Ameren Illinois Company

Subsidiary of Ameren Corp.
Full Rating Report

Ratings

Long-Term IDR	BBB+
Short-Term IDR	F2
Senior Secured Debt	A
Senior Unsecured Debt	A–
Commercial Paper	F2
Preferred Stock	BBB

IDR – Issuer Default Rating.

Rating Outlook

Stable

Financial Summary

Ameren Illinois Company

	2014	2013
Adjusted Revenue	2,498	2,311
Operating EBITDAR	738	679
Cash Flow from Operations	445	651
Total Adjusted Debt	2,324	1,949
Total Capitalization	4,949	4,360
Capex/ Depreciation (%)	3.2	2.9
FFO Fixed-Charge Coverage (x)	4.2	3.9
FFO-Adjusted Leverage (x)	3.9	2.9
Total Adjusted Debt/EBITDAR (x)	3.1	2.9

Related Research

Ameren Illinois Co. - Ratings Navigator (February 2015)

2015 Outlook: U.S. Utilities, Power and Gas (Slow and Steady) (December 2014)

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Key Rating Drivers

Constructive FRP Framework: Fitch Ratings' greater confidence level in the effectiveness and constructive nature of the formula rate plan (FRP) framework is the main catalyst for a recent one-notch ratings upgrade. Fitch views the bill that was recently signed into law by Gov. Bruce Rauner to extend the FRP rate design to 2019 from 2017 as providing further reassurance that the framework will be supportive of credit quality through long-term regulatory predictability.

Favorable Rate Order: The most recent electric rate order was favorable, as Ameren Illinois Company (AIC) received a $204 million electric rate increase effective January 2015, representing 99% of the amount initially requested by the utility. Fitch expects a balanced rate decision in AIC's pending gas rate case, where the utility is requesting a $53 million base rate increase based on a 10.25% return on equity (ROE), a 50% equity ratio and a 2016 future test year. AIC received nearly 70% of its updated rate request in its most recent gas rate proceeding.

Elevated but Manageable Capex: AIC expects capex to range between $3.68 billion–$3.97 billion over 2015–2019, representing nearly 44% of consolidated capex over the period. By contrast, AIC spent approximately $2.6 billion on capital investments over 2010–2014. Fitch expects AIC to fund capex using a balanced mix of internal cash flows, long-term debt issuances and a relatively modest parent equity infusion in 2015.

Sustained Robust Financial Performance: Fitch forecasts the ratios of adjusted debt/EBITDAR, FFO lease-adjusted leverage, and FFO fixed-charge coverage to average 3.3x, 3.4x, and 4.7x, respectively, over 2015–2017. Fitch's projections assume that AIC receives timely and adequate recovery of planned capital investments through FRP filings, and reflect increasing allowed ROEs over the forecast period, under the expectation of a rising interest rate environment.

Adequate Liquidity: AIC has access to $800 million of credit capacity under a $1.1 billion bank credit facility that expires in December 2019. AIC shares the credit facility with parent Ameren Corp. (AEE), which has a sub-borrowing limit of $500 million. At Dec. 31, 2014, AIC had $32 million of commercial paper (CP) borrowings outstanding and $1 million of cash and cash equivalents. Additional liquidity is provided by an intercompany money pool that provides for short-term cash and working capital requirements. AIC had $15 million of borrowings outstanding under the pool at Dec. 31, 2014.

Rating Sensitivities

Positive Rating Action: No positive rating actions are anticipated in the near to intermediate term.

Negative Rating Action: Any adverse regulatory developments that prevent AIC from earning an adequate and timely return on a sizable projected capex program could trigger negative rating actions. Adjusted debt/EBITDAR at or above 3.75x and FFO-adjusted leverage at or above 5.0x on a sustained basis could also lead to negative rating actions.

Financial Overview

Liquidity and Debt Structure

Liquidity is adequate. AIC has access to $800 million of credit capacity under a $1.1 billion bank credit facility that expires in December 2019. At Dec. 31, 2014, AIC had $32 million of CP borrowings outstanding and $1 million of cash and cash equivalents. Additional liquidity is provided by an intercompany money pool that provides for short-term cash and working capital requirements. AIC had $15 million of borrowings outstanding under the pool at Dec. 31, 2014.

