

RatingsDirect®

Summary:

Ameren Missouri

Primary Credit Analyst:

Gabe Grosberg, New York (1) 212-438-6043; gabe_grosberg@standardandpoors.com

Secondary Contact:

Gerrit W Jepsen, CFA, New York (1) 212-438-2529; gerrit_jepsen@standardandpoors.com

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Summary:

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**Credit
Rating:**

BBB-/Stable/A-3

Rationale

Standard & Poor's Ratings Services' ratings on St. Louis-based Ameren Missouri (AM) reflect the consolidated credit profile of its parent, Ameren Corp. (Ameren). The ratings also reflect AM's "excellent" business risk profile and Ameren's "significant" financial risk profile under our criteria.

AM is a rate-regulated utility that serves 1.2 million electric and 126,000 gas customers in portions of central and eastern Missouri. The company also has 10,500 megawatts (MW) of generating capacity, of which 5,400 MW is base-load coal and 1,200 MW is nuclear.

AM's excellent business risk profile reflects its lower-risk, monopolistic rate-regulated utility businesses that provide an essential service. Additionally, the company's recent rate cases and regulatory mechanisms indicate an overall decreasing regulatory risk. In 2010 and 2011, the company received electric and gas rate case orders from the Missouri Public Service Commission (MPSC) that included more than \$400 million of rate increases. In addition, the company has credit-supportive trackers, including a fuel-adjustment clause, pension and other postemployment benefit trackers, and a cost tracker for vegetation management and infrastructure inspections. More recently, the company filed for an approximate \$375 million rate increase and the staff recommended a \$210 million rate increase. The commission's order is expected by year-end.

Our corporate credit rating on AM also takes into account the company's affiliation with Ameren's non-rate-regulated competitive generation businesses. These businesses' fair business risk profile reflects their ultimate dependence on the market price of electricity, which has remained weak. The competitive businesses' margins have steadily declined due to lower demand because of the recession and an increased supply of natural gas from shale gas. Furthermore, prolonged weakness of the power markets, particularly the flattening of the forward curve, reduces the value of the competitive businesses' hedging strategy to protect it from weak power prices.

Our assessment of Ameren's financial risk profile is based on the company's ability to sustain its improved financial measures since 2009. The cash flow measure sustainability is the result of management's proactive decisions including a dividend reduction, equity issuance, operation and maintenance costs reductions, and its effective management of capital spending. For the 12 months ended June 30, 2012, adjusted funds from operations (FFO) to total debt decreased to 19.9% from 21.0% at the end of 2011, adjusted debt to EBITDA improved to 3.7 from 3.8x, and adjusted debt to total capital weakened to 51.8% from 51.0% at year-end 2011. Although Ameren's financial measures should remain at these improved levels for the next year, we expect that they will weaken somewhat over the next three years reflecting the termination of bonus depreciation and continued weak market electricity prices.

We expect Ameren's current positive discretionary cash flow to turn negative over the intermediate term as consolidated capital expenditures increase and decreasing margins at the competitive businesses pressure FFO. We expect that Ameren will continue to meet its cash needs in a credit-neutral manner.

Liquidity

Our short-term rating on Ameren and AM is 'A-3'. The company has "adequate" liquidity and can more than cover its needs for the next year, even if FFO declines.

We base our liquidity assessment on the following factors and assumptions:

- We expect the company's consolidated liquidity sources (including cash, FFO, and credit facility availability) to exceed its uses by about 1.8x over the next 12 months.
- Consolidated long-term debt maturities are manageable with \$355 million and \$585 million maturing in 2013 and 2014, respectively.
- Even if consolidated EBITDA declines by 15%, we believe net sources will be well in excess of liquidity requirements.
- The company has good relationships with its banks, in our assessment, and has a good standing in the credit markets, having access to the capital markets during the 2009 credit crisis.

In our analysis, we assumed consolidated liquidity of about \$3.7 billion over the next 12 months, primarily consisting of cash, FFO, and availability under the credit facilities. We estimate the company will use about \$2.0 billion over the same period for capital spending, debt maturities, working capital needs, and shareholder dividends.

Ameren's credit agreement includes a financial covenant requiring a consolidated ratio of total debt to total capital of no more than 65%. As of June 30, 2012, the debt to capital ratio, as defined in the credit agreement, was 48%, demonstrating sufficient cushion with respect to the facility's financial covenant.

Recovery analysis

We assign recovery ratings to first mortgage bonds (FMBs) issued by investment-grade U.S. utilities, which can result in the notching of issue ratings above a corporate credit rating in a utility depending on the category and the extent of the collateral coverage. We base the investment-grade FMB recovery methodology on the ample historical record of nearly 100% recovery for secured bondholders in utility bankruptcies and on our view that the factors that supported those recoveries (limited size of the creditor class, and the durable value of utility rate-based assets during and after a reorganization, given the essential service provided and the high replacement cost) will persist. Under our notching criteria, when assigning issue ratings to utility FMBs, we consider the limitations of FMB issuance under the utility's indenture relative to the value of the collateral pledged to bondholders, management's stated intentions on future FMB issuance, as well as the regulatory limitations on bond issuance. FMB ratings can exceed a corporate credit rating on a utility by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories.

AM's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of about 1.7x supports a recovery rating of '1+' and an issue rating two notches above the corporate credit rating.

Outlook

The stable rating outlook on Ameren and AM takes into account the continued weakness at the non-rate-regulated business and Ameren's willingness to provide cash to shore up its liquidity. The outlook is also based on the improvement in the company's management of regulatory risk. We expect that parent Ameren will continue to support the merchant business on a limited basis even over the longer term. Our ratings on Ameren also reflect Standard & Poor's baseline forecast that consolidated adjusted FFO to debt will, over the intermediate term, approximate 18% to 21%. Fundamental to our forecast is the outcome of the company's rate-case filings and market electricity prices. We could raise the ratings if Ameren decides to stop supporting its merchant business while minimally maintaining FFO to debt of 17%. Although less likely, we could downgrade Ameren if consolidated FFO to debt is consistently below 15%.

Related Criteria And Research

- Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Analytical Methodology, April 15, 2008
- Changes To Collateral Coverage Requirements For '1+' Recovery Ratings On U.S. Utility First Mortgage Bonds, Sept. 6, 2007

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