysis of AI's liquidity on its group's liquidity. Consolidated Ameren has "adequate" liquidity, in our view, and can more than cover its needs for the next 12 months, even if EBITDA declines by 10%. We expect the company's liquidity sources over the next 12 months will exceed its uses by more than 1.3x. Under our stress scenario, we do not expect that Ameren would require access to the capital markets during that period to meet its liquidity needs.

Principal Liquidity Sources	Principal Liquidity Uses
• Consolidated operating cash flow of more than $1.4 billion in 2014. • Consolidated credit facility availability of about $1.5 billion. • Minimal cash assumed.	• Consolidated maintenance capital spending of about $1.2 billion. • Consolidated debt maturities of about $500 million in 2014. • Consolidated dividend payments of about $400 million.

Other Modifiers

AI's SACP reflect a one-notch negative adjustment for the comparative ratings analysis. This negative adjustment reflects our expectations that the financial measures will approximate the lower end of the range for the "intermediate" business risk profile category.

Group Influence

AI is a wholly owned subsidiary of Ameren. We consider AI as "core" to its parent, reflecting our view that AI is highly unlikely to be sold and has a strong long-term commitment from senior management.

Ratings Score Snapshot

Corporate Credit Rating

BBB+/Stable/NR

Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Satisfactory

Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

Anchor: a-

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Financial policy:** Neutral (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Negative (-1 notch)

Stand-alone credit profile : bbb+

- **Group credit profile:** bbb+
- **Entity status within group:** Core (no impact)

Recovery Analysis

- We assign recovery ratings to first-mortgage bonds (FMB) issued by U.S. utilities, which can result in issue ratings being notched above a utility's ICR 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 ICR 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 more than 3x supports a recovery rating of '1+' and an issue rating two notches above the ICR.

Related Criteria And Research

- Methodology And Assumptions: Liquidity Descriptors for Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios and Adjustments, Nov. 19, 2013
- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Collateral Coverage And Issue Notching Rules For ‘1+’ And ‘1’ Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- Notching Of U.S. Investment-Grade Investor-Owned Utility Unsecured Debt Now Better Reflects Anticipated Absolute Recovery, Nov. 10, 2008

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	**a-/bbb+**	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-