

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EF-2012-0463, Union Electric Company, d/b/a Ameren Missouri

FROM: Zephania Marevangeo, Utility Services - Financial Analysis

/s/ Zephania Marevangeo 07/27/12
Utility Services - Financial Analysis

/s/ Tanya Alm 07/27/12
Staff Counsel's Office

SUBJECT: Staff's Recommendation is to approve the *Amended Application* of Union Electric Company, d/b/a Ameren Missouri (Ameren Missouri) for an order authorizing the issuance of up to \$550,000,000 in aggregate principal amount of additional long-term indebtedness within one year of the order.

DATE: July 27, 2012

Union Electric Company d/b/a Ameren Missouri

1. (a) **Type of Issue:** Secured Long-Term Debt.
(b) **Amount:** Up to \$550,000,000.
(c) **Issuance date(s):** Within one year of the effective date of Commission's order granting authorization to refinance long-term debt with additional New Indebtedness.
(d) **Rate:** The interest rate on the secured long-term debt shall not exceed 6.5% or a rate consistent with similar securities of comparable credit quality and maturities issued by other issuers.
2. **Proposed Date of Transaction:** As soon as August 1, 2012.
3. (a) **Statement of purpose of the Transaction:** Ameren Missouri proposes to use proceeds from the secured long-term indebtedness to pay at, or subsequent to, maturity \$173,000,000 of the Company's Senior Secured Notes that are due on September 1, 2012, and to refund principal amounts, and repurchase premiums for up to \$377,000,000 of other outstanding long-term indebtedness.
(b) **From a financial perspective, is this purpose reasonable?**
Yes.
4. **Type of Transaction:** Ameren Missouri proposes to receive secured debt proceeds from the issuance of first mortgage bonds and other forms of secured indebtedness.

** Denotes Highly Confidential Information **

PR

5. **Copies of executed instruments defining the terms of the proposed transaction:**

- ☒ (a) If such instruments have been previously filed with the Commission, a reference to the Case Number in which the instruments were furnished.
- ☐ (b) If such instruments have not been executed at the time of filing a commitment to provide the terms and conditions of the instruments when they are available has been made.
- ☐ (c) If no such instruments are either executed or to be executed, a statement of how the securities are to be sold.

6. **Certified copy of resolution of the directors of applicant, or other legal documents authorizing the proposed transaction reviewed:**

Yes ☒ No

7. **Capitalization expenditure schedule reviewed:**

Yes No ☒

8. **Recommendation of the Staff:**

- ☐ Grant by session order (see Comments)
- ☒ Conditional Approval granted pending receipt of definite terms of transaction (see Comments)
- ☐ Require additional and/or revised data before approval can be granted (see Comments)
- ☐ Formal hearing required (see Comments)
- ☐ Recommend dismissal (see Comments)

COMMENTS:

Ameren Missouri is a corporation in good standing, duly organized and existing under and by virtue of the laws of the State of Missouri, with its executive office at One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Ameren Missouri is engaged in providing electric and gas utility services in portions of Missouri as a public utility under the jurisdiction of this Commission.

Ameren Missouri has filed an *Application* requesting that the Commission authorize the Company to issue up to \$550,000,000 in aggregate principal amount of secured long-term indebtedness in one or a combination of the following forms: (1) first mortgage bonds; and/or (2) other forms of secured indebtedness (including debt securities secured by a corresponding series of first mortgage bonds).

Ameren Missouri requests that first mortgage bonds issued as collateral for other debt shall not count towards the authorized amount requested in this proceeding.

Ameren Missouri's *Amended Application* removes the request to have the option to use the proceeds to refinance portions of its short-term debt.

Effect on Credit Quality:

Based on Ameren Missouri's selected pro forma financial ratios, the proposed debt issuances will result in Funds From Operations (FFO) to Interest coverage, FFO to Total Debt and Total Debt to Capital ratios of ** ____ **, ** ____ ** and ** ____ ** percent respectively¹. Ameren Missouri's projected ratios are consistent with Ameren Missouri and Ameren Corporation's (Ameren Missouri, Ameren Illinois, and AmerenEnergy Generating Company's (GenCo) parent company) current consolidated "significant" financial risk profile.

Standard & Poor's (S&P) highlighted that Ameren Corporation's credit facility agreement includes a financial covenant requiring a consolidated ratio of total debt to capital of no more than 65%. As of December 31, 2011, the debt to capital ratio was 47%, demonstrating sufficient cushion with respect to the facility's financial covenant².

Because the scope of the *Amended Application* is limited to refinancing existing long-term debt, the pro forma impact of the refinancing should only show an improvement in FFO to Interest Coverage ratios due to expected lower interest rates. The FFO to Total Debt ratio should essentially be the same since no new debt would be issued, assuming Ameren Missouri's Financing Authority is limited to refinancing of long-term debt.

*Other Credit Quality Analysis*³:

¹ Ameren Missouri's *Application*, Sch. 4, p. 7 – HC.

² S&P Capital IQ, April 03, 2012.

