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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY
on Interim Rates

OF

DAVID MURRAY

UNION ELECTRIC COMPANY,
d/b/a AMERENUE

CASE NO. ER-2010-0036

Staff Exhibit No. M
Case No(s). ER-2010-0036
Date 12-07-09 Rptr KF

Jefferson City, Missouri
November 2009

REBUTTAL TESTIMONY
on Interim Rates

OF

DAVID MURRAY

UNION ELECTRIC COMPANY,
d/b/a AMERENUE

CASE NO. ER-2010-0036

Q. Please state your name.

A. My name is David Murray.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of this rebuttal testimony is to respond to the direct testimony of Mr. Lee R. Nickloy on interim rates. Mr. Nickloy sponsored testimony in support of AmerenUE's ("Company") interim rate increase request. He specifically offers testimony on his views concerning fixed income and credit perspectives and the benefits he believes will accrue to AmerenUE and its customers if the interim rate increase is approved.

Q. Did Staff issue data requests to the Company for the purpose of preparing its rebuttal testimony in this case?

A. Yes. Because much of Mr. Nickloy's interim rate increase testimony in this case focuses upon the potential effects of an interim rate increase on the credit quality of AmerenUE, Staff issued several data requests in order to gain a better understanding of factor's affecting the Company's credit quality and whether the Company attempted to quantify any potential cost savings that may result from an improved credit rating.

Q. Has AmerenUE provided responses to these data requests?

A. Yes. Staff had ample opportunity to consider AmerenUE's responses to Staff Data Request Nos. 0259, 0260, 0262, and 0275. However, due to AmerenUE providing responses to Staff Data Request Nos. 0261, 0263 and 0264, on the day of filing, Staff has been unable to consider those responses for the purposes of this testimony. I may supplement this pre-filed interim rate case rebuttal testimony after consideration of the responses to Staff Data Request Nos. 0261, 0263 and 0264.

Q. Why do you believe it is important to understand the factors affecting AmerenUE's credit quality?

A. In his testimony in this case Mr. Nickloy touts the perceived benefits that AmerenUE and its customers will receive if the Commission were to allow an interim rate increase. It is Staff's position, however, that if AmerenUE's credit quality will not be directly impacted by the allowance of an interim rate increase, then any of the "benefits" discussed in Mr. Nickloy's testimony will not materialize, or at least will be minimized due to AmerenUE's affiliation with Ameren's weaker affiliates.

Q. Please explain.

A. Mr. Nickloy explains that because fixed income investors and banks assess the creditworthiness of the Company and depend on the Company's credit ratings to determine the return these investors require for offering capital to AmerenUE (which is charged to customers through their rates), it is important to understand the mechanisms these investors consider favorable. Mr. Nickloy's position is that these mechanisms will allow investors to require a lower return on capital, which should flow through to customers in the form of a lower allowed rate of return.

Q. Has AmerenUE's Standard & Poor's (S&P) credit rating been based purely on its stand-alone credit quality even after Ameren made structural changes to separate itself from its regulated operations in Illinois ?

A. No. According to a June 25, 2007 S&P research report (Schedule 1) on AmerenUE's credit quality, Ameren took steps to "structurally separate the Illinois companies from the rest of the Ameren family. These measures include removing CIPS [Central Illinois Public Service Co.], CILCORP [CILCORP, Inc.], CILCO [Central Illinois Light Co.], and Illinois Power Co. as borrowers under Ameren's $1.15 billion credit facility and removing provisions that would treat the Illinois units as subsidiaries for purposes of cross-default provisions." While this action helped protect the S&P credit ratings of Ameren, AmerenUE and Ameren Generating Company from the Ameren Illinois regulated subsidiaries, it apparently did not focus on separating AmerenUE's credit rating from Ameren's non-regulated operations, which includes non-regulated affiliates in Illinois.

Q. Do you have any further support for your opinion that AmerenUE's credit quality is impacted by Ameren's other operations?

A. Yes, I have reviewed comments in other reports published by certain credit rating agencies and have discovered that these agencies cite AmerenUE's association with Ameren and Ameren's other operations as a weakness to AmerenUE's credit quality. For example, S&P stated the following in its August 27, 2009 report on AmerenUE's corporate credit rating (see Schedule 2):

> The ratings on Union Electric Co. (UE) **reflect Ameren Corp.'s consolidated credit profile**. UE's ratings also reflect its excellent business profile and Ameren's significant financial profile. Ameren's subsidiaries also consist of utilities, Central Illinois Public Service Co., Central Illinois Light Co.

> (CILCO; a subsidiary of CILCORP Inc.), and Illinois Power Co. Ameren's unregulated businesses include Ameren Energy Generating Co. and Ameren Energy Resources Generating Co. (a subsidiary of CILCO). Ameren also has an 80% ownership of Electric Energy, Inc., which operates non-rate-regulated electric generation facilities. As of June 30, 2009, Ameren had about $8.4 billion of total debt outstanding. Based on the combination of future earnings, cash flow, and capital expenditures, we currently view Ameren as about 60% regulated and 40% unregulated. (emphasis added)
>
> **In most circumstances, Standard & Poor's will not rate a wholly owned subsidiary higher than the parent. Exceptions can be made on the basis of structural or regulatory insulation, which in the case of UE, in our view, <u>is not present</u>. Therefore, regardless of UE's excellent business profile and relatively healthy financial condition as a stand-alone basis, Standard & Poor's views the rating on UE to be affected by Ameren's non-regulated businesses.** (Emphasis added)

Consequently, while one of AmerenUE's main arguments supporting the need for an interim rate increase appears to be the perceived ability of the increase to enhance AmerenUE's credit quality, based on S&P's discussion above, it does not appear that AmerenUE's S&P credit rating will receive any direct benefit from AmerenUE's proposed regulatory treatment through higher rates and quicker recovery.

Q. Do you know if AmerenUE plans to take any steps to protect AmerenUE's credit rating from being impacted by Ameren's other operations?

A. No. In response to Staff Data Request No. 0262, in which Staff inquired about what action AmerenUE would take to ensure its S&P credit rating was based on the stand-alone credit quality of AmerenUE, the Company replied that it "cannot direct or control the ratings methodology utilized by Standard & Poor's or offer any assurances that a certain ratings approach will be used."

Staff also issued Data Request No. 0261 to request information regarding any current action Ameren and AmerenUE have taken to protect AmerenUE's credit rating from its affiliates. AmerenUE responded the day this filing was due so Staff did not have time to consider its response.

Q. Has Mr. Nickloy quantified the expected cost of debt savings he believes AmerenUE customers would receive if the Commission were to authorize an interim rate increase?

A. No. Mr. Nickloy has not provided any specific information on expected cost savings that AmerenUE could pass through to ratepayers if AmerenUE is allowed its proposed interim rate increase. Mr. Nickloy also has not provided any information on specific credit quality improvements for AmerenUE if the interim rate increase is allowed.

Q. To the best of your knowledge, has AmerenUE attempted to quantify any potential cost of capital savings that would be flowed through to ratepayers in the event an interim rate increase is authorized?

A. No. According to AmerenUE's response to Staff Data Request No. 0260, AmerenUE has not quantified any such possible savings.

Q. Does Staff have any reason to believe that authorization of an interim rate increase will improve AmerenUE's credit ratings?

A. No. As an example, AmerenUE was allowed a Fuel Adjustment Clause (FAC) in its most recent rate case. The approval of the FAC has not resulted in an increase in AmerenUE's credit rating from any of the three major credit rating agencies.

