STANDARD & POOR'S RATINGS SERVICES

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Summary:

AmerenEnergy Generating Co.

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Table Of Contents

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Credit Rating:	BB-/Negative/--

Rationale

Standard & Poor's Ratings Services' ratings on AmerenEnergy Generating Co. (GenCo) reflects its stand-alone credit profile with limited support from parent Ameren Corp. GenCo's stand-alone credit rating would be in the 'B' rating category without Ameren's support. Additionally, our corporate credit rating on GenCo reflects its "highly leveraged" financial risk profile and "fair" business risk profile under our criteria.

GenCo's highly leveraged financial risk profile reflects Standard & Poor's base-case scenario in which we expect that its financial measures will materially deteriorate over the intermediate term due to the continued low price of electricity and the flattening of the forward curve. For the 12 months ended June 30, 2012, adjusted funds from operations (FFO) to debt decreased to 19.3% compared with 24.2% at year-end 2011; adjusted debt to EBITDA weakened to 4.2x compared with 3.0x at year-end 2011; and adjusted debt to total capital remained steady at about 48.5%. Under Standard & Poor's base-case scenario, we expect that over the intermediate term, FFO to debt will decrease to less than 12% and debt to EBITDA will increase to greater than 5x, reflecting financial measures that are consistent with the highly leveraged financial risk profile category.

Even with the planned reduction in capital spending, we expect that GenCo's discretionary cash flow will turn negative and that it will meet its near-term cash needs through a combination of cash, potential asset sales, and borrowings under its credit facility.

GenCo's fair business risk profile reflects its ultimate dependence on the market price of electricity, which has sharply declined, and its generation portfolio that requires a large capital infusion to meet environmental mandates. GenCo's margins have steadily declined due to lower power prices from a drop in demand because of the recession and by an increased supply of natural gas from shale gas that has contributed to lower natural gas prices. While GenCo continues to manage those areas that it can directly influence--such as reducing capital spending, maintaining its hedging program, and reducing its operation and maintenance (O&M) costs--sustained weak power prices will pressure its cash flow over the intermediate term. Furthermore, the prolonged weakness of the power markets, particularly the flattening of the forward curve, reduces the value of GenCo's hedging strategy to protect it from low power prices. While GenCo's three-year hedging strategy provides a degree of price insulation over the short term, sustained depressed power prices would eventually undermine this credit enhancement. This could lead Standard & Poor's to revise GenCo's business risk profile to weak, almost certainly resulting in a ratings downgrade.

We view the Illinois Pollution Control Board's recent decision to allow GenCo until 2020, instead of 2015, to comply with the Illinois sulfur dioxide limit, as providing some flexibility for the company's remaining environmental capital spending. However, we think the fundamental market pressures that weigh on the company's profit margins will continue to pressure its business risk profile and credit rating.

Our credit rating on GenCo marginally benefits from the higher credit quality of its parent. The strong business risk profile for Ameren Corp. reflects the combination of the excellent business risk profiles of Ameren's regulated electric and gas utility businesses offset by the fair business risk profile of Ameren's competitive merchant energy businesses. The utilities' excellent business risk profile reflect their lower-risk, monopolistic, rate-regulated utility businesses that provide an essential service.

Liquidity

We continue to view GenCo's liquidity as adequate based on our assessment for the next 12 months, supported by the company's $100 million asset put option.

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

- We expect the company's liquidity sources (including cash, FFO, and potential asset sales) over the next 12 months to exceed its uses by more than 1.4x.
- GenCo does not have long-term debt maturities until 2018.
- Even if EBITDA declines by 15%, we believe net sources will be well in excess of liquidity requirements.
- The company has the flexibility to lower capital spending, has sound bank relationships, and has generally prudent risk management.

In our analysis, we assumed liquidity of about $290 million over the next 12 months, primarily consisting of cash, FFO, and potential asset sales. We estimate the company will use about $200 million over the same period for capital spending and working capital needs.

GenCo's $500 million credit facility expires in September 2013. GenCo's bond indenture includes financial covenants that must be met for GenCo to incur additional indebtedness. These financial covenants include a debt to capital ratio of no greater than 60% and a minimum interest coverage ratio of 2.5x. As of June 30, 2012, the debt to capital ratio was 43% and the interest coverage ratio was 3.4x. Because of these financial covenants, GenCo projects that it will not be able to borrow additional funds from external third parties as of March 31, 2013. Therefore, for the purposes of our liquidity analysis, we excluded GenCo's existing availability under its $500 million credit facility.

Recovery analysis

GenCo's unsecured notes are rated 'BB-', the same as the corporate credit rating. The '3' recovery rating indicates our expectations of meaningful (50%-70%) recovery. (For the full report, please see the recovery report on AmerenEnergy Generating published on March 28, 2012.)

Outlook

The negative outlook on GenCo is based on Standard & Poor's base-case scenario that persistently low electricity prices will further compress GenCo's margins, resulting in FFO to debt of about 9% and debt to EBITDA of approximately 7x. Standard & Poor's believes that there is at least a one-in-three probability that continued low power prices will further harm GenCo's financial measures, reducing Ameren's economic incentive to support GenCo. We could lower the ratings if the financial measures continue to deteriorate so that FFO to debt is consistently below 9%

and debt to EBITDA is greater than 7x, Ameren's economic incentive to support GenCo is further weakened, or GenCo's environmental capital spending strategy for post-2015 is insufficient. We could revise the outlook on GenCo to stable if the power price curve recovers and our forecast of FFO to debt approximates 15%.

Related Criteria And Research

- Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Criteria Guidelines For Recovery Ratings On Global Industrials Issuers' Speculative-Grade Debt, Aug. 10, 2009
- Analytical Methodology, April 15, 2008
- Standard & Poor's Extends Recovery Ratings To Unsecured Speculative-Grade Corporate Issues, March 21, 2008