³ *Id.*

PR

Ameren Missouri and Ameren Illinois (Ameren Corporation's regulated subsidiaries) currently have an "excellent" business risk profile and "significant" financial risk profile. GenCo (Ameren Corporation's unregulated subsidiary) has a "fair" business risk profile and a "highly leveraged" financial risk profile.

Ameren Corporation has a "strong" business risk profile and a "significant" financial risk profile. The "strong" business risk profile reflects the impact of GenCo's "fair" business risk profile on Ameren Corporation's consolidated business risk profile.

Ameren Corporation and its regulated subsidiaries have a "BBB-" credit rating, while GenCo has a "BB-" credit rating. It is S&P's view that GenCo's standalone credit rating would be in the "B" credit rating category absent its affiliation with Ameren Corporation. Thus, GenCo's "BB-" rating reflects Ameren Corporation's limited liquidity support to GenCo. Consequently, S&P represented that it could raise Ameren Corporation's ratings if Ameren Corporation decides to stop supporting GenCo while maintaining, at the very least, an FFO to debt ratio of 17%.

Staff's Concern:

It was Staff's initial concern that Ameren Missouri had proposed to expand the use long-term debt proceeds to allow for refinancing of any short-term debt that may be outstanding during the period of the requested Financing Authority.

On page two (2), paragraph five (5), of its response to Staff recommendation, Ameren Missouri, agreed to amend its application and remove the request to have the option to use the proceeds to refinance portions of its short-term debt.

RECOMMENDATION:

Following Ameren Missouri's response to Staff's Recommendation wherein Ameren Missouri requests to amend its application, Staff recommends that the Commission approve Ameren Missouri's request for authority to use secured long-term debt proceeds to refinance the outstanding long-term debt as identified in the *Amended Application*.

Should Ameren Missouri subsequently request approval for authority to use long-term debt proceeds to refinance short-term debt, Ameren Missouri should comply with Commission Rule 4 CSR 240-3.120, by providing a five (5)-year capitalization expenditure schedule and the Commission's Ordered Condition seven (7) in File No. EF-2009-0266. Ameren Missouri should also provide documentation that confirms that Ameren Missouri is not supporting GenCo financially, directly or indirectly.

In order to allow the Commission approval of Ameren Missouri's *Amended Application* to be expedited, as requested by the Company, Staff accepts Ameren Missouri's proposed treatment of rating agency reports for purposes of this case. However, Staff notes that other Missouri utility companies have been ordered by the Commission to file rating agency reports as non-case related submissions as proposed by Staff. Accordingly, Staff's acceptance of Ameren Missouri's proposal for this case does not establish a policy or precedent, and Staff reserves the right to revisit this issue when Ameren Missouri files a subsequent financing application.

RECOMMENDED CONDITIONS:

With respect to the expeditious treatment required in this case and Ameren Missouri's *Amended Application*, Staff recommends that this *Amended Application* be approved with the following conditions:

1. That nothing in the Commission's order shall be considered a finding by the Commission of the value of this transaction for rate making purposes, which includes, but is not limited to the capital structure, and that the Commission reserves the right to consider the rate making treatment to be afforded these financing transactions and their effect on cost of capital, in any later proceeding;
2. That Ameren Missouri shall file with the Commission within 10 days of issuance of any financing authorized pursuant to a Commission order in this proceeding, a report including the amount of secured indebtedness issued, date of issuance, interest rate (initial rate if variable), maturity date, redemption schedules or special terms, if any, use of proceeds, estimated expenses, and loan or indenture agreement concerning each issuance;
3. That Ameren Missouri files with the Commission, upon refinancing of any outstanding debt, the net present value calculations indicating the amount of interest cost savings;
4. That Ameren Missouri files with the Commission any information concerning communication with credit rating agencies concerning the proposed financing; and,
5. That Ameren Missouri shall file with the Commission as a non-case related submission all current credit rating agency reports published on Ameren Missouri, Ameren Corporation, and GenCo's corporate credit quality or the credit quality of securities issued by those entities as well as any report published between now and the date Ameren Missouri executes the proposed financing transactions.

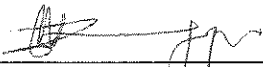
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Union)
Electric Company d/b/a Ameren Missouri for) Case No. EF-2012-0463
an Order Authorizing the Issuance of up to)
\$550,000,000 Aggregate Principal Amount)
of Additional Long-Term Indebtedness.)

AFFIDAVIT OF ZEPHANIA MAREVANGEPO

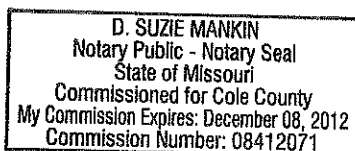
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

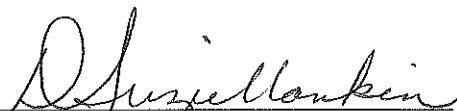
Zephania Marevangepo, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.



Zephania Marevangepo

Subscribed and sworn to before me this 27th day of July, 2012.





Notary Public