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Recovery Report:

Ameren Energy Generating Co.'s Recovery Rating Profile

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Table Of Contents

Overview

Legal And Structural Considerations

Issuer Credit Rating Rationale

Recovery Analysis

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Overview

- Standard & Poor's Ratings Services is revising its recovery ratings on AmerenEnergy Generating Co.'s (GenCo) senior unsecured debt.
- The issue-level rating is 'B+', one notch higher than the corporate credit rating. The outlook is stable.
- The '2' recovery rating on GenCo's senior unsecured debt indicates expectations of substantial (70%-90%) recovery in the event of a payment default.
- Our simulated default scenario contemplates a default in 2018, based on continued operating and financial pressure from an extended period of low gas prices and heat rates.

Table 1

AmerenEnergy Generating Co.--Credit Profile						
Corporate credit rating	B/Stable/--					
Estimated gross enterprise value at default	\$686.1 million					
Default year	2018					
Facility/issue	Estimated principal outstanding at default (mil. \$)	Issue rating	Recovery rating	Expected recovery (%)	Maturity	
Sr. unsecured notes	300	B+	2	70-90	2018	
Sr. unsecured notes	250	B+	2	70-90	2020	
Sr. unsecured notes	275	B+	2	70-90	2032	

Legal And Structural Considerations

U.S.-based AmerenEnergy Generating Co. is a merchant power generation company that is a wholly owned subsidiary of Ameren Corp. (BBB-/Stable/A-3). Ameren is a holding company that mainly operates as a regulated electric and gas utility through various other subsidiaries. We rate GenCo based on its stand-alone credit quality. GenCo's credit quality is pressured from the current low gas prices and the flattening of the forward power curve. GenCo owns and operates more than 3,000 megawatts (MW) of coal-fired generation capacity and more than 1,100 MW of gas-fired generation capacity, including the 1,000 MW Joppa coal plant that is owned by Electric Energy Inc. (EEI), an 80% owned subsidiary.

Capital structure

GenCo has a stand-alone debt structure that is nonrecourse to its parent company or any of its parent company's other subsidiaries. GenCo's debt consists of three series of senior unsecured notes totaling \$825 million.

We further note that the Ameren Corp. and its various other operating subsidiaries also have their own debt obligations that are nonrecourse to GenCo.

Security and guarantee package

GenCo's single operating subsidiary is EEI, which is 80% owned by GenCo. All of GenCo's debt is unsecured, issued at the GenCo level, and does not benefit from guarantees from Ameren Corp. or any of Ameren Corp.'s other subsidiaries.

Issuer Credit Rating Rationale

For the corporate credit rating rationale, see the research update on AmerenEnergy Generating Co. published on Nov. 26, 2012.

Recovery Analysis

In assigning recovery ratings, Standard & Poor's simulates a payment default that incorporates a borrower's fundamental business risks and the financial risk inherent in its existing capital structure. Our methodology assumes that all committed debt is fully funded, but generally does not make any specific assumptions for the addition of any other debt before default.

Table 2

Ameren Energy Generation Co. -- Stressed Valuation (Mil \$)			
--Simulated default assumptions--		--Simplified waterfall--	
Year of default	2018	Newton coal plant at \$375/kw	449.3
LIBOR at default	5.5%	Joppa coal plant at \$250/kw	200.4
		Coffeen coal plant at \$375/kw	335.6
		Grand Tower combined cycle gas turbine at \$140/kw	66.9
		Gibson City gas peaker at \$40/kw	9.1
		Elgin gas peaker at \$100/kw	46.0
		Unadjusted gross enterprise value	1,107.3
		Adjustment for future environmental requirements	(400.0)
		Adjusted gross enterprise value	707.3
		Gross enterprise value at emergence	707.3
		Administrative costs	21.2
		Net enterprise value	686.1
		Senior unsecured debt claims	854.3
		Recovery expectation for unsecured debt claims (%)	70-90

Note: All debt amounts include six months of prepetition interest.

Simulated default scenario

The default path assumes that low gas prices and market heat rate continue over the long term, negating any financial benefit to GenCo's hedging strategy. Over time, we assume these conditions and capital spending requirements drain the company's liquidity and cause a default in 2018 as GenCo is unable to refinance its 2018 maturity. Our simulated default scenario also includes the following assumptions:

- All debt has six months' accrued interest outstanding at default, resulting in total claims at default of \$854.3 million

on the unsecured notes.

- GenCo's ultimate parent, Ameren Corp., allows GenCo to file for bankruptcy while the rest of the organization remains unaffected.

Valuation

We evaluate recovery on the facilities based on dollar-per-kilowatt multiples for the various assets owned by GenCo, including an adjustment for the minority interest in the Joppa coal plant. We assumed higher values for the Coffeen and Newton coal plants because environmental updates have either already been completed (Coffeen) or are expected to be substantially completed before our simulated default date (Newton). The difference in the value of the gas peaker plants reflects PJM Interconnection LLC's capacity market. We also subtracted \$400 million from the total value to account for expected environmental capital spending to meet federal and state laws. This produces a gross enterprise value of \$707.3 billion. Based on the company's relatively simple capital structure, we have estimated administrative bankruptcy expenses at 3%, producing a net enterprise value of about \$686.1 billion.

Outcome

Under these assumptions, our analysis leads to an approximate 80% recovery for the company's senior unsecured bonds, before considering the potential for nondebt unsecured claims. This implies a '2' recovery rating on the unsecured debt. Given our expectations for substantial recovery, we raise the rating of the senior unsecured debt one notch above the corporate credit rating to 'B+'.

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