MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Supplement to Case No. EF-2003-0514, Union Electric Company d/b/a AmerenUE

FROM: Greg Meyer, Auditing Department
David Murray, Financial Analysis Department
Dan Redel, Budget and Fiscal Services

/s/ David Murray / 6-23-05	/s/ Steven Dottheim / 6-23-05
Project Coordinator / Date	General Counsel's Office / Date

SUBJECT: Staff Recommendation to approve the Application to supplement the authorization of Union Electric Company d/b/a AmerenUE for authority to issue and sell up to $1,050,000,000 aggregate principal amount of additional long-term indebtedness

DATE: June 23, 2005

Union Electric Company d/b/a AmerenUE

1. (a) **Type of Issue:** First mortgage bonds or other forms of secured indebtedness, and promissory notes or other forms of unsecured indebtedness (including subordinated deferrable interest debentures).

(b) **Amount:** Up to $819,000,000 principal amount (includes $41,000,000 remaining from the Commission's July 2003 Approval of the Original Application).

(c) **Rate:** Fixed or variable rate not to exceed the greater of (i) 9 percent, or (ii) a rate that is consistent with similar securities of comparable credit quality and maturities issued by other issuers. The actual rate will be determined at the time of issuance of the new securities.

(d) **Other Provisions:** The price to be paid to Applicant for the various series of the New Indebtedness (as defined in the Application) will not be less than 95% nor more than 105% of the principal amount thereof; the terms of maturity or the various series of the New Indebtedness will not exceed 40 years.

2. **Proposed Date of Transaction:** Anytime after the effective date of the order or orders.

3. (a) **Statement of Purpose of the Issue:** The Application states: "AmerenUE proposes to use the proceeds from the issuance and sale of the additional New Indebtedness to refinance, refund, discharge, and/or retire its outstanding indebtedness, whether at maturity or otherwise and to pay related redemption premiums and expenses." AmerenUE still has $41,000,000 of existing authority outstanding under the Commission's approval of the Original Application. ** P
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P ** AmerenUE requests to maintain this authority under this Supplemental Application.

(b) **From a financial perspective, does Staff deem this purpose reasonable?:**

Yes _X_ No

4. **Type of Transaction:** Public offering and/or private placement.

5. **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.

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

Yes _X_ No

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

Yes _X_ No

8. **Capital expenditure schedule reviewed:**

Yes No _X_ (No new capital expenditures requested in the Application.)

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

Yes __X__ No

10. **Recommendation of the Staff:**

___ Grant by session order (see Comments)

_X_ Conditional Approval granted pending receipt of definite terms of issuance (see Comments), but only for refinancing, refunding, discharging, and/or retiring of existing securities.

___ Require additional and/or revised data before approval can be granted (see Comments)

___ Formal hearing required (see Comments)

___ Recommend dismissal (see Comments)

COMMENTS:

Union Electric Company d/b/a AmerenUE (Union Electric, AmerenUE, Company or Applicant) is a public utility engaged in providing electric and gas utility services in portions of Missouri under the jurisdiction of the Missouri Public Service Commission (Commission). Applicant is a subsidiary of Ameren Corporation, which is a registered public utility holding company under the Public Utility Holding Company Act of 1935 ("PUHCA").

On May 10, 2005, AmerenUE filed a Supplement to its Original Application that was filed on May 22, 2003. The Commission approved the Original Application in an Order issued June 24, 2003. In its Supplement, AmerenUE is requesting approval to extend the term of the financing authority that was granted on the Original Application. In addition, AmerenUE is requesting authority to issue and sell up to $778,000,000 of additional financing to refinance, refund, discharge and/or retire its outstanding indebtedness. The New Indebtedness would be in one or more combinations of the following forms: first mortgage bonds or other forms of secured indebtedness, and promissory notes or other forms of unsecured indebtedness (including subordinated deferrable interest debentures).