Long-term debt maturities are manageable and expected to be refinanced at maturity. AIC has enjoyed good access to capital markets under a sustained low interest rate environment. In December 2014, AIC issued $300 million of first mortgage bonds with a 3.25% coupon. Fitch expects AIC to continue to have ample access to capital markets to fund capex.

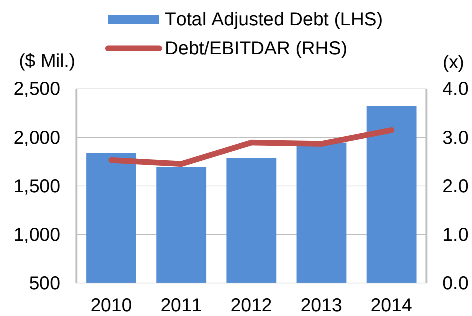
Debt Maturities and Liquidity

($ Mil., As of Dec. 31, 2014)

2015	—
2016	129
2017	250
2018	456
Thereafter	1,411
Cash and Cash Equivalents	1
Undrawn Committed Facilities	769

Source: Company data, Fitch.

Total Debt and Leverage



Source: Company data, Fitch.

Related Criteria

Recovery Ratings and Notching Criteria for Utilities (March 2015)

Corporate Rating Methodology — Including Short-Term Ratings and Parent and Subsidiary Linkage (May 2014)

Rating U.S. Utilities, Power and Gas Companies (Sector Credit Factors) (March 2014)

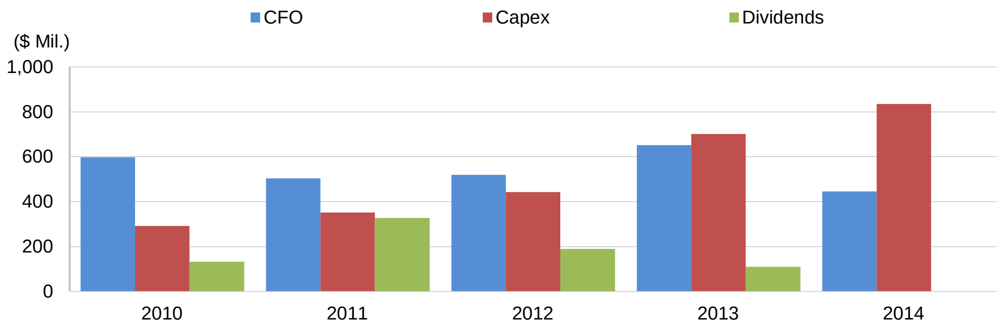
Cash Flow Analysis

Timely electric base rate adjustments under annual FRP filings should provide steady cash flows in a period of projected elevated capex that is driven by the Illinois Energy Infrastructure Modernization Act (IEIMA), which was established in 2011 to spur economic growth in the state. Between 2012–2021, AIC is required to invest $625 million in capital projects incremental to its average electric delivery service capital investments of $228 million for calendar years 2008–2010 to modernize its distribution system, including the installation of advanced electric meters and distribution system automation. Management also made significant investments in the gas business, supported by the implementation of the Qualified Infrastructure Plant (QIP) rider effective in 2015, mitigating the lag to recover capex on gas infrastructure.

About $1 billion of capex also targets investments in base transmission (reliability) and in the context of the multivalue Midcontinent Independent System Operator (MISO) projects developed by Ameren Transmission Co. of Illinois (ATXI). AIC's transmission investments represent 11% of consolidated capex over the next five years.

The expiration of bonus depreciation will have a modest negative effect on operating cash flows in 2016 and beyond, but will be more than offset by incremental rate relief stemming from FRP, gas and Federal Energy Regulatory Commission (FERC) proceedings, in Fitch's view. To support AIC's capital structure during peak spending, Fitch anticipates AEE will contribute a modest cash infusion and forego upstream dividend payments in 2015. AIC's Internal cash flows are projected to fund about 75% of capex requirements over 2015–2017, with the remainder provided by long-term debt issuances.