Q. When was the last time S&P made any changes to AmerenUE's credit rating and/or it credit rating outlook?

A. S&P has not changed AmerenUE's "BBB-" credit rating or its "Stable Outlook" since August 29, 2007.

Q. Has S&P changed its view of AmerenUE in any way to recognize the Commission's recent authorization of a FAC?

A. Yes. S&P did change AmerenUE's business risk profile from "Strong" to "Excellent" in its February 27, 2009, published research report (Schedule 3).

Q. Why didn't this have an impact on AmerenUE's S&P credit rating?

A. Because of S&P's view that AmerenUE's credit quality is driven by Ameren's consolidated operations. Consequently, it appears that any further advantageous regulatory treatment would have to be fairly significant to outweigh the other factors at Ameren that are a drag on AmerenUE's credit rating.

Q. Does S&P rely on AmerenUE's financial information when assessing AmerenUE's credit quality?

A. No. S&P's published credit rating analysis of AmerenUE focuses on Ameren's consolidated financial data. Apparently S&P gives no consideration to AmerenUE's specific financial data.

Q What credit rating does Moody's assign to AmerenUE?

A. According to AmerenUE's latest SEC 10-Q Filing for the period ending September 30, 2009, Moody's current credit rating for AmerenUE is a "Baa2". This is one notch better than Moody's current corporate credit rating of "Baa3" for Ameren.

Q. Does this mean that AmerenUE's Moody's credit rating has not been impacted by Ameren's other operations?

A. No.

Q. Then why does Moody's have a higher credit rating for AmerenUE than for Ameren?

A. Moody's credit rating analysis of AmerenUE gives weight to AmerenUE's company-specific information.

Q. What is your basis for claiming that Moody's credit rating of AmerenUE has been impacted by Ameren's other operations?

A. My understanding of Moody's rationale for ratings actions that Moody's took respecting Ameren and its subsidiaries is that these ratings actions were due to the uncertainty of possible rate freezes by the legislature in the State of Illinois. While Moody's did cite concerns about the Missouri Public Service Commission Staff's revenue requirement position in AmerenUE's then pending rate case in 2007, this information was known by Moody's when Staff filed its testimony in December 2006. Moody's made the following statement in its March 13, 2007 report concerning Ameren's Illinois subsidiaries (Schedule 4):

> Ameren may have to rely more on Union Electric for upstreamed dividends if there are significant cost deferrals or if rate freeze legislation is passed and enacted in Illinois, severely restricting dividends from Ameren's other utility subsidiaries. Ameren's Illinois utilities make up nearly half of it's total utility business and any material financial deterioration of those subsidiaries is expected to severely limit upstreamed dividends to the parent, which may increase reliance on Union Electric to cover parent company interest and dividend obligations.

Q. Were these comments made in the context of a downgrade of AmerenUE's credit rating?

A. I believe so. This report was published a day after Moody's published a report on Ameren's consolidated operations. Staff has not been able to verify if Moody's published a specific report on AmerenUE the day it announced these downgrades. Staff is still pursuing this matter.

Q. What credit rating does Fitch currently assign to AmerenUE?

A. "BBB+" according to Ameren's most recent SEC 10-Q Filing.

Q. What is your understanding of the impact Ameren's other operations have had on Fitch's credit rating of AmerenUE?

A. It is my understanding that Ameren's other operations do impact Fitch's credit rating of AmerenUE. In an April 22, 2009 report on AmerenUE (Schedule 5), Fitch stated that one of the "Key Ratings Drivers" for AmerenUE's credit rating was that the "[r]atings may be affected by the financial well being of the company's parent and affiliates."

Q. Does Fitch mention anything in this report that illustrates that the separation of AmerenUE's financing activities from affiliates may currently be credit supportive?

A. Yes. Fitch states, "UE does not participate in either of AEE's [Ameren] two money pools, reducing its credit exposure to lower-rated affiliates."

Q. If AmerenUE's affiliates had higher credit ratings, then would this not imply that AmerenUE would receive the benefit of being in the same money pool as its affiliates?

A. Yes, this works both ways.

Q. Much of your rebuttal testimony has focused on the views of credit rating agencies. What is your knowledge of AmerenUE's current access to capital?

A. On March 13, 2009 AmerenUE issued $350 million of 30-year senior secured notes. According to AmerenUE's response to Staff Data Request No. 0275, AmerenUE has not had access to the commercial paper market over the last twelve (12) months due to its lower short-term credit rating (A-3/P-3) and the general disruption in the capital markets that have occurred over this period. Although AmerenUE has not been able to issue commercial paper, it does have $500 million in direct capacity through a $1.15 billion credit facility (effectively $1.05 billion) shared by Ameren, Ameren Generating Company and AmerenUE.

Q. What is your understanding of the cause of the downgrade of Moody's commercial paper rating of AmerenUE?

A. My understanding is that the downgrade was caused by Moody's downgrade of Ameren's commercial paper rating to the same level. However, it then appears that Moody's implies that the reason Ameren needs its credit capacity is to fund capital needs at AmerenUE. Moody's specifically indicates the following in its August 13, 2008, credit rating report published respecting Ameren and its subsidiaries:

> The downgrade of Union Electric's short-term rating for commercial paper to Prime-3 from Prime-2 is prompted by the downgrade of Ameren's short-term rating to Prime-3. Ameren and Union Electric share the same bank credit facility, with Union Electric able to borrow on a 364-day basis under the facility. The two entities also share a money pool arrangement and Union Electric is highly dependent on the parent for liquidity and financial support, as has been demonstrated by capital contributions from Ameren to Union Electric and a $50 million intercompany note payable from the utility to the parent outstanding as of June 30, 2008.

Consequently, the intertwining of Ameren and AmerenUE's capital needs makes it very difficult to discern whether it is possible that AmerenUE could have a higher commercial paper rating if it were a stand-alone entity. This is an issue AmerenUE should address if the Commission is to seriously consider AmerenUE's request for an interim rate increase in this case.

Q. What is your understanding of S&P's downgrade of AmerenUE's commercial paper rating?

A. According to Ameren's 2006 SEC Form 10-K Filing, AmerenUE's commercial paper was downgraded due to the impact of Illinois issues on Ameren and, therefore, AmerenUE. Ameren provided the following information in the SEC filing:

> On October 5, 2006, S&P, in reaction to the intensified political discussion in Illinois regarding possible legislation freezing rates at 2006 levels, downgraded the credit ratings of the Ameren Companies. As a result of S&P's downgrade of Ameren's and UE's short-term ratings to A-3, Ameren and UE are currently limited in their access to the commercial paper market. All of the S&P credit ratings for the Ameren Companies remain on credit watch with negative implications. According to S&P, it will continue to lower the Ameren Companies credit ratings if, in its opinion, the likelihood of Illinois legislation freezing electric rates at 2006 levels increases. If the legislation is passed, S&P will lower ratings on CIPS, CILCO, CILCORP and IP to "B" – a deep junk or speculative credit rating category.

Q. If AmerenUE believes that the Commission's approval of an interim rate increase would be beneficial to AmerenUE and its customers in terms of lower capital costs, then should there be at least some consideration of this benefit in the Company's rate of return recommendation in the general rate case?

A. Yes. If one of the basic premises of AmerenUE's request for an interim rate increase is the resulting cost of capital benefits, then it would only seem fair for the Company to offer ratepayers consideration for this anticipated savings.

Q. If the Commission were to allow the interim rate increase, how would the Commission know customers are receiving tangible benefits by paying increased rates sooner than those resulting from the traditional rate case process?

