FITCH AFFIRMS AMEREN & SUBS; OUTLOOK STABLE

Fitch Ratings-New York-07 July 2016: Fitch Ratings has affirmed the 'BBB+' Long-Term Issuer Default Ratings (IDRs) of Ameren Corp. (AEE) and its regulated utility subsidiaries Union Electric Company (UE) and Ameren Illinois Company (AIC). The Rating Outlook is Stable for all three entities. A full list of ratings is shown at the end of this release.

KEY RATING DRIVERS

Low-Risk Business Model: AEE's credit profile reflects the relatively stable and predictable operating cash flows of its regulated utility subsidiaries and the financial support it receives from them in the form of dividends for the payment of corporate expenses and dividends to common shareholders. The utilities operate under regulatory frameworks that provide for recovery of fuel and purchased power expenses, minimizing commodity price exposure. The ownership of a FERC-regulated transmission business, Ameren Transmission Company of Illinois (ATXI), provides further uplift to AEE's financial profile, as management projects healthy rate base growth in the business over the next few years. The Stable Outlook reflects Fitch's expectation that AEE will sustain its current financial condition, its strong liquidity position, and a conservative financing strategy to support a projected 6.5% compound annual growth rate in rate base through 2020.

Rising but Manageable Capex: AEE's projected capex program is significantly higher than its historical norm over the next five years. Forecast capex ranges between $10.64 billion and $11.54 billion over 2016-2020, compared with approximately $7.02 billion over the previous five years. Fitch expects AEE to finance capex with a balanced mix of internally generated cash flow and long-term debt issuances. Management targets an approximate 50% debt-to-equity capital structure. Fitch estimates internal cash flows to fund approximately 70% of consolidated capex over the next three years.

FERC Transmission Investments: Planned capex includes about $3 billion of FERC-regulated transmission investments, including $1 billion at ATXI with the construction of three MISO multi-value projects. Fitch estimates ATXI will contribute approximately 9% of consolidated operating cash flows by 2018. FERC's credit-supportive rate design provides for timely recovery of capital investments via annual rate reconciliations and permits inclusion of construction work in progress (CWIP) in rate base which supports cash flow during the construction phase. FERC rates are based on a healthy 56% equity component in the capital structure and a currently attractive 12.38% return on equity (ROE) for MISO projects.

Transmission Rate Challenge: The 12.38% MISO ROE is the subject of two FERC complaint proceedings with decisions for both expected in 2016-2017. Based on the outcome of similar rate challenges, Fitch does not expect a reduction to the transmission ROE to have a material effect on AEE's or AIC's earnings or cash flow. Management estimates a 50 bps ROE reduction would reduce consolidated earnings by approximately $6 million in 2016. As of 1Q16, AEE had recorded a regulatory liability of $55 million associated with potential refunds to customers.

Stable Credit Metrics: Tariff increases at the utilities, continued cost control and incremental earnings stemming from transmission investments should continue to support a stable credit profile through the forecast period. Fitch forecasts adjusted debt-to-EBITDAR and FFO lease-adjusted leverage to average 3.8x and 3.6x, respectively, over 2016 - 2018. FFO-based metrics include the positive effect of sizeable tax benefits stemming from AEE's prior ownership of the merchant business and previous capital investments.

Financial Flexibility: Operating cash flows are enhanced by the availability of approximately $630 million of consolidated tax benefits at Dec. 31, 2015, including approximately $430 million at AEE, which management expects to be realized into 2021. AEE's financial flexibility also benefits from low leverage with parent debt representing approximately 10% of consolidated debt as of 1Q16 and modest equity support needed by its utility subsidiaries. Fitch expects available cash and parent debt to fund ATXI in the near term. Fitch anticipates management may issue long-term debt at ATXI at the back end of the forecast.

UE

Sound Credit Metrics: UE's credit profile is well positioned within the current rating level. Fitch forecasts adjusted debt/EBITDAR, FFO lease-adjusted leverage, and FFO fixed-charge coverage to average 3.4x, 3.2x, and 5.1x, respectively, over 2016-2018. For the LTM ended March 31, 2016, adjusted debt/EBITDAR, FFO lease-adjusted leverage and FFO fixed-charge coverage were 3.4x, 2.8x, and 6x, respectively. Projected credit metrics assume a balanced rate decision in the pending rate case and UE's continued implementation of cost control.

