Moody's Investors Service

Global Credit Research
Rating Action
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Rating Action: Ameren Corporation

Moody's Downgrades Union Electric; Places Ameren and AmerenGenco On Review

Approximately $3.5 Billion of Debt Securities Downgraded

New York, May 21, 2008 -- Moody's Investors Service downgraded the long-term debt ratings of Union Electric Company (d/b/a AmerenUE; Issuer Rating to Baa2 from Baa1). The rating outlook is stable. Moody's placed the ratings of Ameren Corp. (Ameren) and AmerenEnergy Generating Company (AmerenGenco) on review for possible downgrade, including Ameren's Baa2 Issuer Rating and Prime-2 rating for commercial paper and AmerenGenco's Baa2 senior unsecured rating. Moody's also placed Union Electric Company's Prime-2 rating for commercial paper on review for possible downgrade. Moody's affirmed the ratings of Central Illinois Public Service Company (d/b/a AmerenCIPS, Ba1 Issuer Rating); CILCORP Inc. (Ba1 Corporate Family Rating); Central Illinois Light Company's (d/b/a AmerenCILCO, Ba1 Issuer Rating), and Illinois Power Company (d/b/a AmerenIP, Ba1 Issuer Rating) and maintained a positive rating outlook on these four subsidiaries.

"The downgrade of Union Electric Company reflects declining cash flow coverages; increased operating costs; growing capital expenditures for environmental compliance, transmission and delivery system reliability; and higher debt level being incurred to finance these investments", said Michael G. Haggarty, Vice President and Senior Credit Officer. Union Electric has experienced higher fuel, purchased power, and labor costs over the last several years. As a result, cash flow from operations before working capital adjustments has fallen from the 30% range as recently as 2004 to slightly under 20% in 2007 and could decline further in coming years. The utility's capital expenditures are projected to increase by 65% in 2008 to $1.03 billion from $625 million in 2007 and are expected to remain at elevated levels for at least the next several years. As a result, the utility's financial metrics are more likely to remain at levels more in line with the middle range of the Baa rating category than the high Baa range.

The downgrade also reflects the challenging regulatory environment for electric utilities operating in the state of Missouri, as Union Electric is one of the relatively few utilities in the country operating without fuel, purchased power, and environmental cost recovery mechanisms. The lack of such automatic cost recovery provisions creates uncertainty regarding the timely recovery of the higher costs and investments being incurred and leads to significant regulatory lag. The utility has filed to implement a fuel and purchased power recovery clause as part of its pending $251 million rate case, which is not expected to be completed and implemented until March 2009. The utility requested a similar fuel adjustment clause in its last rate case and the request was denied. "Longer term challenges facing the utility include uncertainties associated with pending climate control legislation, which could have a significant effect on this predominantly coal fired utility, as well as risks associated with the construction of a potential second unit at its Callaway nuclear power station, which is under consideration", said Haggarty.

The review of parent company Ameren's ratings is prompted by the downgrade of Union Electric, its largest utility subsidiary; declining consolidated cash flow coverage metrics; and capital expenditures that are projected to increase substantially to $2.2 billion in 2008 from $1.4 billion in 2007 and remain high going forward. The review will focus on the parent company's plans to finance these capital expenditures; the amount of long-term debt to be issued at the parent, if any; the magnitude of planned capital contributions to be made to support capital programs at its subsidiaries; and the likely impact on coverage metrics, particularly considering the company's relatively high dividend payout ratio. The review will also consider Ameren's plans to reduce its reliance on short-term borrowings under its bank credit facilities, which have been heavily drawn for much of the last year; the outcome of pending distribution rate cases at its Illinois utilities; as well as any progress on the successful implementation of new power procurement policies and procedures in Illinois. Moody's does not expect the review to result in more than a one notch downgrade of Ameren's ratings.

The review of AmerenGenco's ratings is prompted by increased capital spending for environmental compliance and an anticipated higher level of debt issuance at the subsidiary to finance this capital spending over the next several years. It also reflects the likelihood that controls on carbon emissions will limit the upside potential of this relatively small, undiversified, predominantly coal based unregulated merchant generating subsidiary. The review will focus on the magnitude of environmental compliance and other capital spending at the subsidiary, the amount of debt financing that will be necessary to fund these expenditures; the resulting pressure on the generating company's cash flow coverage metrics over the long-term; and the liquidity profile and hedging strategy of the subsidiary going forward. Moody's does not expect the review to result in more than a one notch downgrade of AmerenGenco's rating.

The review of Union Electric's Prime-2 rating for commercial paper is prompted by the review of parent company Ameren's Prime-2 short-term rating and takes into consideration the shared bank credit facility between the utility and the parent, as well as the money pool arrangement in place between the two entities, which allows Union Electric to borrow from Ameren. It also reflects the close relationship and mutual interdependence between the utility and the parent company in terms of liquidity and financial support, as has been most recently demonstrated by a $380 million capital contribution made by Ameren to Union Electric in 2007 and a $122 intercompany note payable from Union Electric to Ameren outstanding at March 31, 2008.

The maintenance of a positive outlook on Ameren's Illinois utilities reflects the potential for modest upward movement in their rating in the event there is a supportive outcome of their pending distribution rate cases, resulting in an improvement in some of their relatively low cash flow coverage metrics; a reduction in high short-term debt levels, increasing financial flexibility; and the successful implementation of new power procurement policies and procedures in Illinois.

Ratings downgraded and assigned a stable outlook include:

Union Electric's senior secured debt, to Baa1 from A3; Issuer Rating; to Baa2 from Baa1; subordinated debt, to Baa3 from Baa2; and preferred stock, to Ba1 from Baa3.

Ratings placed under review for possible downgrade include:

Ameren's Baa2 Issuer Rating and Prime-2 short-term rating for commercial paper;

AmerenGenco's Baa2 senior unsecured long-term debt rating; and

Union Electric's Prime-2 short-term rating for commercial paper.

Ratings affirmed with a positive outlook include:

Central Illinois Public Service Company's Baa3 senior secured debt, Ba1 Issuer Rating, and Ba3 preferred stock;

Illinois Power Company's Baa3 senior secured debt, Ba1 Issuer Rating, and Ba3 preferred stock;

CILCORP, Inc.'s Ba1 Corporate Family Rating;

CILCORP's Probability of Default Rating at Ba1.

Ratings affirmed with a positive outlook/LGD assessments revised include:

CILCORP's senior unsecured debt at Ba2 (LGD5, 82%) from Ba2 (LGD5, 79%);

Central Illinois Light Company's senior secured debt at Baa2 (LGD2, 20%) from Baa2 (LGD2, 15%); and Ba1 Issuer Rating;

Central Illinois Light Company's preferred stock at Ba2 (LGD4, 59%) from Ba2 (LGD4 51%).

Ratings and Loss Given Default assessments for CILCORP and its subsidiary Central Illinois Light Company have been determined in accordance with Moody's Loss-Given Default Methodology. More information on this methodology can be found at moodys.com/lgd.

Ameren Corporation is a public utility holding company headquartered in St. Louis, Missouri. It is the parent company of Union Electric Company (d/b/a AmerenUE), Central Illinois Public Service Company (d/b/a AmerenCIPS), CILCORP Inc., Central Illinois Light Company (d/b/a AmerenCILCO), Illinois Power Company (d/b/a AmerenIP), and AmerenEnergy Generating Company.

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