A. Staff is not sure at this point how this could be tracked due to the impossibility of holding all other factors constant when evaluating the costs of capital. However, if the Commission grants AmerenUE's request for interim rate relief, then this is something that should be quantified by AmerenUE and taken into consideration by the Commission in its cost of capital determinations in the general rate case.

Q. Based on the testimony you provided on AmerenUE's credit quality being impacted by Ameren's other operations, wouldn't there be some difficulty in this process?

A. Yes. Unfortunately, due to AmerenUE's linkage to the rest of Ameren's operations, it will be very hard to determine the cost savings that AmerenUE could experience as a result of the granting of interim rate relief. Even if AmerenUE's credit quality was based only on its business and financial risk, a detailed analysis would need to be done to determine if the cost reduction from better credit ratings would justify interim rate increases, as proposed by AmerenUE. AmerenUE has not done this analysis in its request for an interim rate increase. Consequently, its request for interim rate relief should not be approved.

Q. Please summarize your rebuttal testimony.

A. Mr. Nickloy has not provided specific information to support his position that AmerenUE will be able to realize cost savings due to the lowering of AmerenUE's business risk by allowing AmerenUE an interim rate increase. Further, Mr. Nickloy does not offer any consideration to ratepayers for the possibility that AmerenUE's reduced business risk would directly impact AmerenUE's credit rating.

Q. Does this conclude your rebuttal testimony regarding AmerenUE's interim rate request?

A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a AmerenUE's Tariffs to Increase its Annual Revenues for Electric Service.	))))	Case No. ER-2010-0036

AFFIDAVIT OF DAVID MURRAY

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

David Murray, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony on Interim Rates in question and answer form, consisting of 12 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony of Interim Rates were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

David Murray
DAVID MURRAY

Subscribed and sworn to before me this 17th day of November, 2009.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin
Notary Public

The McGraw-Hill Companies
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RESEARCH

Union Electric Co. d/b/a AmerenUE

Publication date: 25-Jun-2007
Primary Credit Analyst: Barbara A Eiseman, New York (1) 212-438-7666; barbara_eiseman@standardandpoors.com

Major Rating Factors

Corporate Credit Rating

BBB-/Watch Neg/A-3

View Recovery Ratings >>

Strengths

- A diverse service area with limited industrial exposure,
- Relatively low-cost producer with competitive rates,
- Solid stand-alone solid bondholder protection measurements, and
- Contained exposure to potential Illinois affiliates' bankruptcy.

Weaknesses

- Political and regulatory uncertainty regarding power cost recovery for Illinois affiliates,
- Challenging regulatory relationships in Missouri and recent denial of a fuel and purchased power adjustment clause by the Missouri Public Service Commission,
- Inherent operating and financial challenges of owning a nuclear unit,
- Heavy capital expenditure program for environmental compliance at coal-fired units,
- Ameren's investment in the riskier unregulated generation business, and
- Parent's financial profile is weaker than Union Electric's.

Rationale

The ratings on St. Louis, Mo.-based electric and gas utility holding company Ameren Corp. and its subsidiaries are on CreditWatch with negative implications. Ameren's units include utility subsidiaries Union Electric Co., Central Illinois Public Service Co. (CIPS), Central Illinois Light Co. (CILCO), and Illinois Power Co.

Ameren's units also include unregulated Ameren Energy Generating Co. (AEGC), CILCORP Inc., the intermediate holding company of CILCO, and AmerenEnergy Resources Generating Co. (AERG), CILCO's unregulated generation subsidiary. The ratings on Ameren, Union Electric, and AEGC assume that if the Illinois companies experience significant financial stress, Ameren will not provide material support.

The CreditWatch listing reflects the debate in the Illinois legislature over legislation that would mandate a rate rollback and re-establish the long-term electric rate freeze that expired Jan. 1, 2007. These proposals follow the Illinois Commerce Commission's authorized reverse auction process held in September 2006 that resulted in significantly higher power supply prices. Ameren has estimated that its Illinois units would incur costs of about $1 billion annually (pre-tax) more than they could pass on to customers. Ameren has indicated that it would be unwilling to support the Illinois utilities if they were not allowed to fully recover their costs.

Meanwhile, the Illinois legislative session was extended into the summer, making passage of any bill contingent on a three-fifths majority vote. Standard & Poor's believes that legislators remain under pressure to address constituent demands for rate relief. Reports that senators from the southern part of the state refuse to allow the state's budget to go to a floor vote until a substantial rate-relief package is negotiated raises concerns that there could very well be a rate freeze. Lawmakers are believed to be holding out for around $1 billion.

We note that HB1750--the original three-year rate freeze that the House passed in March--was passed out of committee in its original form in late May. The bill can be called to a floor vote at any time. If passed by the Senate, the bill would go directly to Governor Rod Blagojevich, who has over the past year voiced his support for a rate freeze.

The best-case scenario at the moment appears to be a concession package that will cost Ameren more than $100 million without any guaranteed assurances that future legislators will not try to introduce rate-freeze legislation once again come the next heating or cooling season.

The company has indicated that the inability to adjust rates to reflect full and timely recovery could, in the extreme, lead to a filing for bankruptcy by its Illinois utilities. In this regard, Ameren has taken steps to structurally separate the Illinois companies from the rest of the Ameren family. These measures include removing CIPS, CILCORP, CILCO, and Illinois Power as borrowers under Ameren's $1.15 billion credit facility and removing provisions that would treat the Illinois units as subsidiaries for purposes of cross-default provisions.

The ratings on all four Illinois utilities will likely be lowered if rate-freeze legislation is passed. If the threat of legislation ends and certainty of recovery in future power-procurement procedures is assured, Standard & Poor's would remove all ratings from CreditWatch and stabilize the current ratings.

If the Illinois subsidiaries become insolvent, Ameren may need to rely more heavily on Union Electric and AEGC for upstreamed dividends to support parent company obligations. The investment-grade ratings on Ameren, Union Electric, and AEGC assume that if the Illinois companies experience significant stand-alone stress, Ameren won't provide material support to the Illinois units.

A complete rollback and rate freeze will harm Ameren's consolidated financial profile, but Standard & Poor's expects the damage to Ameren, Union Electric, and AEGC to be contained and would likely keep their corporate credit ratings investment grade.

Ameren's weak business risk profile ('7' on a 1 to 10 scale, where '1' is excellent and '10' is vulnerable) results from the hostile political environment in Illinois, the challenges of owning and operating a nuclear facility, and the riskier, unregulated generating fleet, offset somewhat by its position as one of the lowest-cost producers in the Midwest, strong transmission ties, and limited industrial exposure. The Illinois utilities business risk profiles are also regarded as weak, at '8'. Union Electric's business profile is a '5' (satisfactory) and AEGC's is a '9' (vulnerable).

Short-term credit factors

The specter of rate-freeze legislation or a punitive settlement is an overwhelming short-term credit factor, especially for the Illinois companies. In 2006, CIPS, CILCORP, CILCO, Illinois Power, and AERG entered into a $500 million multiyear credit facility that terminates on Jan. 14, 2010. An additional $500 million revolver was entered into on Feb. 9, 2007, and also expires in January 2010. Each borrower's obligations are several and not joint and Ameren doesn't guarantee them. As of March 31, 2007, $265 million had been borrowed under the 2006 facility and $314 million had been borrowed under the 2007 facility. Ameren has indicated that if a rate freeze occurs, the Illinois units would lose about $2.5 million per day. Hence, the Illinois subsidiaries might file for bankruptcy before they runs out of liquidity.