In paragraph 6 of its Supplement to its Original Application, AmerenUE indicates that it is filing this Supplement in accordance with paragraph 1.I. of the Commission's July 2003 Order. Staff has discussed with AmerenUE personnel its concern that this paragraph was only intended to apply to the term of the financing authority and not to an increased amount of financing. Instead of recommending that AmerenUE file a new Application for the existing financing request, Staff informed AmerenUE personnel that it would clarify in its recommendation that any future request for an extension under the authority granted in connection with the Company's Supplemental Application would only apply to the term of the financing and not to an increased amount. Staff clarifies its intent in Condition 9 at the end of this recommendation.

In AmerenUE's Original Application it requested approval for authority to issue debt securities in an amount up to $1.5 billion aggregate principal amount of New Indebtedness in one or more combinations of the following forms: first mortgage bonds or other forms of secured indebtedness, and promissory notes or other forms of unsecured indebtedness (including subordinated deferrable interest debentures). Staff reviewed the Original Application and recommended to the Commission that the requested amount be rejected and lowered to $1.05 billion. Staff's recommended reduction of $450 million was a result of Staff's concerns about recommending that the Commission approve refinancing/restructuring of short-term debt that had yet to be incurred as of the time of the Application. ** P
P ** However, none of the proceeds contemplated under this Supplement is for short-term debt that has yet to be incurred.

In Staff's recommendation for approval of the Original Application, Staff indicated that it intended to conduct a review of AmerenUE's procedures regarding inter-company loans and dividend payments to its parent. Staff has yet to perform this review, but intends to investigate this issue during the next rate review of AmerenUE.

Staff notes that the use of short-term debt to initially finance capital expenditures results in avoidance of the fees that would normally be charged on long-term debt pursuant to Section 386.300.2, RSMo 2000. However, in reviewing a Report and Order issued by the Commission on May 14, 1982,in consolidated Case Nos. TF-82-2, EF-82-30, EF-82-70, EF-82-72, EF-82-84, EF-82-113, TF-82-130 and TF-82-131, Staff found that the Commission had made the determination that if long-term debt is used to refinance outstanding short-term debt, regardless of its use, the fee schedule required by Section 386.300.2, RSMo 2000 does not apply. On the other hand, it appears from this Report and Order that the Commission determined that if the issuance of long-term debt was for purposes of retiring stock, the fee schedule should be applied to the amount of long-term debt issued to do so. ** P
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Although in its Supplement, the Company has expressed its intent to use the funds for refinancing, refunding, discharging, and/or retiring purposes, the Original Application also indicated that it is possible that the "…Applicant may not be able to immediately utilize the proceeds of an issuance of a series of the New Indebtedness to retire or redeem outstanding debt. In such event, the proceeds from the issuance of the series of New Indebtedness will be added to Applicant's general funds and temporarily utilized. When the timing constraints are satisfied, such funds will be used for the purposes specified herein." Although AmerenUE makes this representation in its Original

Application, Staff finds that it is prudent to condition the approval of the Supplemental Application on the funds being used for refinancing, refunding, discharging and/or retiring purposes only. Staff recommends that approval of this Application be conditioned upon the use of the funds for refinancing, refunding, discharging and/or retiring of the specific issuances identified on page 3 of Exhibit 1 attached to the Supplemental Application. ** P
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One of the main factors affecting the pro forma ratios in the Supplement to the Application is the recording of the May 2, 2005 transfer of generating assets from Ameren Energy Generating Company to AmerenUE. This asset transfer is not reflected in the actual March 31, 2005 financial statements for either AmerenUE or Ameren, but the accounting of the transfer is reflected in pro forma adjustments to the financial statements. The transfer of assets to AmerenUE's balance sheet has created more leverage for AmerenUE because the pro forma financial statements anticipate this transfer being financed with debt at AmerenUE. This debt is not currently reflected on AmerenUE's March 31, 2005 financial statements. The amount of debt required to complete this transaction is $240,400,000.