CFO and Cash Use



Source: Company data, Fitch.

Peer Group

Issuer	Country
BBB+	
Ohio Power Co.	United States
AEP Texas Central Co.	United States
Consolidated Edison Co. of NY, Inc.	United States
BBB	
Commonwealth Edison Co.	United States

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
March 31, 2015	BBB+	Stable
Oct. 1, 2014	BBB	Stable
March 14, 2014	BBB	Stable
March 15, 2013	BBB–	Stable
Jan. 28, 2013	BBB–	Stable
Jan. 27, 2012	BBB–	Positive
May 23, 2011	BBB–	Stable
May 20, 2010	BBB–	Stable
Oct. 16, 2008	BBB–	Stable
Aug. 1, 2007	BB+	RWP
April 2, 2007	BB+	RWN
Oct. 10, 2006	BBB+	RWN
May 17, 2006	BBB+	Negative
Dec. 6, 2005	BBB+	Stable
May 29, 2003	A–	Stable
Nov. 28, 2001	A–	Stable
Oct. 10, 2000	A	Stable
March 24, 1998	AA–	Stable

LT IDR – Long-term Issuer Default Rating.
RWN – Ratings Watch Negative.
RWP – Ratings Watch Positive.
FC – Foreign currency.
Source: Fitch.

Peer and Sector Analysis

Peer Group Analysis

($ Mil.)	Ameren Illinois Company	Ohio Power Co.	Commonwealth Edison Co.	AEP Texas Central Co.	Consolidated Edison Co. of New York, Inc. — Con Ed
As of	12/31/14	12/31/14	12/31/14	12/31/14	12/31/14
IDR	BBB+	BBB+	BBB	BBB+	BBB+
Outlook	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable
Fundamental Ratios (x)					
Operating EBITDAR/ (Gross Interest Expense + Rents)	5.3	4.6	4.9	5.8	5.8
FFO Fixed-Charge Coverage	4.2	5.2	5.6	4.1	5.6
Total Adjusted Debt/Operating EBITDAR	3.1	3.5	3.8	3.7	3.7
FFO/Total Adjusted Debt (%)	25.4	33.1	30.0	19.4	25.6
FFO-Adjusted Leverage	3.9	3.0	3.3	5.2	3.9
Common Dividend Payout (%)	—	16.2	75.2	4.9	67.3
Internal Cash/Capex (%)	52.9	107.7	60.3	40.2	82.0
Capex/Depreciation (%)	317.5	253.1	245.9	363.3	211.3
Return on Equity (%)	8.1	12.0	5.3	12.8	9.6
Financial Information					
Revenue	2,498	3,337	4,564	783	10,786
Revenue Growth (%)	8.1	(29.9)	2.2	18.3	3.4
EBITDA	713	607	1,665	337	3,130
Operating EBITDA Margin (%)	28.5	19.2	36.5	60.3	29.0
FCF	(393)	35	(670)	(278)	(376)
Total Adjusted Debt with Equity Credit	2,324	2,122	6,405	1,260	11,664
Cash and Cash Equivalents	1	3	66	—	645
Funds Flow From Operations	448	568	1,580	185	2,448
Capex	(835)	(453)	(1,689)	(465)	(2,094)

IDR – Issuer Default Rating.
Source: Company data, Fitch.

Key Rating Issues

Challenges to Transmission ROE

FERC is reviewing a complaint case from a customer group seeking to reduce the transmission-based 12.38% ROE for MISO transmission owners to 8.67%. An initial decision by the FERC administrative law judge is expected no later than Nov. 30, 2015. AIC booked a reserve in fourth-quarter 2014 to account for a reduction, that is to be retroactive to the November 2013 filing complaint, to allowed ROE to about 10.57% (reflecting the outcome of the 2014 New England case), and 2015 management guidance incorporates the 50bps incentive adder approved by FERC and effective January 2015. Collection of the adder is to be deferred until resolution of the pending challenge to the 12.38% ROE. Fitch does not expect a reduction to the transmission ROE as projected by management to have a significant effect on AIC’s earnings or trigger some downward revisions to projected capex spending in the transmission business.