Absent such legislation, Standard & Poor's expects that consolidated cash flow from operations will hover around $1.1 billion to $1.4 billion in 2007. This level of cash would fall short of covering projected capital expenditures of roughly $1.3 billion and dividends of about $530 million. The actual level of cash flows will depend on concessions the Illinois utilities may be forced to implement.

After paying down its remaining $250 million of debt in May 2007, Ameren has no outstanding long-term debt at the parent level. An amended $1.15 billion agreement will terminate on July 14, 2010 with respect to Ameren. Union Electric and AEGC will have the option to seek an annual renewal on a 364-day basis after their current termination dates. The termination date for Union Electric and AEGC was extended to July 12, 2007. CIPS, CILCORP, CILCO, and Illinois Power no longer have borrowing authority under this facility. Ameren will continue to have $1.15 billion of borrowing availability, while Union Electric and AEGC will have $500 million and $150 million, respectively. At the end of March 2007, $702 million was available under the $1.15 billion multiyear revolver. Ameren, Union Electric, and AEGC are required to maintain a debt-to-capital ratio of 65% or less, with which they comfortably comply. This facility is used to support commercial paper programs.

The credit facilities require Ameren and each subsidiary to maintain a debt-to-capital ratio of 65% or less, with which they comfortably comply. None of Ameren's credit facilities or financing arrangements contains credit rating triggers. The $1.15 billion credit agreement doesn't require a representation of no material adverse change to borrow; however, the Illinois facilities include this requirement, subject to certain exceptions.

Recovery analysis

The Illinois utilities' first mortgage bonds carry a recovery rating of '1+' and are rated 'BBB-'. The '1+' recovery rating represents expectations of 100% recovery of principal in a bankruptcy scenario. Historically, first mortgage bondholders have fared extremely well in bankruptcy because utilities don't liquidate and the bankruptcy court has required utilities to continue to pay debt service on the bonds during the bankruptcy. However, there is no way to predict whether this will be the case in all situations.

The rating differential from the corporate credit rating reflects our criteria for notching of well-secured debt for speculative-grade companies. If the corporate credit rating is lowered further, the ratings on the first mortgage bonds will be lowered with it.

Union Electric's first mortgage bonds carry a recovery rating of '1' and are rated 'BBB-'. The first mortgage bonds are rated the same as the corporate credit rating because Standard & Poor's ultimate recovery analysis does not project the value of the collateral as sufficient to consider a higher rating. Union Electric's senior unsecured debt is rated one notch lower than the corporate credit rating because unsecured bondholders are disadvantaged by the presence of outstanding first mortgage bonds.

Table 1

Ameren Corp. Peer Comparison*

	--Average of past three fiscal years--				
	Ameren Corp.	Exelon Corp.	Vectren Corp.	Integrys Energy Group Inc.	SCANA Corp.
Corporate credit rating	BBB-/Watch Neg/A-3	BBB+/Watch Neg/A-2	A-/Stable/--	A-/Negative/A-2	A-/Stable/--
(Mil. $)					
Revenues	6,273.3	14,076.3	1,919.8	6,202.3	4,408.3
Net income from cont. oper.	568.3	1,460.7	117.8	152.8	293.7
Funds from operations (FFO)	1,324.3	3,521.0	271.3	249.7	820.4
Capital expenditures	1,016.8	2,190.3	263.7	352.8	477.7
Cash and investments	100.7	297.3	20.9	30.3	127.7
Debt	7,170.7	15,249.2	1,702.0	1,809.3	3,653.8
Preferred stock	195.0	87.0	0.0	51.1	114.3
Common equity	5,975.6	8,664.6	1,116.6	1,226.0	2,576.2
Total capital	13,356.9	24,015.2	2,819.1	3,086.5	6,344.3
Adjusted ratios					
EBIT interest coverage (x)	3.8	3.6	2.7	3.4	2.5
FFO int. cov. (x)	4.8	3.8	3.9	3.9	4.7
FFO/debt (%)	18.5	23.1	15.9	13.8	22.5
Discretionary cash flow/debt (%)	(3.5)	2.0	(4.9)	(17.5)	(1.0)
Net cash flow/capital expenditures (%)	80.7	115.5	68.6	45.1	133.6
Debt/total capital (%)	53.7	63.5	60.4	58.6	57.6
Return on common equity (%)	9.5	15.5	10.1	12.1	10.8
Common dividend payout ratio (un-adj.) (%)	88.7	67.8	76.6	58.5	61.5

*Fully adjusted (including postretirement obligations).

Table 2

Ameren Corp. Financial Summary*

	--12 months ended March 31--	--Fiscal year ended Dec. 31--				
	2007	2006	2005	2004	2003	2002
Rating history	BBB/Watch Neg/A-3	BBB/Watch Neg/A-3	BBB+/Watch Neg/A-2	A-/Negative/A-2	A-/Stable/A-2	A+/Watch Neg/A-1
(Mil. $)						
Revenues	7,099.0	6,880.0	6,780.0	5,160.0	4,593.0	3,841.0
Net income from continuing operations	600.0	547.0	628.0	530.0	506.0	382.0
Funds from operations (FFO)	1,413.8	1,316.8	1,332.4	1,323.7	1,096.7	977.0
Capital expenditures	1,267.5	1,131.5	1,010.2	908.6	701.0	889.1
Cash and investments	161.0	137.0	96.0	69.0	111.0	628.0
Debt	7,499.6	7,336.6	6,723.6	7,451.9	5,031.3	4,348.1
Preferred stock	195.0	195.0	195.0	195.0	182.0	193.0
Common equity	6,557.0	6,583.0	5,960.4	5,383.4	4,209.1	3,699.7
Total capital	14,269.6	14,130.6	12,896.0	13,044.2	9,444.3	8,255.7

Adjusted ratios						
EBIT interest coverage (x)	3.7	3.6	4.3	3.6	3.4	4.0
FFO int. cov. (x)	4.5	4.5	5.1	4.9	4.3	5.0
FFO/debt (%)	18.9	17.9	19.8	17.8	21.8	22.5
Discretionary cash flow/debt (%)	(7.0)	(5.1)	(4.4)	(1.0)	(1.2)	(9.2)
Net cash flow/capital expenditures (%)	70.4	70.2	81.3	93.0	98.0	67.6
Debt/total capital (%)	52.6	51.9	52.1	57.1	53.3	52.7
Return on common equity (%)	9.3	8.4	10.1	10.2	12.2	10.3
Common dividend payout ratio (un-adj.) (%)	87.2	95.4	81.4	90.4	81.0	98.4

*Fully adjusted (including postretirement obligations).

