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Credit Opinion: Ameren Corporation

Global Credit Research - 22 Aug 2014

St. Louis, Missouri, United States

Ratings

Category	**Moody's Rating**
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured Shelf	(P)Baa2
Subordinate Shelf	(P)Baa3
Commercial Paper	P-2
Union Electric Company	
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A2
Senior Secured	A2
Senior Unsecured Shelf	(P)Baa1
Pref. Stock	Baa3
Commercial Paper	P-2
Illinois Power Company	
Outlook	No Outlook
Bkd Senior Secured	A2
BACKED Pref. Stock	Baa3

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Key Indicators

[1]**Ameren Corporation**

	LTM 6/30/2014	**12/31/2013**	**12/31/2012**	**12/31/2011**	**12/31/2010**
CFO pre-WC + Interest / Interest	**5.8x**	**5.2x**	**4.9x**	**4.3x**	**4.2x**
CFO pre-WC / Debt	**27%**	**26%**	**24%**	**21%**	**22%**
CFO pre-WC - Dividends / Debt	**22%**	**21%**	**18%**	**16%**	**17%**
Debt / Capitalization	**42%**	**42%**	**42%**	**42%**	**45%**

[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

- Missouri regulatory environment below average albeit improving

- Material improvement in Illinois regulatory environment

- Sale of merchant generation operations completed

- Strong credit metrics expected to continue in near-term

Corporate Profile

Ameren Corporation (Ameren, Baa2 stable) is the holding company of regulated electric and gas utilities in Missouri and Illinois. Union Electric Company (Ameren Missouri, Baa1 stable), Ameren's larger utility, is a vertically integrated utility with a service territory in and around the city of St. Louis and serves approximately 1.2 million electric customers and 127,000 natural gas customers. Ameren Missouri is regulated by the Missouri Public Service Commission (PSC). Ameren Illinois Company (Ameren Illinois, Baa1 stable) operates regulated electric and natural gas transmission and distribution business, serving approximately 1.2 million electric and 807,000 natural gas customers in its central and southern Illinois service territory. Its rates are regulated by the Illinois Commerce Commission (ICC). Ameren has also been steadily growing its transmission business which is under the regulatory purview of the Federal Energy Regulatory Commission (FERC).

SUMMARY RATING RATIONALE

Ameren's Baa2 rating reflects improving regulatory environments in both Missouri and Illinois and robust financial metrics for its current rating. Ameren's rating also reflects its position as a parent holding company that is diversified with regulated utilities operating in two states, and considers the growing transmission rate base and the stability of cash flows associated with those investments. The sale of its merchant operation, which was completed in December of 2013, eliminated its higher-risk business, thus lowering the overall risk profile of the company.

On January 31, 2014, the ratings of Ameren, Ameren Missouri, and Ameren Illinois were upgraded by one notch as part of a sector wide rating action reflecting Moody's more favorable view of the relative credit supportiveness of the US investor owned utility regulatory environment.

DETAILED RATING CONSIDERATIONS

- Missouri regulatory environment below average albeit improving

Historically, Missouri's regulatory environment has been considered less credit supportive for electric utilities in the US, namely due to longer regulatory lag and contentious disallowances in past rate cases. Missouri's already restrictive regulatory commission is further compounded by a very active intervener base. While recent decisions have demonstrated an improvement in the regulatory environment, we still consider it below average. While we view the Missouri's regulatory environment to be relatively consistent and predictable, scoring Factor 1b - Consistency & Predictability of Regulation in the mid-A range in the Moody's regulated utilities rating methodology, we view Ameren Missouri's ability to recover cost and earn appropriate return as below average, and Ameren scores in the mid-Baa range for both sub-factors under Factor 2 of the methodology. On the other hand, Ameren Missouri's gas segment operates under a considerably more favorable regulatory framework but is a small part of its total operations.