Assuming AmerenUE had issued the entire $819 million ($778,000,000 of new financing authority and $41,000,000 remaining under the original financing authority) of long-term debt as of March 31, 2005, this financing would cause AmerenUE's capital structure to become more heavily weighted in long-term debt. The actual and pro forma capital structure ratios are as follows (See also Attachment A):

	As of March 31, 2005	Pro Forma
Common Equity	51.98%	49.54%
Preferred Stock	2.06%	1.40%
Long-term Debt	38.68%	47.62%
Short-term Debt	7.28%	1.44%

Although the Company's long-term debt to total capital ratio would increase by 894 basis points to 47.62 percent from 38.68 percent, the total debt (inclusive of short-term debt) to total capital ratio increases by a much lower 310 basis points. The main reason for the increase in the total debt to total capital ratio is the increased amount of debt incurred to effectuate the generation asset transfer. The pro forma common equity ratio decreases by 244 basis points to 49.54 percent from 51.98 percent, mainly because of the higher debt level. The funds from operations (FFO) interest coverage ratios as of March 31, 2005, on an actual and pro forma basis, are 7.85 times and 6.54 times, respectively. The FFO to total debt ratios as of March 31, 2005, on an actual and pro forma basis, are 29.58 percent and 26.21 percent, respectively. The total debt to total capital ratios as of March 31, 2005 on an actual and pro forma basis are 45.96 percent and 49.06 percent, respectively (see Attachment B).

The FFO interest coverage ratios calculated for the period ending March 31, 2005 are above Standard & Poor's (S&P) "AA" rating benchmarks for a utility company with a business profile of "5."[1] A company with an "AA" credit rating is considered to have high grade, high quality debt. The same would be true on a pro forma basis even considering the fact that there has been a deterioration in the FFO interest coverage ratio. ** P
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The FFO to total debt ratio before pro forma adjustments is within the S&P benchmark for an "A" rating for a utility company with a business profile of "5." The FFO to total debt ratio after pro forma adjustments is still within the benchmark for an "A" rating.

Although AmerenUE's financial leverage will be higher as a result of this financing, AmerenUE's current credit rating should not be negatively affected. AmerenUE's current Standard & Poor's credit rating is impacted by the financial condition of its affiliated companies. This fact is noted in the following portions of Standard & Poor's Rationale concerning AmerenUE's A- credit rating contained in an April 21, 2005 Standard & Poor's Rating's Direct Research report:

> The ratings on Union Electric Co., Ameren Corp.'s main subsidiary, are based on the consolidated credit profile of the Ameren family of companies, which include utilities Union Electric, Central Illinois Public Service Co. (CIPS), CILCORP Inc., Central Illinois Light Co. (CILCO), Illinois Power Co., and unregulated generation units, AmerenEnergy Generating Co. (AEGC) and AmerenEnergy Resources Generating Co. (AERG), CILCO's unregulated generation subsidiary.
>
> Standard & Poor's views the subsidiaries as core to Ameren's business strategy. Because there are no regulatory mechanisms or other structural barriers in Missouri or Illinois that sufficiently restrict access by the holding company to the cash flow of its subsidiaries, the default risk is considered the same throughout the organization.

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1 Business profile rankings are based on the amount of business risk faced by a utility company relative to its peers with 1 being the least amount of business risk and 10 being the most amount of business risk.

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Standard & Poor's went on to provide the following negative Outlook for AmerenUE:

> The negative outlook on Union Electric mirrors that of parent Ameren and reflects the impact of Illinois Power's weaker, but improving, financial profile on Ameren's consolidated financial condition. The outlook further incorporates the uncertain outcome of several regulatory issues after the end of the rate freeze at year-end 2006 in Illinois. The ratings could stabilize if a reasonable post-2006 regulatory and market structure environment in Illinois is established, the company successfully integrates Illinois Power into the Ameren system, and management continues to follow through with actions that support credit quality.