Challenging Regulatory Environment: Regulatory lag due to the use of an historical test year in setting rates, the absence of CWIP in rate base, and an extended review period, remains a credit concern. Actions taken by the Missouri Public Service Commission (MPSC) in UE's last rate order were not considered to be credit supportive by Fitch as the MPSC excluded the recovery of substantially all changes in transmission costs through UE's fuel adjustment clause and terminated the use of trackers for vegetation management, infrastructure inspection costs, and storm costs. The MPSC recently opened a proceeding to facilitate discussions on possible policies to improve regulation of investor-owned utilities.

Pending Rate Case: UE is seeking a $206 million rate increase based on a 9.9% ROE and a 51.8% common equity ratio with new rates to become effective in late May 2017. Fitch has assumed a rate decision that is in line with UE's last rate order in which the utility was granted slightly over 60% of its updated rate request. The rate request includes $74 million that is primarily related to nearly $1.4 billion of capex that has been placed into service since the true-up date of the last rate case. A less than favorable rate decision would indicate a more permanent deterioration of the regulatory construct and would be credit negative.

Noranda Lost Sales: Management expects the lost sales from the idling of operations at Noranda Aluminium (Noranda), UE's largest industrial customer, to reduce earnings by approximately $40 million in 2016. To mitigate any long-term financial impact, UE is requesting, as part of the pending filing, the amortization over 10 years of an estimated $81 million of lost fixed-cost recovery due to lower sales volumes from Noranda during the period April 2015 through May 2017. Fitch's forecast assumes UE will receive adequate rate treatment for the loss of Noranda sales volumes in the pending rate case.

Manageable Capex Program: Management estimates capex to range from $3.93 billion to $4.25 billion over 2016-2020, which equates to approximately 2% in annual rate base growth. By contrast, UE spent $3.16 billion over 2011-2015. Capital spending is earmarked primarily toward the maintenance and upgrade of UE's generation, transmission and distribution systems. Fitch expects UE to fund capex using a balanced mix of internally generated cash flows and long-term debt issuances, and manage to its authorized regulatory capital structure.

AIC

Regulatory Predictability: The electric formula rate plan (FRP) implemented in October 2011 provides increased regulatory predictability in Illinois. The FRP is filed annually and recognizes forward-looking capital additions and includes a true-up mechanism, reducing, albeit not eliminating, rate lag. One drawback is the formulaic return on equity (ROE) calculation that results in a below-average ROE in the current low-interest environment, but that is moderated by the forward-looking capital additions. Favorably, legislation recently extended the FRP framework to 2019 from 2017.

Pending Electric Rate Filing: Fitch assumes a balanced rate decision in AIC's FRP updated rate filing. AIC is proposing a $14 million net revenue requirement decrease in electric rates effective January 2017. The net decrease reflects a $96 million current-year rate increase offset by a $110 million reconciliation adjustment. The request reflects an 8.64% ROE, based on the formulaic calculation equal to 580 bps above the 12-month average 30-year treasury rate. On June 30, 2016, the Illinois Commerce Commission (ICC) staff recommended a revenue requirement reduction nearly identical to AIC's request. Final rate decisions by the ICC have generally been in line with staff.

Elevated but Manageable Capex: AIC expects capex to range between $5.72 billion-$6.23 billion over 2016-2020, representing nearly 54% of consolidated capex over the period. By contrast, AIC spent approximately $3.25 billion on capital investments over 2011-2015. Forecasted capex includes approximately $2 billion of capital investments in FERC-regulated transmission reliability investments. Under the FRP statute, AIC is required to invest at least $265 million, over a 10-year period, in certain modernization projects, and at least an additional $360 million, over a 10-year period, on various distribution system upgrades. AIC is also projected to spend sizeable capex in the gas business, supported by the implementation of the qualifying infrastructure plan (QIP) rider that allows timely recovery of gas infrastructure investments.

