

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of In the Matter of the)
Application of Union Electric Company, d/b/a)
AmerenUE for an Order Authorizing the)
Issue and Sale of Up To \$440,000,000)
Aggregate Principal Amount of Additional)
Long-Term Indebtedness.)

Case No. EF-2008-0293

**STAFF RECOMMENDATION TO
CONDITIONALLY AUTHORIZE DEBT ISSUANCES**

COMES NOW the Staff of the Missouri Public Service Commission (“Staff”), by and through counsel, and for its recommendation to the Commission on AmerenUE’s application for authority to issue and sell additional long-term debt states:

1. On March 6, 2008, Union Electric Company, d/b/a AmerenUE, filed an application with the Missouri Public Service Commission seeking permission and authority to issue and sell up to \$440 million aggregate principal amount of additional long-term indebtedness together with a motion seeking expedited treatment of the application.

2. On March 6, 2008, the Commission ordered Staff to file its recommendation to the Commission on AmerenUE’s application by March 18, 2008.

3. In the attached Memorandum, labeled Appendix A, the Staff recommends that the Commission approve AmerenUE’s application subject to the following seven (7) conditions:

1. That before issuance AmerenUE shall submit to the Financial Analysis Office of the Commission any information concerning deviations from the stated use of the funds or any information that would materially change the pro-forma capitalization and financial ratios associated with this Application.
2. That the interest rate for any debt issuance covered by the Application shall not exceed the greater of nine (9) percent, or a rate that is consistent with similar securities of comparable credit quality and maturities issued by other issuers.

3. That AmerenUE shall provide to the Financial Analysis Department of the Commission any information that it provides to a credit rating agency concerning the issuances in this Application that may impact AmerenUE's credit rating and each response AmerenUE receives from the credit rating agency as part of the report it files pursuant to condition six (6) hereof.
4. That the Application is approved solely for the purposes stated in the Application and not for operating expenses.
5. That at no time will AmerenUE's total borrowings, including all instruments, exceed its regulated rate base.
6. That AmerenUE shall file with the Commission within ten (10) days of the issuance of any debt securities authorized pursuant to a Commission order in this proceeding, a report including the amount of debt securities issued, date of issuance, interest rate (initial rate if variable), maturity date, redemption schedules or special terms, if any, use of proceeds, estimated expenses, portion subject to the fee schedule and loan or indenture agreement concerning each issuance.
7. That nothing in the Commission's order is to be considered a finding by the Commission of the value of this transaction for rate making purposes, and that the Commission reserves the right to consider the rate making treatment to be afforded these financing transactions and their results in cost of capital, in any later proceeding.

WHEREFORE, the Staff respectfully recommends that the Commission approve AmerenUE's application in this case, subject to the seven (7) conditions as set out above and in the Staff's recommendation.

Respectfully submitted,

/s/ Nathan Williams

Nathan Williams

Deputy General Counsel

Missouri Bar No. 35512

Attorney for the Staff of the
Missouri Public Service Commission

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronically mailed to all counsel of record this 17th day of March 2008.

/s/ Nathan Williams

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EF-2008-0293, Union Electric Company, d/b/a AmerenUE

FROM: Matthew Barnes, Financial Analysis Department

/s/ Matthew Barnes 03/17/08

/s/ Nathan Williams 03/17/08

Project Coordinator / Date

General Counsel's Office / Date

SUBJECT: Staff Recommendation concerning the Application of Union Electric Company, d/b/a AmerenUE ("AmerenUE" or "Company"), for Authority to issue and sell of up to \$440,000,000 aggregate principal amount of additional long-term indebtedness.

DATE: March 17, 2008

1. (a) **Type of Issue:** Unsecured or secured debt securities.
- (b) **Amount:** \$440,000,000.
- (c) **Rate:** Interest rates on the debt securities, represented by either (i) the coupon on fixed rate debt securities or (ii) the initial rate on any variable or remarketed debt securities, will not exceed nine percent (9%), or a rate that is consistent with similar securities of comparable credit quality and maturities issued by other issuers.
2. **Proposed Date of Transaction:** As appropriate given market conditions.
3. (a) **Statement of Purpose of the Issue:** Applicant proposes to use the proceeds from the issuance and sale of the New Indebtedness as follows:
 - a. to refund, repay or refinance Applicant's obligations with respect to the following [AmerenUE's] Environmental Improvement Revenue Refunding Bonds
 - . . .
 - b. to repay or refinance any short-term debt which AmerenUE may have incurred or may incur in the future to refinance the Applicant's obligations with respect to the Environmental Bonds; and
 - c. to pay related expenses, including but not limited to commissions or discounts paid to the initial purchasers or placement agents of the New Indebtedness.