As the above comments from Standard & Poor's indicate, Ameren's business activities outside of its Union Electric subsidiary can affect Union Electric's credit rating and resulting cost of debt. Therefore, while Staff believes that the pro forma credit metrics for Union Electric alone are consistent with at least an A rated utility or better, Union Electric's Standard & Poor's credit rating is based on the consolidated credit profile of Ameren, which includes all of its affiliates and/or subsidiaries and can be negatively impacted by these entities. In fact, Standard & Poor's recently changed its business profile ranking on Ameren to a "6" from a "5" mainly due to regulatory uncertainties surrounding Ameren's recent acquisition of Illinois Power. Because of Ameren's higher business profile ranking, the benchmark financial ratios that are now used for Ameren are more stringent than would have been used if Ameren was still ranked a business profile of "5." Consequently, it is appropriate to compare the impact that this financing will have on the financial ratios of the consolidated entity, Ameren, to the benchmarks for a utility company assigned a business profile of "6."

Assuming AmerenUE had issued the entire $819 million of long-term debt as of March 31, 2005, this financing would cause Ameren's capital structure to become slightly more heavily weighted in long-term debt. The actual and pro forma capital structure ratios are as follows (See also Attachment C):

	As of March 31, 2005	Pro Forma
Common Equity	49.51%	48.41%
Preferred Stock	1.82%	1.51%
Long-term Debt	45.11%	49.25%
Short-term Debt	3.56%	0.83%

Although the Ameren's long-term debt to total capital ratio would increase by 414 basis points to 49.25 percent from 45.11 percent, the total debt (inclusive of short-term debt) to total capital ratio increases by a much lower 141 basis points. ** P
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However, there is also a slight reduction in common equity from 49.51 percent to 48.41 percent due to a slight reduction in net income because of $24 million in additional interest expense. This causes

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the debt on Ameren's books to make up a slightly higher percent of the capital structure. It is important to note that because the generating assets that were transferred to AmerenUE were already accounted for by Ameren on a consolidated basis, this does not impact the consolidated credit profile. The FFO interest coverage ratios as of March 31, 2005 on an actual and pro forma basis are 5.39 times and 5.02 times, respectively. The FFO to total debt ratios as of March 31, 2005 on an actual and pro forma basis are 22.42 percent and 21.15 percent, respectively. The total debt to total capital ratios as of March 31, 2005 on an actual and pro forma basis are 48.67 percent and 50.08 percent, respectively (see Attachment D).

The FFO interest coverage ratios calculated for the period ending March 31, 2005 on an actual basis are within Standard & Poor's "AA" rating benchmarks for a utility company with a business profile of "6", which is Ameren's current business profile. ** P
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The FFO to total debt ratios on an actual and a pro forma basis are within the S&P benchmarks for a "BBB" rating for a utility company with a business profile of "6." The same is true for total debt to total capital. ** P
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The proposed transaction, assuming the funds are used only for refinancing, retiring, refunding and/or discharging existing securities, should not have a negative impact on AmerenUE's credit ratings, and therefore, its ability to attract capital.

The Staff has verified that the Company has filed its annual report and is not delinquent on any assessment. The Commission's Energy Department Staff has reviewed this filing and is unaware of any issue currently pending before the Commission that affects or is affected by this filing. However, Staff does have an outstanding issue with AmerenUE concerning a steam/heat certificate that was granted in Case No. EM-83-248. AmerenUE does not provide steam/heat service to Missouri customers. Staff has communicated this situation to AmerenUE personnel and has received verbal assurance that they will work with our General Counsel's Office to get this matter resolved. As of the filing of this recommendation, AmerenUE had provided a draft letter to initiate this process. The following open cases involving this Company before the Commission at this time are: EE-2005-0400, EC-2005-0110, EC-2005-0341, EO-2005-0369, EC-2005-0398, EC-2005-0352, EA-2005-0180, EC-2005-0313, EC-2002-1 and EM-96-149.

Staff believes certain conditions should be placed on AmerenUE to ensure the funds are used in a manner that does not impair its financial integrity and to protect the ratepayers of Missouri from any adverse impact of its proposal.

