Moody's Investors Service
Global Credit Research

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MOODY'S ASSIGNS NEGATIVE OUTLOOKS TO AMERENUE AND AMEREN CORPORATION

Approximately $1.9 Billion of Securities Affected

Moody's Investors Service assigned negative outlooks to its long term ratings for Union Electric Company (AmerenUE) and Ameren Corporation. Moody's has taken this action in response to the Missouri Public Service Commission's (MPSC) July 2nd staff filing which, if implemented, could reduce AmerenUE's annual revenues between $214 million and $250 million.

Affected Ratings

Specifically, Moody's assigned negative outlooks to the following ratings:

- AmerenUE: Aa3 senior secured, A1 issuer and senior unsecured, A2 subordinate and "aa3" preferred stock.

- Ameren Corporation: A2 issuer rating.

AmerenUE's and Ameren Corporation's Prime-1 commercial paper ratings are unaffected. Gateway Fuel Company's Prime-1 commercial paper rating is also unaffected. Gateway Fuel Company leases nuclear fuel to AmerenUE for use in the company's Callaway nuclear plant.

Moody's took no action with regard to its ratings for affiliates Central Illinois Public Service Company (AmerenCIPS) and AmerenEnergy Generating Company (AmerenGenco).

The MPSC Staff's Filing

On July 2nd, the MPSC staff issued a filing recommending lowering AmerenUE's return on equity to between 9.04% and 10.04%. This would result in AmerenUE's annual revenues dropping between $214 million and $250 million. The staff filing lays out a schedule which could lead to a final MPSC decision by year end. The company, however, believes a decision in early 2002 more likely.

Ameren Corporation has "denounced" the filing. Moody's believes the company will vigorously oppose any ROE reduction both through the MPSC proceedings and later, if necessary, through the courts.

Rationale for the AmerenUE Negative Outlook

A $214 million to $250 million annual revenue reduction will considerably reduce AmerenUE's financial flexibility. In 2000, the company's revenues were $2.7 billion, but its funds from operations minus capital expenditures was only $292 million. A $214 million to $250 million revenue reduction in 2000, after adjusting for taxes, would therefore have significantly reduced the company's free cash flow for any additional working capital and capital expenditure needs as well as for dividends to parent Ameren Corporation.

Moody's believes the reduction would, to the same significant extent, affect the company's cash flows going forward.

Given the expected length of the proceedings, the vigor with which Moody's expects the company to oppose the filing, and the financially unreasonable effect of that filing, Moody's decided initially to assign only a negative outlook to AmerenUE's long term securities. Moody's will monitor the proceedings and, as the direction of the proceedings becomes clearer, may at some point either remove the negative outlooks or place AmerenUE's long term-and possibly commercial paper-ratings on review for possible downgrade. Placing AmerenUE's commercial paper ratings on review for possible downgrade would imply a significant, three notch downgrade in AmerenUE's Aa3 senior secured rating.

Given AmerenUE's support for Gateway Fuel Company's commercial paper program, Moody's would adjust Gateway Fuel Company's commercial paper rating with AmerenUE's commercial paper rating.

Rationale for the Ameren Corporation Negative Outlook

Given AmerenUE's former rate structure, Moody's had projected that Ameren Corporation would receive over three-quarters of its annual cash flow in the form of dividends from AmerenUE. Moody's projects that a $214 million to $250 million AmerenUE revenue reduction, after adjusting for taxes, would significantly cut the dividend from AmerenUE to Ameren Corporation and impair Ameren Corporation's ability to cover both its interest and dividend payments at their current levels. Moody's notes that Ameren Corporation has incurred a significant portion of its financial obligations to finance the construction of Midwest gas-fired peaking plants.

As with its AmerenUE ratings, Moody's will monitor the proceedings and may at some point either remove the negative outlooks or place Ameren Corporation's issuer-and possibly commercial paper-ratings on review for possible downgrade. Placing Ameren Corporation's commercial paper ratings on review for possible downgrade would imply at least a one notch downgrade in Ameren Corporation's A2 issuer rating.

Rationale for Not Assigning Negative Outlooks to AmerenCIPS or AmerenGenco

Moody's views both AmerenCIPS and AmerenGenco credit-wise to be somewhat remote from AmerenUE and Ameren Corporation and maintained its stable outlooks for both AmerenCIPS and AmerenGenco. Moody's notes that AmerenUE provides short term funding to AmerenCIPS and Ameren Corporation provides short term funding to AmerenGenco. In addition, AmerenUE's excess generating capacity provides some support to AmerenGenco's power sales obligations. Moody's believes, however, that a deterioration in either AmerenUE's or Ameren Corporation's credit quality would not significantly affect either AmerenCIPS or AmerenGenco.

The Companies

Ameren Corporation is the holding company for AmerenUE, AmerenCIPS, AmerenGenco, Ameren Energy, Inc. (Ameren Corporation's energy trading subsidiary) and other subsidiaries. AmerenUE is Missouri's largest electric utility and provides gas service to 90 Missouri communities. AmerenCIPS provides electric and gas service to 66 counties in central and southern Illinois. AmerenGenco owns 3,678 mw of operating Illinois coal and gas-fired generating stations, of which 2,860 mw of coal units were transferred from AmerenCIPS in May 2000. The remaining capacity comprise gas-fired peakers the company has brought on line since. Ameren Corporation, AmerenUE and AmerenGenco are based in St. Louis, Missouri. AmerenCIPS is based in Springfield, Illinois.