

ISSUER COMMENT

Illinois' Extension on Emission Reductions Buys Ameren Genco Time, a Credit Positive

From [Credit Outlook](#)**Analyst Contacts:**

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On 20 September, the Illinois Pollution Control Board granted [Ameren Energy Generating Company's](#) (Ameren Genco, Ba3 negative) request to postpone compliance for sulfur dioxide emission under the Illinois Multi-Pollutant Standard (MPS). The merchant coal-fired generator requested the extension because low power prices and lower demand were reducing cash flow and preventing it from installing the pollution control equipment necessary to comply with the MPS. The extension is credit positive because it buys the company much needed time to meet the standard.

Ameren Genco's margins have declined because of falling power prices and weak economic conditions in southern Illinois, which has reduced overall demand for power. Margins have also been shrunk by higher fuel and transportation expenses and large capital expenditure requirements for environmental compliance. As a result, we expect Ameren Genco's ratio of cash flow from operations pre-working capital to debt to fall below 20% in 2012 from around 23% in 2009-11, and to decline further in 2013 and 2014 unless power prices recover. Although hedges thus far have allowed the company to generate modest free cash flow, we expect it to experience negative free cash flow starting in 2012 despite limited capital spending.

In response to these adverse market conditions, Ameren Genco, an unregulated generating subsidiary of [Ameren Corporation](#) (Baa3 stable), announced drastic cutbacks in its environmental compliance spending earlier this year. These cutbacks included the deceleration and potential cancellation of its most critical environmental project, the installation of pollution controls (scrubbers) on its 1,198-megawatt Newton, Illinois, power plant, the largest and most recent vintage of its three operating coal plants in Illinois. The company had spent approximately \$250 million of the estimated \$490 million cost of the Newton scrubbers before it put the project on hold.

Absent these pollution controls, Ameren Genco would not have been in compliance with Illinois' emissions standards by 2015 and the tougher requirements would have forced the company to reduce generation beginning that year, further stressing cash flows. The company estimates that completing the Newton scrubber project could take up to 24 months and the Illinois regulatory decision defers the need to restart the project anytime soon.

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The Illinois decision delays a tightening of state pollution control standards to 2019 from 2015, and averts the potential mothballing of one or more coal plants. In addition, the decision conserves Ameren Genco's cash by deferring capital expenditure requirements and buys the company critical time for power prices to improve sufficiently for it to be able to afford the needed pollution controls.

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