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Staff recommends that the Commission approve the Application submitted by AmerenUE in this case subject to the following conditions:

1. That the Company be authorized to issue up to $819 million in debt securities and that the Company shall not be authorized to use any portion of the $819 million amount in debt securities for any purpose other than the refinancing, refunding, discharging and/or retiring of existing AmerenUE securities outlined on page 3 of Exhibit 1 attached to the Supplemental Application ** P ** that was requested in the Original Application.

2. That the fee schedule be applied to the amount of long-term debt used to retire the ** P ** as required by Section 386.300.2, RSMo 2000.

3. That the Company shall file with the Commission all final terms and conditions on this financing including, but not limited to, the aggregate principal amount to be sold or borrowed, price information, estimated expenses, portion subject to the fee schedule and loan or indenture agreement concerning each issuance.

4. That the interest rate for these debt issuances is not to exceed the greater of (i) 9 percent or (ii) a rate that is consistent with similar securities of comparable credit quality and maturities issued by other issuers.

5. That the Company shall file with the Commission any information concerning communication with credit rating agencies concerning this issuance(s).

6. That the Company's total borrowings, including all instruments, shall, at no time, exceed its regulated rate base.

7. That nothing in the Commission's order shall be considered a finding by the Commission of the value of these transactions 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.

8. That the Company shall file with the Commission any information concerning use of the funds from the issuance(s) with regard to redemption of any outstanding long-term debt, including Net Present Value calculations indicating the amount of interest cost savings.

9. That the Commission's order in this proceeding shall remain effective until July 4, 2008, with the Applicant authorized to request an extension of such term by filing an application at least ninety (90) days prior to the expiration of the three-year term. This condition shall only

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apply to the term of the authority. If Applicant seeks a further increase in the amount of financing authorized in this case, then the Applicant shall file a new Application..

10. That all future funds acquired through issuance of securities under this application shall be used exclusively for the benefit of AmerenUE regulated operations, and not for the other operations of Ameren Corporation or any of its affiliates or non-regulated activities.

11. That the amount of any and all other benefits that accrue to the funds acquired through issuance of securities under this application shall be used exclusively for the benefit of AmerenUE regulated operations, and not for the other operations of Ameren Corporation or any of its affiliates or non-regulated activities.

12. That Ameren Corporation and AmerenUE shall make available to the Staff sufficient documentation to ensure that the funds, and the amount of any and all other benefits that accrue to the funds, acquired through issuance of securities under this application, are being used exclusively for the benefit of AmerenUE regulated operations, and not for the other operations of Ameren Corporation or any of its affiliates or non-regulated activities.

Attachments:	A	Pro Forma Capitalization for AmerenUE
	B	Pro Forma Financial Ratios for AmerenUE
	C	Pro Forma Capitalization for Ameren
	D	Pro Forma Financial Ratios for Ameren

ATTACHMENT: A

Pro Forma Capitalization as of March 31, 2005
for AmerenUE
(thousands of dollars)

Capital Component		Percentage of Capital		Capital Dollars as of 3/31/05		Pro Forma Adjustments		Pro Forma Capital Dollars		Pro Forma Percentage of Capital	
Common Equity		51.98%		$2,883,000	**						**
Preferred Stock		2.06%		114,000	**						**
Long-Term Debt	A.	38.68%		2,145,000	**						**
Short-Term Debt	B.	7.28%		404,000	**						**
Total		**100.00%**		**$5,546,000**	**						**

A. Includes current maturities on long-term debt.

B. Includes intercompany notes payable of $19,000,000.

Financial Ratio Benchmark
Total Debt / Total Capital
(Based on AmerenUE's Current Business Profile of 5)

Standard & Poor's Corporation's Revised Benchmarks as of June 2, 2004		AA	A	BBB
	Range(%)	35-42%	42-50%	50-60%

