Moody's
INVESTORS SERVICE

Credit Opinion: Union Electric Company

Global Credit Research - 09 Dec 2014

St. Louis, Missouri, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A2
Senior Secured	A2
Senior Unsecured Shelf	(P)Baa1
Pref. Stock	Baa3
Commercial Paper	P-2
Parent: Ameren Corporation	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured Shelf	(P)Baa2
Subordinate Shelf	(P)Baa3
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]Union Electric Company

	9/30/2014(L)	12/31/2013	12/31/2012	12/31/2011	12/31/2010
CFO pre-WC + Interest / Interest	5.6x	5.0x	5.3x	4.6x	5.0x
CFO pre-WC / Debt	25.1%	23.4%	24.7%	20.6%	24.0%
CFO pre-WC - Dividends / Debt	15.9%	12.5%	16.0%	11.8%	18.7%
Debt / Capitalization	39.8%	39.6%	41.7%	42.9%	42.7%

[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

- Environmental compliance and investments becoming bigger focus

- Missouri's regulatory environment is improving but still below average

- Future financial performance is dependent on pending rate case

Corporate Profile

Union Electric Company (d/b/a Ameren Missouri, Baa1 stable) is a vertically integrated utility with a regulated electric generation, transmission and distribution system and a regulated natural gas transmission and distribution system in Missouri, with a service territory in and around the city of St. Louis. Ameren Missouri is the largest subsidiary of Ameren Corporation (Ameren), an energy holding company with regulated utility operations in Missouri and Illinois. Ameren Missouri serves 1.2 million electric and 127,000 gas customers and its electric and gas rates are regulated by the Missouri Public Service Commission (MoPSC).

SUMMARY RATING RATIONALE

Ameren Missouri's rating reflects a below average but improving regulatory framework in Missouri and improved key credit metrics that are now strong for its Baa rating. While the implementation of a fuel adjustment clause and cost trackers for pension/OPEB, vegetation management and storm costs have helped to reduce some regulatory lag, the use of a historical test year in its general rate cases continues to create meaningful regulatory lag in investment cost recovery.

DETAILED RATING CONSIDERATIONS

- Environmental compliance and investments becoming bigger focus

We estimate total environmental investments between 2014 and 2018 to range from $325 million to $375 million, funded with a mix of equity and debt to maintain an approximate 50% debt to equity ratio going forward. Total capital expenditures are expected to be around $3.4 billion through the same time period, compared to $3.5 billion from 2010 to 2014. Although the total amount of capital expenditures is about the same, the focus on environmental compliance has increased. Capital expenditures include upgrades to the coal-fired Labadie energy center and the O'Fallon Renewable Energy Center construction, among other investments. Although a Missouri law enacted in 2005 enables the MoPSC to authorize an environmental cost recovery mechanism, Ameren Missouri currently does not have any specific recovery mechanism for its environmental investment. Without a specific recovery mechanism, we believe Ameren Missouri will have to rely on its general rate cases to recover the prudently incurred environmental investment cost.

Ameren Missouri filed a 20-year integrated resource plan with the MoPSC in October 2014 to transition to a cleaner, and more diverse generation portfolio. Ameren Missouri's current generation portfolio consists of 77% coal, 19% nuclear and 4% natural gas, renewable and oil-fired generation sources. Its integrated resource plan lays out a proposed investment to achieve CO2 emissions reductions proposed by EPA by 2035. The plan includes $1.9 billion of environmental capex and $1 billion of additional renewables in the generation portfolio between 2015 and 2024. In addition, Ameren Missouri proposed $1 billion of new natural gas fired generation investment as well as an additional $400 million of renewables and $200 million of environmental controls between 2025 and 2034. We believe there could be potential additional opportunities for environmental investments based on the currently proposed integrated resource. However, while additional investment opportunity could be a credit positive, we believe transparent and well-defined cost recovery mechanisms and returns on these investments are needed to shorten regulatory lag meaningfully.

- Missouri's regulatory environment is improving but still below average

Although the most recent rate case concluded in 2012 pointed to a constructive working relationship between Ameren Missouri and the MoPSC, we consider Missouri's regulatory environment to be below average. For example, Missouri lacks interim base rate recovery mechanisms, resulting in longer regulatory lag. The weaker regulatory environment is further exacerbated by an active intervener base in Missouri. For example, one of Ameren Missouri's largest industrial customers, Noranda Aluminum, and 37 residential customers filed a rate shift complaint case against Ameren Missouri with the MoPSC in February 2014. The MoPSC has rejected the complaint and the rehearing requests, a credit positive. However, the MoPSC stated that a rate shift discussion would be more appropriate in the rate proceeding forum, potentially providing Noranda another opportunity to continue its complaint in Ameren Missouri's current general rate case. By providing Noranda this opportunity, we believe additional contentions have been added to the rate case proceeding, a credit negative. Other examples of the MoPSC's limited credit supportiveness include the lack of a forward test year, the inability to include construction work in progress (CWIP) in rate base, and no tracker for capital investments. The company's efforts to establish a rider for infrastructure replacement investments through legislation failed in May 2013.