In July 2014, Ameren Missouri filed its fifth rate case in the last six years with the PSC. The request included a 9.7% (or $264 million) electric base rate increase, including fuel cost recovery, premised on a 10.4% return on equity (ROE) and 51.6% equity ratio. A final decision from the PSC is expected by May 2015 with rates to be effective the following month. In the prior rate case, in which the new rates became effective in January 2013, the PSC approved an increase of $260 million, which included fuel cost recovery, based on a 9.8% return on equity and a 52.3% equity ratio. Ameren Missouri had requested $323 million of rate increase based on a 10.5% ROE and 52.3% equity ratio with a rate base valued at $6.8 billion. We note that Ameren Missouri initially filed this prior rate case in February 2012.

Ameren Missouri has been using frequent rate change requests to mitigate the longer regulatory lag, which has been exacerbated by high capital spending and negative load growth. In recent years the company has been able to increase rates and made significant progress reducing lag with the implementation of a fuel adjustment clause (FAC) and cost trackers for pension/OPEB, vegetation management and storm costs. However, a request for a tracker on assets placed in service in between rate cases was rejected in the 2012 rate order, and an effort to establish a rider for infrastructure replacement investments through legislation also failed to pass in May 2013, both credit negatives. These mechanisms would have mitigated or eliminated the effects of regulatory lag on Ameren Missouri's infrastructure investment cost recovery. It is also important to note that, as a result of the sale of Ameren's merchant operations, Ameren Missouri`s earnings and regulatory risk represent a bigger share of Ameren's consolidated earnings and business risk profile.

- Material improvement in Illinois regulatory environment

The passage of key legislative provisions - the Illinois Energy Infrastructure Modernization Act (EIMA) and Senate Bill 9 (SB 9) - have improved the regulatory environment in Illinois. These new legislations encourage utility infrastructure investments while reducing regulatory lag. They also allow the rate changes to be less politically charged. We believe it is unlikely that Illinois will reverse its current course of regulatory improvement to a degree that would result in negative credit consequences over the near term. There is a sunset review of the legislation in 2017, in which most of the EIMA's provisions expire and will potentially be renewed beyond 2017. At this time, the ICC must report to the Illinois legislature on the infrastructure program, the performance-based formula rate, as well as the changes in the average residential rates between June 1, 2011 and May 31, 2017.

EIMA, passed in 2011, provides a foundation for formulaic ratemaking for infrastructure investments. Specifically, 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.

In December 2013, Ameren Illinois concluded its latest electric rate case. In this rate case, the 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 proposed 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 decision was fairly narrow. In addition, the formulaic ratemaking process was less contentious and the regulatory lag was shortened, 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 and longer regulatory lag.

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 implement an infrastructure rider for its gas investments in 2015, reducing some regulatory lag in cost recovery.

- Sale of merchant generation operations completed

In December 2013, Ameren completed its divestiture of Ameren Energy Resources (AER, not rated), which comprised its merchant coal-fired generating portfolio, to Dynegy, Inc. (B2 Corporate Family Rating, stable). The terms of the agreement require Ameren to maintain its financial obligations to provide credit support for AER for up to two years of the date of closing. At June 30, 2014, Ameren had issued letters of credit totally $9 million as credit support on behalf of AER. Also, Ameren had a total of $147 million in guarantees outstanding for AER that were not recorded on Ameren's balance sheet in addition to $34 million of contingent liabilities recorded on its consolidated balance sheet. While a clean sale without these terms would be have been more credit supportive for Ameren, the sale is still an overall credit positive, as it eliminated its higher-risk, merchant generating business.