Attachment A
Non-Proprietary

ATTACHMENT: B

Selected Pro Forma Financial Ratios
for AmerenUE

RATIO ANALYSIS	Ratios as of 3/31/05		Pro-Forma Ratios	S&P Guidelines "AA" Rating (1)	S&P Guidelines "A" Rating (1)	S&P Guidelines "BBB" Rating (1)
Funds From Operations (FFO) Interest Coverage:	7.85 x	**	** x	4.5-5.5x	3.8-4.5x	2.8-3.8x
FFO to Total Debt:	29.58%	**	**	30.00-40.00%	22.00-30.00%	15.00-22.00%
Total Debt to Total Capital:	45.96%	**	**	35.00-42.00%	42.00-50.00%	50.00-60.00%

Formulas:

FFO Interest Coverage:	(Cash flow from operations net of changes in working capital - AFUDC Equity + gross interest expense) / (Gross Interest Expense)
FFO to Total Debt: (2)	(Cash flow from operations net of changes in working capital - AFUDC Equity) / (Total Debt Outstanding)
Total Debt to Total Capital:	(Long-term debt + current maturities, commercial paper, and other short-term borrowings)/ (Debt in numerator + total shareholder's equity (including preferred) + minority interest)

Notes:

(1) Source: "New Business Profile Scores Assigned for U.S. Utility and Power Companies; Financial Guidelines Revised." Standard and Poor's, June 2, 2004. Guidelines based on a business profile of 5, which is Ameren UE's current business profile.

(2) Standard & Poor's Risk Adjusted Ratio Guideline formula uses an average total debt figure. For purposes of this analysis, however, a total debt figure is used to account for the incremental change in the capital structure.

ATTACHMENT: C

Pro Forma Capitalization as of March 31, 2005
for Ameren

(thousands of dollars)

Capital Component		Percentage of Capital		Capital Dollars as of 3/31/05		Pro Forma Adjustments		Pro Forma Capital Dollars		Pro Forma Percentage of Capital	
Common Equity	A.	49.51%		$5,852,000	**						**
Preferred Stock		1.82%		215,000	**						**
Long-Term Debt	B.	45.11%		5,332,000	**						**
Short-Term Debt		3.56%		421,000	**						**
Total		**100.00%**		**$11,820,000**	**						**

A. Includes minority interest.

B. Includes current maturities on long-term debt.

Financial Ratio Benchmark
Total Debt / Total Capital

(Based on Ameren's Current Business Profile of 6)

Standard & Poor's Corporation's Revised Benchmarks as of June 2, 2004		AA	A	BBB
	Range(%)	32-40%	40-48%	48-58%

Attachment C
Non-Proprietary

ATTACHMENT: D

Selected Pro Forma Financial Ratios
for Ameren

RATIO ANALYSIS	Ratios as of 3/31/05		Pro-Forma Ratios	S&P Guidelines "AA" Rating (1)	S&P Guidelines "A" Rating (1)	S&P Guidelines "BBB" Rating (1)
Funds From Operations (FFO) Interest Coverage:	5.39 x	**	** x	5.2-6.0x	4.2-5.2x	3.0-4.2x
FFO to Total Debt:	22.42%	**	**	35.00-45.00%	28.00-35.00%	18.00-28.00%
Total Debt to Total Capital:	48.67%	**	**	32.00-40.00%	40.00-48.00%	48.00-58.00%

Formulas:

FFO Interest Coverage:	(Cash flow from operations net of changes in working capital - AFUDC Equity + gross interest expense) / (Gross Interest Expense)
FFO to Total Debt: (2)	(Funds from Operations net of changes in working capital - AFUDC Equity) / (Total Debt Outstanding)
Total Debt to Total Capital:	(Long-term debt + current maturities, commercial paper, and other short-term borrowings)/ (Debt in numerator + total shareholder's equity (including preferred) + minority interest)

Notes:

(1) Source: "New Business Profile Scores Assigned for U.S. Utility and Power Companies; Financial Guidelines Revised." Standard and Poor's, June 2, 2004. Guidelines based on a business profile position of 6, which is Ameren's current business profile.

(2) Standard & Poor's Risk Adjusted Ratio Guideline formula uses an average total debt figure. For purposes of this analysis, however, a total debt figure is used to account for the incremental change in the capital structure.