Table 3 | View Expanded Table

Reconciliation Of Ameren Corp. 2006 Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*

Ameren Corp. reported amounts

	Debt	Shareholders' equity	Operating income (before D&A)	Operating income (before D&A)	Operating income (after D&A)	Interest expense	Cash flow from operations
Reported	6,371.0	6,778.0	1,834.0	1,834.0	1,173.0	350.0	1,279.0
Standard & Poor's adjustments							
Operating leases	272.0	--	34.5	13.5	13.5	13.5	21.0
Postretirement benefit obligations	693.6	--	80.0	80.0	80.0	--	(5.2)
Share-based compensation expense	--	--	--	11.0	--	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	46.0	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--
Minority interest	--	16.0	--	--	--	--	--
US decommissioning fund contributions	--	--	--	--	--	--	(12.0)
Total adjustments	965.6	16.0	114.5	104.5	139.5	13.5	3.8

Standard & Poor's adjusted amounts

	Debt	Equity	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations
Adjusted	7,336.6	6,794.0	1,948.5	1,938.5	1,312.5	363.5	1,282.8

*Ameren Corp. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Ratings Detail (As Of 25-Jun-2007)*

Union Electric Co. d/b/a AmerenUE

Corporate Credit Rating	BBB-/Watch Neg/A-3
Commercial Paper	

Local Currency	A-3/Watch Neg
Preferred Stock	
Local Currency	BB/Watch Neg
Senior Secured	
Local Currency	BBB-/Watch Neg
Senior Unsecured	
Local Currency	BB+/Watch Neg

Corporate Credit Ratings History

23-Apr-2007	BBB-/Watch Neg/A-3
05-Oct-2006	BBB/Watch Neg/A-3
03-Oct-2005	BBB+/Watch Neg/A-2
30-Jul-2004	A-/Negative/A-2
03-Feb-2004	A-/Watch Neg/A-2
31-Jan-2003	A-/Stable/A-2

Business Risk Profile	**1 2 3 4 $\boxed{5}$ 6 7 8 9 10**
Financial Risk Profile	Intermediate (on a consolidated basis)

Debt Maturities

Union Electric Co. has $5 million of long-term debt maturing in 2007 and $152 million of long-term debt maturing in 2008. In 2010 and afterwards, the company has $2.77 billion of maturities.
Ameren's subsidiaries face maturities totaling $106 million in 2007, of which $50 million has already matured, $253 million in 2008, and $378 million in 2009. These amounts exclude amortization of Illinois Power Co.'s transitional funding notes. Maturities of $4.4 billion occur in 2010 and beyond.

Related Entities

Ameren Corp.	
Issuer Credit Rating	BBB-/Watch Neg/A-3
Commercial Paper	
Local Currency	A-3/Watch Neg
Senior Unsecured	
Local Currency	BB+/Watch Neg
AmerenEnergy Generating Co.	
Issuer Credit Rating	BBB-/Watch Neg/--
Senior Unsecured	
Local Currency	BBB-/Watch Neg
Central Illinois Light Co.	
Issuer Credit Rating	BB/Watch Neg/NR
Preferred Stock	
Local Currency	B/Watch Neg
Senior Secured	
Local Currency	BBB-/Watch Neg
Central Illinois Public Service Co.	
Issuer Credit Rating	BB/Watch Neg/NR
Preferred Stock	
Local Currency	B/Watch Neg
Senior Secured	
Local Currency	BBB-/Watch Neg
Senior Unsecured	
Local Currency	B+/Watch Neg
CILCORP Inc.	
Issuer Credit Rating	BB/Watch Neg/--
Illinois Power Co.	
Issuer Credit Rating	BB/Watch Neg/NR
Preferred Stock	
Local Currency	B/Watch Neg
Senior Secured	
Local Currency	BBB-/Watch Neg

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

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&POOR'S

RatingsDirect®

August 27, 2009

Summary:

Union Electric Co. d/b/a AmerenUE

Primary Credit Analyst:
Gabe Grosberg, New York (1) 212-438-6043; gabe_grosberg@standardandpoors.com

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SCHEDULE 2-1

Summary:

Union Electric Co. d/b/a AmerenUE

Credit Rating: BBB-/Stable/A-3

Rationale

The ratings on Union Electric Co. (UE) reflect Ameren Corp.'s consolidated credit profile. UE's ratings also reflect its excellent business profile and Ameren's significant financial profile. Ameren's subsidiaries also consist of utilities, Central Illinois Public Service Co., Central Illinois Light Co. (CILCO; a subsidiary of CILCORP Inc.), and Illinois Power Co. Ameren's unregulated businesses include Ameren Energy Generating Co. and Ameren Energy Resources Generating Co. (a subsidiary of CILCO). Ameren also has an 80% ownership of Electric Energy, Inc., which operates non-rate-regulated electric generation facilities. As of June 30, 2009, Ameren had about $8.4 billion of total debt outstanding. Based on the combination of future earnings, cash flow, and capital expenditures, we currently view Ameren as about 60% regulated and 40% unregulated.

In most circumstances, Standard & Poor's will not rate a wholly owned subsidiary higher than the parent. Exceptions can be made on the basis of structural or regulatory insulation, which in the case of UE, in our view, is not present. Therefore, regardless of UE's excellent business profile and relatively healthy financial condition as a stand-alone basis, Standard & Poor's views the rating on UE to be affected by Ameren's non-regulated businesses.

UE's excellent business profile reflects the more recent constructive regulatory order in Missouri that approved an annual electric rate increase of $162 million and also approved a fuel adjustment clause that will allow for the recovery of 95% of the company's fuel and purchase power expenses (after netting for off system sales revenue). Although we recognize that the past winter's ice storms and the ongoing recession will continue to have an impact on the company's load growth and cash flow measures, nevertheless, we view the overall regulatory environment in Missouri as a credit enhancing situation compared to several years ago.

The consolidated satisfactory business profile reflects Ameren's non-regulated businesses, partially offset by the improvements to both the Illinois and Missouri regulatory environments.

The improved Illinois regulatory environment reflects the Illinois Commerce Commission's decision to authorize moderate rate increases for various utilities in 2008 and 2009 without being subjected to overt political influence. Although both Illinois and Missouri continue to have a regulatory lag, we nevertheless view these regulatory environments as credit enhancing compared to several years ago. We also expect that due to the regulatory lag, the company will file more frequent rate cases in both jurisdictions. However, we also recognize that the political will for rate increases could be limited due to the existing deep economic recession.

In June 2009, the company filed for electric and gas rate increases of $219 million in Illinois and in July 2009, the company filed for about $402 million rate increase in Missouri. The commissions' orders are not expected until the second quarter of 2010.

Continuing to meaningfully weigh on the business profile of the consolidated entity is Ameren's unregulated generation. Although power prices for the unregulated business are hedged for 2009, they have considerable open positions for 2010 (70% hedged), 2011 (40% hedged), and beyond. Energy prices have significantly decreased, and

SCHEDULE 2-2

should these lower prices be sustained for the long-term, the non-regulated margins and profitability could be materially affected. Of particular concern is the large capital expenditures required at the unregulated companies needed to meet environmental compliance standards, while relying on falling market prices, due to the economic recession, for recovery. Marginally offsetting these concerns is the company's ongoing effort to reduce its O&M and capital expenditures.

The financial profile of the consolidated entity is maintained as 'significant', enhanced by the company's decision to reduce its dividend by $1 per share, which we view as credit supportive. However, the financial measures for Ameren have remained weak for the current rating, putting pressure on the credit quality of the consolidated entity.

For the 12 months ended June 30, 2009, adjusted funds from operations (FFO) to total debt remained the same as the end of 2008 at 19.3%. Adjusted FFO interest coverage was maintained at 4.9x. Adjusted debt to total capital slid to 57.1% from 57.2% at year-end 2008. Free and discretionary cash flows have continued to remain negative. Given the company's satisfactory business risk profile and present credit rating we expect adjusted FFO to debt to exceed 21%; adjusted FFO interest coverage of 4.0x and adjusted debt to total capital to approximate 55%.

The recession has hurt all of Ameren's businesses. The unemployment rate in Illinois remains higher than the national average and Missouri's is about the same as the national average. All of the company's service territories have seen various degrees of load deterioration due to the recession. As the recession eases we would expect to see some financial improvement to all of Ameren's businesses.

Liquidity

The short-term rating on both Ameren and UE is 'A-3', demonstrating adequate liquidity. As of June 30, 2009, Ameren had cash and cash equivalents of about $251 million and about $1.1 billion available on its $2.1 billion revolving credit facilities after reducing outstanding borrowings and letters of credit.