- Strong credit metrics expected to continue in near-term

Ameren reported strong credit metrics for year-end 2013 and an improvement over the prior year. Specifically, Interest coverage and cash flow from operation pre-working capital (CFO Pre-WC) to debt were 5.2x and 26%, compared to 4.9x and 24% in 2012, respectively. Ameren's electric and natural gas margins increased by $150 million in 2013, largely driven by rate case decisions in both Missouri and Illinois. We note that it also included a $25 million transmission revenue increase based on a forward - looking calculation implemented during the year. Metrics were further strengthened in 2013 by a material reduction in the debt adjustment associated with its underfunded defined pension obligations; $439 million in 2013 compared to $924 million in 2012. In the near-term, we expect credit metrics to remain strong. In Illinois, EIMA uses the 30-year treasury rate as the base when calculating allowed ROE, thus a rise in the treasury rate will directly translate into a higher allowed ROE for Ameren Illinois. In Missouri, regularly filed rate cases have been somewhat effective in mitigating regulatory lag and improving returns and we expect that trend to continue. Lastly, as Ameren continues to invest in FERC-regulated transmission, earnings will increasingly benefit from return on equity of approximately 12.38%.

Liquidity Profile

Ameren is expected to have adequate liquidity in the near-term. The company has ample access to the capital markets and maintains separate credit agreements at both subsidiaries. Ameren Illinois and Ameren Missouri have credit agreements that expire in November 2017 with borrowing capacities of $1.1 billion and $1 billion, respectively. As of June 30th, 2014, Ameren and its subsidiaries had approximately $793 million of commercial paper outstanding, leaving $1.3 billion of credit facility availability. In May 2014, Ameren repaid at maturity $425 million of parent company debt using commercial paper, eliminating all parent-only long-term debt, a credit positive. The credit agreements contain a financial covenant which requires Ameren, Ameren Illinois and Ameren Missouri to each maintain consolidated indebtedness of not more than 65% of its consolidated total capitalization. As of June 30, 2014, Ameren, Ameren Illinois and Ameren Missouri reported 50%, 45%, and 50%, respectively.

Given the company's sizable capital spending program, we expect Ameren to generate negative free cash flow over the next 2-3 years. Specifically, Ameren has approximately $8.3 billion of capital expenditures planned through 2018, with $2.25 billion ear marked for FERC-regulated transmission projects. Ameren is expected to use a combination of internally generated cash and debt to fund these projects. If executed as planned, FERC-regulated transmission will account for as much as 18% of total rate base by 2018, compared to 7% at year-end 2013, a credit positive.

On June 30, 2014, Ameren had $46 million cash on hand. Ameren does not have any material maturities in the near-term. The next maturity is in April 2015 for $114 million at Ameren Missouri; and in June 2016 for $129 million at Ameren Illinois.

Rating Outlook

The stable rating outlook reflects the improving regulatory environments in Missouri and Illinois, consolidated cash flow coverage metrics that are supportive of its credit profile, and the elimination of the risk and volatility associated with merchant generation.

What Could Change the Rating - Up

The rating could be upgraded if the regulatory environment in Missouri and Illinois continue to improve and if Ameren is able to execute and finance its large capital spending plan in a way that allows for robust financial metrics on a sustained basis.

What Could Change the Rating - Down

The rating could be lowered if there are adverse regulatory or political developments in either Missouri or Illinois, including rate case outcomes that are credit negative, or if Ameren is unable to execute on their large capital spending plan in a fiscally responsible way, such that there is a deterioration in financial metrics, including CFO Pre-WC to debt below 20% for a sustained period.

Rating Factors

Ameren Corporation

Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 6/30/2014**			[3]**Moody's 12-18 Month Forward ViewAs of August 2014**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**		**Measure**	**Score**
a) Legislative and Judicial Underpinnings of	A	A		A	A

the Regulatory Framework 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	A	A	A	A
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Ba	Ba	Ba	Ba
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	5.0x	A	5.1x-5.6x	A
b) CFO pre-WC / Debt (3 Year Avg)	23.7%	A	20% - 26%	A
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	18.6%	A	15% - 20%	A
d) Debt / Capitalization (3 Year Avg)	42.3%	A	40% - 45%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		Baa1		A3
HoldCo Structural Subordination Notching		-1		-1
a) Indicated Rating from Grid		Baa2		Baa1
b) Actual Rating Assigned		Baa2		Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 6/30/2014(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.

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