To mitigate Missouri's longer regulatory lag, Ameren Missouri has filed frequent rate cases over the last several years. It has made some progress with the implementation of a fuel adjustment clause (FAC) and cost trackers for pension/OPEB, vegetation management, and storm costs. It has also benefitted from the Missouri Energy Efficiency Investment Act (MEEIA), which facilities the recovery of energy efficiency program costs and projected lost revenues as well as incentive rewards based on performance compared to the target. Overall, Ameren Missouri has taken action to reduce lag and we believe it will continue to do so given its significant capex plan.

We view Missouri's regulatory environment to be relatively consistent and predictable, scoring Factor 1b - Consistency & Predictability of Regulation in the A range in the Moody's regulated utilities rating methodology grid. However, we view Ameren Missouri's ability to recover costs and earn appropriate returns as below average, and it scores in the Baa range for both sub-factors under Factor 2 of the methodology grid. On the other hand, Ameren Missouri's gas operations enjoy more favorable regulatory treatment but is a relatively small part of its total operations.

- Future financial performance is dependent on pending rate case

Despite Ameren Missouri's history of filing more frequent rate cases, it has been over two years since it last requested a rate increase, a credit negative. On July 3, 2014, Ameren Missouri filed a request to increase its electric base rate by $264.1 million based on a 10.4% ROE with a 51.59% common equity layer and a $7.3 billion electric rate base at the test year ended March 31, 2014. The company proposed to true up the test year through December 31, 2014. According to the utility, the request is associated, in part, with increased costs related to its plans for a cleaner and more diverse energy portfolio. On December 5, the Staff of MoPSC filed its recommendation in Ameren Missouri's rate case. The Staff recommended a $113.1 million increased based on a 9.25% ROE with a 52.96% equity component. The MoPSC's decision is expected by May 2015 with new rates effective by June 2015, reflecting a lag similar to its most recent rate case in 2012.

Liquidity

Ameren Missouri maintains an adequate liquidity profile. The utility maintains a joint $1.0 billion bank credit facility with the parent that matures in November 2017, under which it has a borrowing sublimit of $800 million. Under the terms of the credit facility, Ameren and Ameren Missouri must each maintain a total debt to capitalization ratio of no greater than 65%. As of September 30, 2014, both companies were in compliance with this covenant with debt to capitalization ratios of 49% and 48%, respectively. There is no material adverse change clause for new borrowings under the facility.

Ameren Missouri had no short-term borrowings under the facility as of September 30, 2014, with the full amount available under its $800 million borrowing sublimit. As of the same period, Ameren Missouri had $65 million of commercial paper outstanding. Ameren Missouri has two long-term debt maturing in 2015 and 2016, $120 million in 2015 and $266 million in 2016. On September 30, 2014, Ameren Missouri had $1 million of cash on hand.

Rating Outlook

The stable outlook reflects Ameren Missouri's strong financial and credit profile, slightly offset by the below-average regulatory environment in Missouri. While the regulatory framework in Missouri has been improving, Ameren Missouri's ability to recover costs and to earn appropriate returns continues to be below average.

What Could Change the Rating - Up

Ameren Missouri could be upgraded if its credit and financial profile are not negatively impacted by the outcome of its pending 2015 rate case. Also, if the regulatory environment in Missouri improves on a sustained period, an upgrade would be possible. Also, if Ameren Missouri is able to maintain strong key credit metrics, such as CFO pre-working capital to debt ratio above 23% on a sustained basis, an upgrade is a possibility.

What Could Change the Rating - Down

A downgrade could be considered if there are any adverse regulatory developments or unsupportive rate case outcomes or a decline in cash flow coverage measures, including CFO pre-working capital to debt falling below 19% on a sustained basis.

Rating Factors

Union Electric Company

Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 9/30/2014		[3]Moody's 12-18 Month Forward ViewAs of 12/2014	
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	Baa	Baa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Ba	Ba	Ba	Ba
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	5.0x	A	4.9x - 5.2x	A
b) CFO pre-WC / Debt (3 Year Avg)	22.5%	A	22% - 25%	A
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	12.9%	Baa	13% - 16%	Baa
d) Debt / Capitalization (3 Year Avg)	41.1%	A	39% - 42%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		Baa1		Baa1
HoldCo Structural Subordination Notching	0	0	0	0
a) Indicated Rating from Grid		Baa1		Baa1
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 9/30/2014(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

MOODY'S
INVESTORS SERVICE

instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.