In June 2009, Ameren and its subsidiaries entered into multiyear credit facilities, which cumulatively provide $2.1 billion of credit capacity through 2010 and $1.08 billion through July 2011. The credit facilities require Ameren and its subsidiaries to maintain a maximum debt-to-capital ratio of 65%, with which they comfortably comply. Additionally, the Illinois credit agreement contains a rating condition that requires an investment-grade rating and requires an interest coverage ratio of at least 2.0x, which Ameren considerably exceeded. Long-term maturities are forecasted as manageable for 2009-2011 with approximately $124 million due in 2009, $220 million due in 2010, and $150 million due in 2011.

Outlook

The outlook for Ameren and its subsidiaries is stable and reflects our expectation that the company has and will continue to effectively manage its regulatory risk during this deep economic recession. A ratings downgrade could result if the consolidated cash flow measures continue to remain weak on a consistent basis, actual capital expenditures rise significantly higher than current estimates resulting in a regulatory disallowance, or a material incident at the regulated nuclear generating facility. A ratings upgrade would be predicated on reducing its market exposure at its unregulated businesses and significant improvement to the company's financial measures.

SCHEDULE 2-3

SCHEDULE 2-4

STANDARD & POOR'S

RatingsDirect®

February 27, 2009

Summary:

Union Electric Co. d/b/a AmerenUE

Primary Credit Analyst:
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SCHEDULE 3-1

Summary:

Union Electric Co. d/b/a AmerenUE

Credit Rating: BBB-/Stable/A-3

Rationale

The ratings Union Electric Co. (UE) reflect the consolidated credit profile for Ameren Corp. UE's ratings also reflect its excellent business profile and Ameren's aggressive financial profile. Ameren's subsidiaries also consist of utilities, Central Illinois Public Service Co. (CIPS), Central Illinois Light Co. (CILCO) (a subsidiary of CILCORP Inc.), and Illinois Power Co. Ameren's unregulated businesses include Ameren Energy Generating Co. (AEGC), and Ameren Energy Resources Generating Co. (AERG), (a subsidiary of CILCO). Ameren also has an 80% ownership of Electric Energy, Inc. that also operates non-rate-regulated electric generation facilities. As of Dec. 31, 2008, Ameren had about $8.1 billion of total debt outstanding. Based on 2009 expected earnings, we view Ameren as about 60% regulated and 40% unregulated.

In most circumstances, Standard & Poor's will not rate a wholly owned subsidiary higher than the parent. Exceptions can be made on the basis of structural or regulatory insulation, which in the case of UE, in our view, is not present. Therefore, regardless of UE's excellent business profile and relatively healthy financial condition as a stand-alone basis, Standard & Poor's views the rating on UE to be affected by Ameren's non-regulated businesses.

Standard & Poor's raised the business profile of UE to 'excellent' from 'strong' reflecting the recent constructive regulatory order in Missouri that approved an annual electric rate increase of $162 million and also approved a fuel adjustment clause that will allow for the recovery of 95% of the company's fuel and purchase power expenses (after netting for off system sales revenue). Although we recognize that the recent ice storms in Missouri, particularly the impact on UE's largest customer, Noranda Aluminum, Inc., will have a material impact on UE's cash flow measures, nevertheless, we view the overall regulatory environment in Missouri as a credit enhancing situation compared to several years ago.

The overall business profile for Ameren is satisfactory and reflects Ameren's unregulated businesses. Although power prices for the unregulated business are significantly hedged for 2009 (95%), they have considerable open positions for 2010 (only 60% hedged) and beyond. Of particular concern is the large capital expenditures required at the unregulated companies needed to meet environmental compliance standards, while relying on falling market prices, due to the economic recession, for recovery.

Due to the size of the Ameren's capital programs and the regulatory lag that exists in both Missouri and Illinois, we expect that the company will file more frequent rate cases in both jurisdictions. However, we also recognize that the political will for rate increases could be limited due to the existing deep economic recession.

The financial profile of the consolidated entity is maintained as 'aggressive', enhanced by the company's recent decision to reduce its dividend by $1 per share, which we view as credit supportive.

For the 12 months ended Sept. 30, 2008, adjusted funds from operations (FFO) to total debt decreased to 16.6% from 17.1% at the end of 2007 and adjusted FFO interest coverage was maintained at 4.2x. Adjusted debt to total capital minimally increased to 55.0% compared to 54.8% at the end of 2007. Free and discretionary cash flows are

SCHEDULE 3-2

expected to remain negative until the vast completion of the company's large capital programs.

For 2009, the company expects to issue $1.4 billion in debt and refinance its existing credit facilities. This will require that the company has constant access to the capital markets, which have experienced unprecedented volatility. Additionally, we expect that the cost of debt will increase, adding stress to the financial measures.

Liquidity

The short-term rating on Ameren and UE is 'A-3' and its liquidity is adequate. As of Dec. 31, 2008, Ameren had cash and cash equivalents of $92 million and almost $1.2 billion available on its $2.15 revolving billion credit facilities after reducing for Lehman's commitments, outstanding borrowings, and letters of credit. However, $1.0 billion of the company's credit facilities terminates in January 2010 and the other $1.15 billion terminates in July 2010. Failure by Ameren to renew or negotiate new credit facilities in a timely manor or a significant reduction to the size of its existing credit facility may result in a ratings downgrade.

The credit facilities require Ameren and each subsidiary to maintain a maximum debt-to-capital ratio of 65%, with which they comfortably comply. None of Ameren's credit facilities or financing arrangements contains credit rating triggers. The $1.15 billion credit agreement does not require a representation of no material adverse change to borrow; however, the Illinois facilities include this requirement, subject to certain exceptions. Long-term maturities are forecasted as manageable for 2009-2011 with approximately $374 million due in 2009, $200 million due in 2010, and $150 million due in 2011.

Outlook

The outlook for Ameren and its subsidiaries is stable and reflects our expectation that the company will effectively manage its regulatory risk during this deep economic recession. A ratings downgrade could result if the company is unable to renew its credit facilities, the consolidated financial measures significantly weaken, actual capital expenditures rise significantly higher than current estimates resulting in a regulatory disallowance, or a material incident at the regulated nuclear generating facility. A ratings upgrade is unlikely and would be predicated on the company reducing its market exposure from its unregulated businesses.

SCHEDULE 3-3

SCHEDULE 3-4

Moody's Investors Service

Global Credit Research
Credit Opinion
13 MAR 2007

Save as PDF

Credit Opinion: Union Electric Company

Union Electric Company

St. Louis, Missouri, United States

Ratings

Category	**Moody's Rating**
Outlook	Negative
Issuer Rating	Baa1
First Mortgage Bonds	A3
Senior Secured	A3
Senior Unsecured Shelf	(P)Baa1
Subordinate	Baa2
Preferred Stock	Baa3
Commercial Paper	P-2
Parent: Ameren Corporation	
Outlook	Rating(s) Under Review
Issuer Rating	*Baa2
Senior Unsecured	*Baa2
Subordinate Shelf	*(P)Baa3
Preferred Shelf	*(P)Baa3
Commercial Paper	*P-2
Union Electric Capital Trust I	
Outlook	Negative
Bkd Preferred Shelf	(P)Baa2

* Placed under review for possible downgrade on March 12, 2007

Contacts

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William L. Hess/New York	

Key Indicators

[1]
Union Electric Company

	2006	**2005**	**2004**	**2003**
(CFO Pre-W/C + Interest) / Interest Expense	**5.0x**	**6.3x**	**7.9x**	**6.4x**
(CFO Pre-W/C) / Debt	**21%**	**23%**	**31%**	**27%**
(CFO Pre-W/C - Dividends) / Debt	**14%**	**14%**	**20%**	**17%**
(CFO Pre-W/C - Dividends) / Capex	**94%**	**81%**	**100%**	**90%**
Debt / Book Capitalization	**44%**	**44%**	**42%**	**41%**
EBITA Margin %	**25%**	**24%**	**31%**	**35%**

[1] All ratios calculated in accordance with the Global Regulated Electric Utilities Rating Methodology using Moody's standard adjustments.

