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Credit Opinion: Ameren Corporation

Global Credit Research - 08 Apr 2015

St. Louis, Missouri, United States

Ratings

Category	**Moody's Rating**
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured Shelf	(P)Baa1
Subordinate Shelf	(P)Baa2
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
Ameren Illinois Company	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured	A1
Senior Unsecured Shelf	(P)A3
Pref. Stock	Baa2
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 Corporation**

	12/31/2014	**12/31/2013**	**12/31/2012**	**12/31/2011**	**12/31/2010**
CFO pre-WC + Interest / Interest	**5.1x**	**5.2x**	**4.9x**	**4.3x**	**4.2x**
CFO pre-WC / Debt	**20.2%**	**26.8%**	**23.8%**	**21.0%**	**21.7%**
CFO pre-WC - Dividends / Debt	**15.1%**	**21.2%**	**18.5%**	**16.4%**	**17.4%**
Debt / Capitalization	**42.0%**	**41.5%**	**42.3%**	**42.2%**	**45.0%**

[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 Illinois regulatory environment

- Missouri regulatory environment below average albeit improving

- Long-term capital investments focused on Ameren Illinois and Ameren Transmission Company of Illinois

- Stable financial profile and credit metrics

Corporate Profile

Ameren Corporation (Ameren, Baa1 stable) is the parent holding company of regulated electric and gas utilities in Missouri and Illinois. Union Electric Company (dba Ameren Missouri, Baa1 stable), Ameren's largest utility, is vertically integrated 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, A3 stable) operates a regulated electric transmission and distribution (T&D) and natural gas distribution business, serving approximately 1.2 million electric and 813,000 natural gas customers in central and southern Illinois. Its rates are regulated by the Illinois Commerce Commission (ICC) as well as the Federal Energy Regulatory Commission (FERC). Ameren has also been steadily growing its transmission business called Ameren Transmission Company of Illinois (ATXI, not rated), which is under the regulatory purview of the FERC.

SUMMARY RATING RATIONALE

Ameren's Baa1 rating reflects an improving regulatory environment in Missouri and a credit supportive regulatory environment in Illinois. It also incorporates Ameren's stable consolidated credit metrics, minimal parent company debt, and improved business risk profile. 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 2013, as well as the sale of the remaining gas-fired merchant power plants in January 2014, eliminated its higher-risk business, thus lowering the overall risk profile of the company.

DETAILED RATING CONSIDERATIONS

- Material improvement in Illinois regulatory environment

The sunset review of the Energy Infrastructure Modernization Act (EIMA) was extended by two years until the end of 2019. The EIMA provides a transparent rate setting mechanism, which resets the allowed returns on equity (ROE) every year by using a formula equaling the average of the monthly yields of the 30-year US treasury yields for the calendar year plus 580 basis points adjusted for Ameren Illinois' operating performance. The year-end rate base and capital structure are used in all rate reconciliations, minimizing regulatory lag. Under the EIMA, Ameren Illinois will have a transparent cost recovery mechanism and be able to earn an appropriate return on its infrastructure investments through at least 2019.

In addition, Ameren Illinois now has an infrastructure rider for its natural gas operations which should minimize some regulatory lag. Ameren Illinois currently has a gas distribution rate case pending before the ICC requesting a $53 million annual rate increase based on a 10.25% ROE and a 50% equity ratio. The rate base value is estimated at $1.19 billion and a future test year ending December 31, 2016 was used to support the rate increase request. Ameren Illinois has also requested the implementation of a decoupling mechanism, which would permit the utility to collect its revenue requirement from residential and small non-residential customers independent of changes in sales volume. The final order from the ICC is expected in December 2015 with the new rates becoming effective in January 2016. Ameren Illinois' last gas rate case concluded in December 2013 and the company was authorized a $32.5 million rate increase based on a 9.08% ROE.

- Missouri regulatory environment below average albeit improving

Historically, we have considered Missouri's regulatory environment to be less credit supportive for electric utilities due to longer regulatory lag and contentious disallowances in some past rate cases. Missouri's restrictive regulation is further compounded by a very active intervener base. While recent decisions and the implementation of various riders 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 Moody's Regulated Electric and Gas Utilities rating methodology, we view Ameren Missouri's ability to recover costs and earn appropriate returns as below average, and Ameren scores in the mid-Baa range for both sub-factors under Factor 2 of the methodology (Ability to Recover Costs and Earn Returns). On the other hand, Ameren Missouri's gas business 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 updated request included a $181 million electric base rate increase, including fuel cost recovery premised on a 10.4% return on equity (ROE) and a 51.8% equity ratio. A final decision from the PSC is expected by May 2015 with rates to be effective May 30, 2015. In the prior rate case, in which the new rates became effective in January 2013, the PSC approved an increase of $260 million. The requested increase included fuel cost recovery based on a 9.8% return on equity and a 52.3% equity ratio. Ameren Missouri had requested a $323 million rate increase based on a 10.5% ROE and 52.3% equity ratio with a rate base valued at $6.8 billion when it filed in February 2012.

- Long-term capital investments focused on Ameren Illinois and Ameren Transmission Company of Illinois

Ameren plans to expand its rate base by 6% (compounded annual growth rate) over the next five years. Particular focus will be on expanding its FERC-regulated transmission investments at ATXI and Ameren Illinois' electric and gas infrastructure investments, including Ameren Illinois' FERC regulated transmission investments. Ameren expects its FERC-regulated transmission rate base to grow by 27% (CAGR) and Ameren Illinois' electric and gas distribution rate base to grow by approximately 6% (CAGR), compared to around 2% growth for Ameren Missouri's rate base over the same period. We believe the long-term investment plan focused on the FERC-regulated transmission projects and Ameren Illinois' electric and gas distribution business enhance the transparency and stability around Ameren's earnings and cash flow. The formula based rates in Illinois and at the FERC minimize regulatory lag and allow Ameren to earn appropriate returns without the uncertainty of potentially contentious rate cases.