Organizational Structure

Organizational and Debt Structure — Ameren Illinois Company

($ Mil., As of Dec. 31, 2014)

Ameren Corporation
IDR — BBB+

Parent-Only Long-Term Debt	0

Ameren Illinois Company
IDR: BBB+

Senior Secured Notes	2,229
Pollution Control Bonds	17

Ameren Missouri Co. (Union Electric)
IDR: BBB+

Senior Secured Notes	3,504
Pollution Control Bonds	207

Ameren Transmission Company of Illinois (ATXI)
IDR: NR

Ameren Services Company
IDR: NR

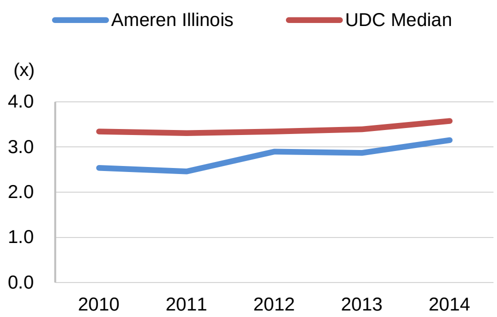
IDR – Issuer Default Rating. NR – Not rated.
Source: Company reports, Fitch analysis.

Definition

- FFO-Adjusted Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.

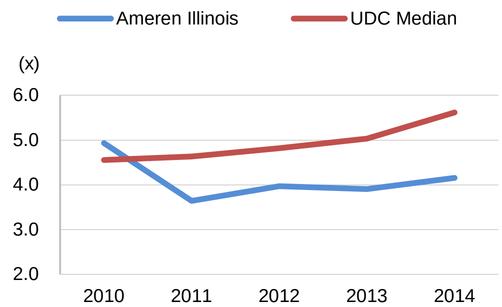
Key Metrics

Total Adjusted Debt/Op. EBITDAR



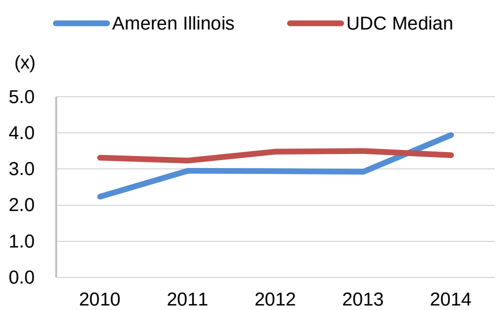
Source: Company data, Fitch.

FFO Fixed-Charge Coverage



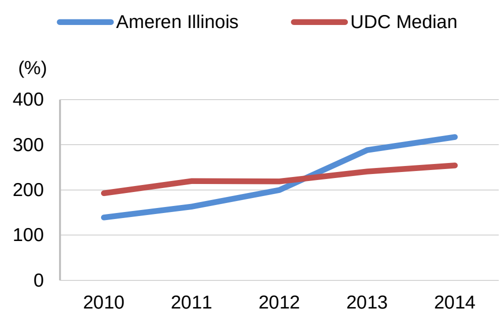
Source: Company data, Fitch.

FFO-Adjusted Leverage



Source: Company data, Fitch.

Capex/Depreciation



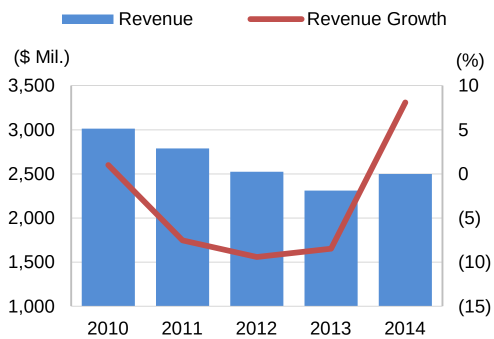
Source: Company data, Fitch.