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

SCHEDULE 4-1

Opinion

Company Profile

Union Electric Company (Baa1 Issuer Rating, negative outlook) operates a regulated electric generation, transmission and distribution business, and a regulated natural gas transmission and distribution business the state of Missouri serving 1.2 million electric and 125,000 natural gas customers. Union Electric is a wholly-owned subsidiary of Ameren Corporation (Ameren, Baa2 senior unsecured, on review for possible downgrade).

Rating Rationale

The key drivers of Union Electric's ratings are as follows:

- Financial metrics are strong for its rating category in accordance with Moody's rating methodology for global regulated electric utilities, although they have declined in recent years due to higher operating costs and increasing debt levels

Interest coverage, as measured by cash flow from operations before working capital adjustments to interest, has declined from the historical 7.0x range to 5.0x for the twelve months ending December 31, 2006, still adequate for the Baa1 rating category although down from previously strong levels. Higher cost pressures at the utility and a potentially adverse outcome of its pending rate case could continue to pressure Union Electric's financial metrics going forward. Similarly, cash flow from operations before working capital adjustments to debt has fallen from the historical 30% range to 21% for the twelve months ended December 31, 2006, partly due to higher leverage at the utility. Union Electric's debt to capitalization ratio has increased from 41% in 2003 to 44% at December 31, 2006 due to borrowings for capital expenditures and generation additions.

- Ratings are constrained by a challenging regulatory environment, with the Missouri Public Service Commission staff recommending a significant reduction in rates following the utility's request for a $360 million rate increase

Union Electric has operated under a rate plan which was approved by the MPSC in 2002 and which included a rate moratorium through July 1, 2006. Ameren filed for a $360 million increase in electric rates and a $10 million increase in gas rates last July in conjunction with this rate plan's expiration. In December, the MPSC staff recommended that the utility's annual electric reveneus be reduced by between $136 and $168 million. Although the MPSC is not expected to rule on the case until later this year and may come to a more constructive decision than the staff recommendation, the large differential between the staff recommendation and the utility's request makes it unlikely that Union Electric will obtain sufficient rate relief to maintain financial ratios consistent with its former rating category. Moody's views Missouri as a challenging regulatory environment for electric utilities, although the governor did sign legislation recently permitting the state's utilities to apply for fuel, purchased power, and environmental cost recovery via cost recovery mechanisms, a credit positive development.

- Increasing operating costs and higher capital expenditures for environmental compliance

Union Electric has experienced higher environmental compliance costs, coal and coal transportation costs, and higher other operating expenses in recent years. The company also expects to make significant investments in its transmission and distribution system and other energy infrastructure. Environmental expenditures at Union Electric over the next ten years are projected to be between $1.7 and $2.1 billion. These expenditures are necessary to bring the company's 5,400MW coal fleet, 54% of its total generating capacity, into compliance with SO2, NO2, and mercury regulations. Moody's expects a majority of the expenditures to be incurred after implementation of an environmental cost recovery mechanism, however.

- Parent company Ameren may ultimately need to rely more on Union Electric and its unregulated operations for a larger share of cash flow and upstreamed dividends as cash flow will be reduced at its Illinois utilities due to cost deferrals

Ameren may have to rely more on Union Electric for upstreamed dividends if there are significant cost deferrals or if rate freeze legislation is passed and enacted in Illinois, severely restricting dividends from Ameren's other utility subsidiaries. Ameren's Illinois utilities make up nearly half of it's total utility business and any material financial deterioriation of those subsidiaries is expected to severely limit upstreamed dividends to the parent, which may increase its reliance on Union Electric to cover parent company interest and dividend obligations.

Rating Outlook

The rating outlook is negative due to anticipated continued cost pressures at the utility, the uncertain outcome of its pending rate case, the ongoing uncertainty with regard to its affiliate utilities in Illinois and their ability to provide dividends to the parent going forward.

SCHEDULE 4-2

What Could Change the Rating - Up

The negative outlook limits the near-term upside potential for the rating.

What Could Change the Rating - Down

An adverse outcome of its pending rate case, a higher reliance by Ameren on dividends from the utility; a continuation of higher operating cost trends, unanticipated capital expenditure requirements, a sustained decline in Union Electric's cash flow coverage measures, including cash flow from operations before working capital adjustments plus interest to interest below 4.5x, cash flow from operations before working capital adjustments to debt below 20%.

Rating Factors

Union Electric Company

Select Key Ratios for Global Regulated Electric Utilities

Rating	Aa	Aa	A	A	Baa	Baa	Ba	Ba
Level of Business Risk	**Medium**	**Low**	**Medium**	**Low**	**Medium**	**Low**	**Medium**	**Low**
CFO pre-W/C to Interest (x) [1]	>6	>5	3.5-6.0	3.0-5.7	2.7-5.0	2-4.0	<2.5	<2
CFO pre-W/C to Debt (%) [1]	>30	>22	22-30	12-22	13-25	5-13	<13	<5
CFO pre-W/C - Dividends to Debt (%) [1]	>25	>20	13-25	9-20	8-20	3-10	<10	<3
Total Debt to Book Capitalization (%)	<40	<50	40-60	50-70	50-70	60-75	>60	>70

[1] CFO pre-W/C, which is also referred to as FFO in the Global Regulated Electric Utilities Rating Methodology, is equal to net cash flow from operations less net changes in working capital items

SCHEDULE 4-3

Global Power
U.S. and Canada
Credit Analysis

Union Electric Company

Subsidiary of Ameren Corp.

Ratings

Security Class	Current Rating
Issuer Default Rating	BBB+
Secured Debt	A
Senior Unsecured Debt	A–
Subordinated Debt	BBB+
Preferred Stock	BBB+
Short-Term Issuer Default Rating	F2
Commercial Paper	F2

Outlook

Stable

Financial Data

Union Electric Company
($ Mil.)

	12/31/08	12/31/07
Revenue	2,960	2,961
Gross Margin	2,005	2,057
Cash Flow from Operations	545	588
Operating EBITDA	843	923
Total Debt	3,726	3,144
Total Capitalization	7,260	6,717
Return on Equity (%)	7.1	10.3
Capex/Depreciation (x)	2.7	1.9

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Related Research

- *Illinois Power Company, Jan. 29, 2009*
- *Central Illinois Public Service Company, Jan. 29, 2009*
- *Central Illinois Light Company, Jan. 20, 2009*

Rating Rationale

- The ratings of Union Electric Company (UE) were lowered to their present level by Fitch Ratings in March 2009.
- The lower ratings reflect Fitch's view that projected financial measures will not support the previous ratings despite a recent rate increase allowed by the Missouri Public Service Commission (MoPSC) effective March 1, 2009.
- Financial measures have been trending steadily downward over the past several years and will continue to be adversely affected by rising financing and operating costs and regulatory lag, which will more than offset the benefits of the March rate increase.
- Although management recently pared its capital spending plans, forecasted expenditures remain at elevated levels, largely to meet environmental compliance requirements and to maintain the reliability of the company's distribution network and generating assets.
- Favorably, the MoPSC's rate order included a fuel adjustment clause that reduces cash flow volatility and business risk (see Recent Events below).
- Also, management's recent decision to reduce parent company Ameren Corp.'s (AEE) common stock dividend provides some cash flow relief to UE as well as other AEE subsidiaries.