- (b) **From a financial perspective, does Staff deem this Statement of Purpose of the Issue reasonable?:**

Yes X No

4. **Copies of executed instruments defining terms of the proposed securities:**

 (a) If such instruments have been previously filed with the Commission, a reference to the Case Number in which the instruments were furnished.

 X (b) If such instruments have not been executed at the time of filing, a statement of the general terms and conditions to be contained in the instruments, which are proposed to be executed.

 (c) If no such instruments are either executed or to be executed, a statement of how the securities are to be sold.

5. **Certified copy of resolution of the directors of applicant, or other legal documents authorizing the issuance of the securities reviewed:**

Yes X No

6. **Pro-forma Balance Sheet and Income Statement reviewed:**

Yes X No

7. **Capital expenditure schedule reviewed:**

Yes No X

8. **Journal entries are required to be filed by the AmerenUE to allow for the Fee Schedule to be applied:**

Yes No X

9. **Recommendation of the Staff:**

 Grant by session order (see Comments)

 X Conditional Approval granted pending receipt of definite terms of issuance (see Comments)

- ___ Require additional and/or revised data before approval can be granted (see Comments)
- ___ Formal hearing required (see Comments)
- ___ Recommend dismissal (see Comments)

SUMMARY:

AmerenUE is a subsidiary of St. Louis-based Ameren Corporation (NYSE: AEE), which is among the nation's largest investor-owned holding companies of electric and gas utilities. Ameren subsidiaries AmerenUE, AmerenCIPS, AmerenCILCO, and AmerenIP serve 2.4 million electric and nearly one million natural gas customers throughout a 64,000-square-mile area in Illinois and Missouri. In addition to owning indirectly more than 16,400 megawatts of generating capacity, Ameren also has non rate-regulated generation, development, marketing and fuels services subsidiaries.

On March 6, 2008, AmerenUE filed an Application with the Missouri Public Service Commission (Commission) requesting approval for authority to issue and sale of up to \$440,000,000 aggregate principal amount of additional long-term indebtedness. AmerenUE states in its Application:

5. Recent events in the capital markets, including the actual or potential downgrading from AAA of the credit ratings of bond insurance companies (which insure the payment of principal and interest on the Environmental Bonds) resulting in part from disruptions in the “sub-prime mortgage” markets, have resulted in actual or potential ratings downgrades on outstanding tax-exempt securities with variable interest rates determined by an auction process. As a result, recent interest rates on such securities, including the Environmental Bonds, have significantly exceeded historical levels. For example, the interest rate on certain of the Environmental Bonds has been as high as 18% - a failed auction maximum rate. The Company is seeking flexibility to refinance the Environmental Bonds with New Indebtedness in an attempt to avoid or mitigate such increased interest expense. If market conditions permit, rather than refunding its obligations with respect to the Environmental Bonds with New Indebtedness, the Company may convert the interest rate setting mechanism on the Environmental Bonds as permitted under their terms to a mechanism that would be expected to result in lower interest costs and/or less rate volatility. If market conditions do not permit such conversion on reasonable terms, the Company wishes to have the ability to refinance its obligations with respect

to the Environmental Bonds with New Indebtedness as requested herein. Due to the impact of the high interest rates on the Company's costs, the Company is requesting expedited treatment for this Application.