Furthermore, we believe Ameren's business risk profile has improved in recent years. In December 2013, Ameren completed its divestiture of Ameren Energy Resources (AER, not rated), which was comprised of a merchant coal-fired generation portfolio, to Dynegy, Inc. (B2 CFR stable). The sale of AER eliminated much of Ameren's exposure to commodity and related market risk as well as environmental risk. The sale included a financial obligation for Ameren to continue to provide credit support for certain AER's obligations existing at the date of the sale for up to two years after the date of closing. At December 31, 2014, the credit support provided to AER was $135 million compared to $197 million at the time of the transaction.

- Stable financial profile and credit metrics

We expect Ameren to maintain a more stable credit profile with its focus on regulated utility investments and operations. Also, it benefits from minimal borrowing at the parent level. At the end of 2014, Ameren reported interest coverage and cash flow from operation pre-working capital (CFO pre-WC) to debt ratios of 5.1x and 20%, respectively. The three-year average of these metrics at the year-end 2014 were 5.1x and 23.5%. Ameren's gross profits and net income from continuing operations increased by 5% and 15% in 2014 compared to a year ago. It was largely driven by higher earnings through the formula rates in Illinois and at the FERC level. Ameren also benefited from higher natural gas rates due to the new rates which became effective in early 2014. We expect Ameren to maintain a stable financial profile as it continues to execute investments under the EIMA and the FERC. Also, we believe Ameren will be able to reach a constructive outcome in Ameren Missouri's general rate case, with a decision expected in May 2015. Based on its large formula-rate based investment cost recovery and constructive outcomes in rate cases, Ameren should be able to maintain three-year average CFO pre-WC to debt and interest coverage ratios ranging from 20% to 23% and from 5.0x to 5.5x, respectively.

Liquidity Profile

Ameren's short-term rating is P-2 and we expect the company to have a good liquidity profile over the next 12 months.

Ameren maintains two bank credit facilities totaling $2.1 billion, one as a co-borrower with Ameren Missouri for $1.0 billion and one as a co-borrower with Ameren Illinois for $1.1 billion. In December 2014, both agreements were amended and extended by two years to December 2019. Under the Ameren Missouri agreement, Ameren and Ameren Missouri have sub-limits of $700 million and $800 million, respectively. Under Ameren Illinois' agreement, Ameren and Ameren Illinois have sub-limits of $500 million and $800 million, respectively. At the end of 2014, $714 million of commercial paper was outstanding under both credit agreements. $586 million was issued by the parent company.

There is no material adverse change clause that could prevent borrowing under either credit facility. Under the terms of the credit facility, Ameren, Ameren Missouri and Ameren Illinois must each maintain a total debt to capitalization ratio of no greater than 65%. At December 31, 2014, all three entities, Ameren, Ameren Missouri and Ameren Illinois, were in compliance with this covenant with debt to total capitalization ratios of 50%, 49% and 47%, respectively.

Given the company's sizable capital spending program, we expect Ameren to continue generating negative free cash flow over the next 2-3 years. We expect Ameren to use a combination of internally generated cash and debt to fund this program. We believe Ameren will utilize the credit sublimit available under the credit agreements to fund the FERC-regulated transmission investment at ATXI over the near-term. Over the long-term, once ATXI is more financially independent, it is possible that the funding of these projects will be financed through external borrowings.

On December 31, 2014, Ameren had $5 million cash on hand. Ameren does not have any material maturities in the near-term. In April 2015, Ameren Missouri issued $250 million of senior secured debt in part to refinance the $114 million maturity due in April 2015. The next debt maturity within the Ameren family is at Ameren Illinois when $129 million is due in June 2016.

Rating Outlook

The stable outlook for Ameren incorporates our view that Ameren's overall risk profile has become less volatile and more measured. Also, it reflects our expectation that Ameren's focus on investing in projects with minimal regulatory lag in cost recovery will help maintain its overall credit profile. Based on its improved risk profile and transparency around cash flows, we expect Ameren to maintain stable credit metrics.

What Could Change the Rating - Up

It is unlikely that Ameren would be upgraded over the near-term. However, an upgrade could be considered if the overall regulatory environment, most notably the regulatory environment in Missouri, improves significantly, resulting in an upgrade of Ameren Missouri; or there is a meaningful improvement in Ameren's consolidated financial profile such that its CFO pre-WC to debt ratio is above 24% on a sustained basis.

What Could Change the Rating - Down

Ameren's rating could be downgraded if there are adverse regulatory or political developments in either Missouri or Illinois, including rate case outcomes that are credit negative; if significant debt is issued at the parent company level; or if Ameren is unable to execute on its 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 FY 12/31/2014**		[3]**Moody's 12-18 Month Forward ViewAs of 4/8/2015**	
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	A	A
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)	5.1x	A	5.5x - 6.5x	Aa
b) CFO pre-WC / Debt (3 Year Avg)	23.5%	A	22% - 26%	A
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	18.2%	A	17% - 22%	A
d) Debt / Capitalization (3 Year Avg)	41.9%	A	40% - 45%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		Baa1		A3
HoldCo Structural Subordination Notching		0		0
a) Indicated Rating from Grid		Baa1		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 12/31/2014; 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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