Key Rating Drivers

- Securing adequate and timely recovery of environmental and other rate base investments is the primary driver of earnings, cash flow and ratings.
- Renewal of UE's credit facility expiring in July 2010 will be critical to maintaining existing ratings.
- Ratings may be affected by the financial well being of the company's parent and affiliates.
- The implementation of stricter environmental compliance regulations may also affect credit quality and ratings.
- A meaningful reduction in electricity demand or off-system sales as a result of the weak economy could have a negative impact on credit quality.

Recent Events

On Jan. 27, 2009, UE was granted a $162.6 million rate increase by the MoPSC and allowed to implement a fuel adjustment clause effective March 1, 2009. The higher rates are based on a 10.76% ROE, 52% equity ratio and a test year ending March 31, 2008. Rate lag built into the rate decision and further increases in financing and operating costs will prevent UE from earning its authorized ROE and achieving meaningful financial improvement. Without further rate support, which is not expected anytime soon, the ratio of debt/EBITDA is likely to exceed 4.0 times (x) with the ratio of FFO/debt in the 15%–17% range over the next two years (2009–2010), which are weak for the current credit ratings.

The implementation of a fuel adjustment clause reduces cash flow volatility and lowers business risk. The adjustment mechanism allows UE to pass through 95% of changes in fuel and purchased power costs to customers, subject to a PSC prudency review, and can be adjusted three times per year. The costs or benefit of the remaining 5% differential in fuel costs is assumed by the company. The rate order also includes a vegetation and infrastructure inspection cost tracking mechanism that provides for the deferral and tracking of expenditures that are in excess of the amounts included in rates, subject to a 10% limitation on increases in any one year. While the deferral mechanism benefits reported earnings, it has no impact on cash flow. The order also provides for $25 million of O&M expense, incurred as a result of a January 2007 ice storm, to be amortized and recovered over a five-year period starting March 1, 2009, and amortization and recovery of $12 million of MISO related costs over two years.

Liquidity and Debt Structure

Liquidity is provided from internally generated funds and drawings under a committed credit facility. UE participates with its parent AEE and affiliate Ameren Energy Generating Company (Genco) in a $1.15 billion committed credit facility maturing in July 2010 ($1.05 billion excluding a $100 million commitment from a subsidiary of Lehman Brothers). UE can directly borrow up to $500 million, AEE can borrow up to the full amount of the credit facility and Genco can borrow up to $150 million. Borrowings by UE are on a 364-day basis. Access to borrowings is subject to reduction as borrowings are made by affiliates. UE does not participate in either of AEE's two money pools, reducing its credit exposure to lower-rated affiliates.

The credit facility contains a financial covenant limiting leverage (as defined) to 65% of total capital. The obligations of AEE, UE and Genco are several and not joint, and the obligations of UE and Genco are not guaranteed by AEE.

Short-term debt totaled $343 million at year-end 2008 (including $92 million of borrowings from AEE), and the cash balance was zero. On March 13, 2009, UE issued $350 million of senior secured notes and used the proceeds to pay down a portion of short-term debt, which had risen to $379 million as of March 11, 2009 (excluding $148.6 million borrowed from AEE).

Debt maturities of $4 million in each of the next three years (2009–2011) and $178 million in 2012 are manageable. In addition, UE must replace the credit facility expiring in July 2010 ($500 million).

Financial Overview

The combination of higher base rates and a fuel adjustment clause placed in effect in February 2009 should stabilize UE's earnings and cash flow measures over the next two years, albeit below the 2008 levels for most ratios, and on-going rate increases will be required to support the company's large construction program and current ratings. Over the six-year period ending Dec. 31, 2008, earnings and cash flow measures trended consistently downward due to increasing fuel and operating costs, a large capital expenditure program that has driven up leverage and interest expenses and rate lag that has precluded UE from earning its authorized ROE. Over the last six years total adjusted debt increased approximately 63% and interest expense 67%, while EBITDA and cash from operations (CFO) after dividends declined 17% and 15%, respectively.

Financial Summary — Union Electric Company

($ Mil., Years Ended Dec. 31)

	2008	2007	2006	2005	2004	2003
Fundamental Ratios (x)						
FFO/Interest Expense	5.3	5.3	5.9	7.3	7.9	7.5
CFO/Interest Expense	3.9	4.3	5.6	7.3	7.8	6.8
Debt/FFO	4.7	4.1	3.8	3.9	3.1	3.2
Operating EBIT/Interest Expense	2.8	3.3	3.9	5.8	6.1	6.6
Operating EBITDA/Interest Expense	4.6	5.1	6.0	8.7	8.8	9.2
Debt/Operating EBITDA	4.4	3.4	3.1	2.8	2.5	2.2
Common Dividend Payout (%)	107.8	0.0	0.0	0.0	0.0	0.0
Internal Cash/Capital Expenditures (%)	30.7	45.5	90.5	74.2	81.7	71.9
Capital Expenditures/Depreciation (%)	272.6	208.1	157.9	171.3	178.2	169.0
Profitability						
Adjusted Revenues	2,960	2,961	2,823	2,889	2,660	2,637
Net Revenues	2,005	2,057	1,972	1,964	1,974	1,998
Operating and Maintenance Expense	922	900	787	771	785	765
Operating EBITDA	843	923	955	964	967	1,020
Depreciation and Amortization Expense	329	333	335	324	294	284
Operating EBIT	514	590	620	640	673	736
Gross Interest Expense	185	180	158	111	110	111
Net Income for Common	245	336	343	346	373	441
Operating and Maintenance Expense % of Net Revenues	46.0	43.8	39.9	39.3	39.8	38.3
Operating EBIT % of Net Revenues	25.6	28.7	31.4	32.6	34.1	36.8
Cash Flow						
Cash Flow from Operations	545	588	734	698	749	639
Change in Working Capital	(246)	(177)	(33)	1	(8)	(84)
Funds from Operations	791	765	767	697	757	723
Dividends	(270)	(273)	(255)	(286)	(321)	(294)
Capital Expenditures	(897)	(693)	(529)	(555)	(524)	(480)
Free Cash Flow	(622)	(378)	(50)	(143)	(96)	(135)
Net Other Investment Cash Flow	36	(11)	(30)	(8)	(14)	—
Net Change in Debt	578	191	227	343	185	216
Net Change in Equity	—	380	6	15	—	—
Capital Structure						
Short-Term Debt	343	82	311	80	377	150
Long-Term Debt	3,383	3,062	2,637	2,636	1,993	2,130
Total Debt	**3,726**	**3,144**	**2,948**	**2,716**	**2,370**	**2,280**
Hybrid Equity	85	85	85	85	85	85
Common Equity	3,449	3,488	3,040	2,903	2,883	2,810
Total Capital	**7,260**	**6,717**	**6,073**	**5,704**	**5,338**	**5,175**
Total Debt/Total Capital (%)	51.3	46.8	48.5	47.6	44.4	44.1
Hybrid Equity/Total Capital (%)	1.2	1.3	1.4	1.5	1.6	1.6
Common Equity/Total Capital (%)	47.5	51.9	50.1	50.9	54.0	54.3

Source: Company reports, Fitch Ratings.

SCHEDULE 5-3