Company Profile

AIC operates a rate-regulated electric and natural gas transmission and distribution business in Illinois. The utility supplies electric and natural gas service to approximately 1.2 million electric customers and 813,000 natural gas customers in portions of central and southern Illinois. AIC's electric sales mix was 32% residential, 33% commercial, 34% industrial, and 1% other in 2014. While industrial sales contribute 34% of total sales, they only represent 9% of total revenue, mitigating any customer concentration concerns. Management expects sales to be relatively flat over the next three years.

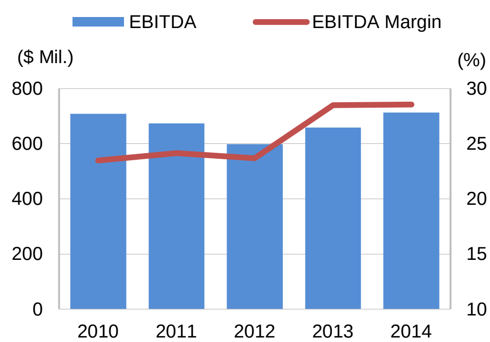
Business Trends

Revenue Dynamics



Source: Company data, Fitch.

EBITDA Dynamics



Source: Company data, Fitch.

Financial Summary — Ameren Illinois Company

($ Mil., As of Dec. 31, 2014)	2011	2012	2013	2014
Fundamental Ratios				
Operating EBITDAR/(Gross Interest Expense + Rents) (x)	4.5	4.1	4.0	5.3
FFO Fixed-Charge Coverage (x)	3.6	4.0	3.9	4.2
Total Adjusted Debt/Operating EBITDAR (x)	2.5	2.9	2.9	3.1
FFO/Total Adjusted Debt (%)	33.9	33.9	34.2	25.4
FFO-Adjusted Leverage (x)	2.9	2.9	2.9	3.9
Common Dividend Payout (%)	169.4	134.0	68.8	—
Internal Cash/Capex (%)	49.6	74.0	76.7	52.9
Capex/Depreciation (%)	163.3	200.0	288.5	317.5
Return on Equity (%)	7.9	6.0	6.8	8.1
Profitability				
Revenues	2,787	2,525	2,311	2,498
Revenue Growth (%)	(7.5)	(9.4)	(8.5)	8.1
Net Revenues	1,442	1,412	1,483	1,622
Operating and Maintenance Expense	640	684	693	771
Operating EBITDA	673	598	658	713
Operating EBITDAR	690	617	679	738
Depreciation and Amortization Expense	215	221	243	263
Operating EBIT	458	377	415	450
Gross Interest Expense	138	131	147	114
Net Income for Common	193	141	160	201
Operating Maintenance Expense % of Net Revenues	44.4	48.4	46.7	47.5
Operating EBIT % of Net Revenues	31.8	26.7	28.0	27.7
Cash Flow				
Cash Flow from Operations	504	519	651	445
Change in Working Capital	87	65	155	(3)
Funds from Operations	417	454	496	448
Dividends	(330)	(192)	(113)	(3)
Capex	(351)	(442)	(701)	(835)
FCF	**(177)**	**(115)**	**(163)**	**(393)**
Net Other Investment Cash Flow	55	5	6	7
Net Change in Debt	(150)	67	128	376
Net Equity Proceeds	19	—	—	15
Capital Structure				
Short-Term Debt	—	24	56	47
Total Long-Term Debt	1,689	1,758	1,887	2,272
Total Debt with Equity Credit	**1,689**	**1,782**	**1,943**	**2,319**
Total Adjusted Debt with Equity Credit	1,695	1,788	1,949	2,324
Total Hybrid Equity and Minority Interest	31	31	31	31
Total Common Shareholder's Equity	2,390	2,339	2,386	2,599
Total Capital	**4,110**	**4,152**	**4,360**	**4,949**
Total Debt/Total Capital (%)	41.1	42.9	44.6	46.9
Total Hybrid Equity and Minority Interest/Total Capital (%)	0.8	0.7	0.7	0.6
Common Equity/Total Capital (%)	58.2	56.3	54.7	52.5

IDR – Issuer Default Rating.
Source: Company data, Fitch.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.