Fitch expects AIC to fund capex in a manner consistent with the authorized regulatory capital structure, using a balanced mix of internal cash flows and long-term debt. Fitch expects AIC's internally generated cash flows to fund, on average, 70% of capex requirements over the next three years.

Sound Credit Metrics: Credit metrics are expected by Fitch to remain supportive of current ratings. Fitch forecasts adjusted debt/EBITDAR, FFO lease-adjusted leverage, and FFO fixed-charge coverage to average 3.6x, 3.3x, and 5.3x, respectively, over 2016-2018. For the LTM ended March 31, 2016, adjusted debt/EBITDAR, FFO lease-adjusted leverage and FFO fixed-charge coverage were 3.4x, 3.1x, and 5.3x, respectively. Fitch's projections assume that AIC continues to receive timely and adequate recovery of planned capital investments through FRP filings.

KEY ASSUMPTIONS
Fitch's key assumptions within our rating case are as follows:

--Base O&M escalated at 2% per annum;
--Balanced rate decisions in AIC and UE's pending rate cases;
--Consolidated capex ranging from $2.1 billion to $2.4 billion over 2016-2018;
--FERC ROE refunds consistent with management's expectations;
--No external equity issuances through 2018.

RATING SENSITIVITIES

Future developments that may, individually or collectively, lead to a positive rating action:

AEE

An upgrade at the utilities could lead to positive rating actions.

UE

A positive rating action is unlikely in the near term given the uncertainty around the pending rate case. However, a material improvement in Missouri regulation, illustrated by more timely recovery of capital expenses and a reinstatement of trackers, could have a positive effect on ratings. Fitch would also consider a positive rating action in the event that adjusted debt/EBITDAR improves to below 3x on a sustained basis.

AIC

No positive rating actions are anticipated in the near- to intermediate-term. However, should adjusted debt/EBITDAR strengthen to a range of 3x-3.25x on a sustained basis, positive rating actions could be considered.

Future developments that may, individually or collectively, lead to a negative rating action:

AEE

--Rating downgrades at the utilities;
--Adjusted debt-to-EBITDAR ranging between 4x-4.25x or FFO-adjusted leverage higher than 5x on a sustained basis.
--A more aggressive funding strategy towards ATXI leading to a material increase in parent-level debt.

UE

--A series of less than constructive rate decisions that signal a more permanent deterioration in the regulatory compact would likely lead to negative rating actions.
--Adjusted debt/EBITDAR at 3.75x or higher on a sustained basis.

AIC

--Any adverse regulatory developments that prevent AIC from earning an adequate and timely return on sizeable projected capex;
--FFO-adjusted leverage at or higher than 5x on a sustained basis.

AEE LIQUIDITY

To support its commercial paper program, AEE has access to $1.2 billion of combined sub-borrowing limits within UE's and AIC's respective credit facilities that expire in December 2019. AEE has access to a total of $700 million of credit available under the $1 billion UE facility and $500 million of credit available under the AIC facility. AEE had $420 million of borrowings outstanding and $13 million of consolidated cash and cash equivalents at March 31, 2016. Additional liquidity within the corporate family is provided by an intercompany money pool that provides for short-term cash and working capital requirements. UE, AIC and ATXI can lend and borrow into the money pool, but AEE is a lender only. There were no borrowings outstanding under the money pool at March 31, 2016.

Consolidated debt maturities are manageable with $675 million due in 2017, $834 million due in 2018, and $574 million due in 2019.

FULL LIST OF RATING ACTIONS

Fitch affirms the following:

AEE
--Long-term IDR at 'BBB+';
--Senior unsecured debt at 'BBB+';
--Short-Term IDR and CP at 'F2'.

UE
--Long-Term IDR at 'BBB+';
--Secured debt at 'A';
--Senior unsecured debt at 'A-';
--Preferred stock at 'BBB';
--Short-Term IDR and CP at 'F2'.

AIC
--Long-Term IDR at 'BBB+';
--Senior secured debt at 'A';
--Senior unsecured debt at 'A-';
--Preferred stock at 'BBB';
--Short-Term IDR and CP at 'F2'.

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Applicable Criteria
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 17 Aug 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869362
Recovery Ratings and Notching Criteria for Utilities (pub. 04 Mar 2016)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=878227

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