6. Due to timing constraints, Applicant may not be able to immediately utilize the proceeds of an issuance of a series of the New Indebtedness to refund outstanding debt. In such event, the proceeds from the issuance of the series of New Indebtedness will be segregated from Applicant's general funds and temporarily invested in highly liquid and highly secure short-term investments until such proceeds can be utilized as described herein.
7. The general terms and conditions of the New Indebtedness are as follows:
 - a. The New Indebtedness will be issued at prices and on terms to be determined at the time(s) of sale. The principal amount, rate and date of payment of interest, maturity, initial public offering price, redemption provisions, if any, and other specific terms of each series of the New Indebtedness will be determined based upon prevailing market conditions. The prices to be paid to Applicant for the various series of the New Indebtedness will not be less than 95% nor more than 105% of the principal amount thereof; the terms of maturity for the various series of the New Indebtedness will not exceed 40 years; the interest rates when issued will not exceed the greater of (i) 9.00%, or (ii) a rate that is consistent with similar securities of comparable credit quality and maturities issued by other issuers; and one or more series of the New Indebtedness may include terms providing that the series will not be redeemable at all for a certain period of time.

FINANCIAL ANALYSIS

On November 30, 2007 Standard and Poor's (S&P) released an article, "U.S. Utilities Ratings Analysis Now Portrayed in the S&P Corporate Ratings Matrix" that discusses the change to assigning business risk profiles to utility companies. S&P's previous methodology utilized a business risk profile scale of 1 to 10 with 1 being the least risky and 10 being the most risky. S&P's new scale now assigns business risk categories to utility companies as Excellent, Strong, Satisfactory, Weak, and Vulnerable, as well as a Financial Risk Profile (FRP) of Minimal, Modest, Intermediate, Aggressive, and Highly Leveraged. AmerenUE's current credit rating is BBB- and S&P has assigned AmerenUE a Business Risk Profile of "Strong" and a Financial Risk Profile of "Intermediate."

Staff reviewed the pro-forma financial statements and three key financial ratios AmerenUE provided in its Application. The three key financial ratios are Funds From Operations (FFO) Interest Coverage, FFO as a Percentage of Average Total Debt, and Total Debt to Total Capital. Staff compared the components to S&P's new scale and results of the Company's calculations. Staff determined that AmerenUE's pro-forma FFO Interest Coverage of 3.15 times is within the FRP range of Intermediate to Aggressive and because AmerenUE has a business risk profile of Strong, this is consistent with an A- to BBB- under S&P's new rating scale. The pro-forma FFO as a Percentage of Average Total Debt of 22.44 percent is within the FRP range of Aggressive and because AmerenUE has a business risk profile of Strong, this is consistent with a BBB- under S&P's new rating scale. The pro-forma Total Debt to Total Capital of 46.46 percent is within the FRP range of Intermediate to Aggressive, and because AmerenUE has a business risk profile of Strong, this is consistent with a BBB- to A- under S&P's new rating scale. Please see Schedule 3 of AmerenUE's Application for calculations and results.

Staff determined that AmerenUE's pro-forma financial ratios are consistent with AmerenUE's current credit rating of BBB-. AmerenUE has asked for expedited treatment in this case. Staff has worked diligently to comply with AmerenUE's request in order to lower its interest expense and keep rates at a reasonable level for the ratepayer. Staff notes that this is a refinancing case and there were not unique circumstances that arose with this Application as there are with new financing applications; therefore, Staff was able to comply with the Commission's order to file a recommendation on March 18, 2008. Staff requests that the Commission schedule Staff's Recommendation on its next Agenda as soon as possible. Staff recommends that the Commission approve the Application submitted by AmerenUE in this case subject to the following conditions:

1. That, before issuance, AmerenUE shall submit to the Financial Analysis Office of the Commission any information concerning deviations from the stated use of the funds or any information that would materially change the pro-forma capitalization and financial ratios associated with this Application.
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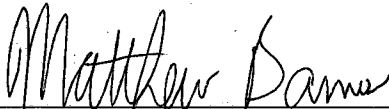
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AFFIDAVIT OF MATTHEW BARNES

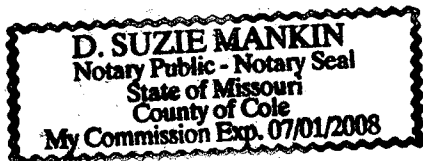
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

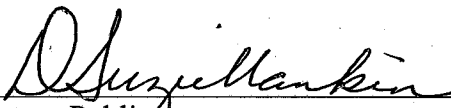
Matthew Barnes, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth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



Matthew Barnes

Subscribed and sworn to before me this 17th day of March, 2008.





Notary Public