

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

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)	<u>Case No. EF-2008-0349</u>
\$314,000,000 Aggregate Principal Amount)	
of Additional Long-Term Indebtedness.)	

STAFF RECOMMENDATION TO CONDITIONALLY AUTHORIZE DEBT ISSUANCE

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

1. On April 23, 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 \$314 million aggregate principal amount of additional long-term indebtedness. AmerenUE did not file a motion for expedited treatment, but did request the Commission issue its order(s) by May 31, 2008.

2. On April 29, 2008, the Commission ordered Staff to file its recommendation to the Commission on AmerenUE's application by May 23, 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 percent (9.00%), 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/ **Shelley Syler Brueggemann**

Shelley Syler Brueggemann

Senior Counsel

Missouri Bar No. 52173

Attorney for the Staff of the

Missouri Public Service Commission

P. O. Box 360

Jefferson City, MO 65102

(573) 526-7393 (Telephone)

(573) 751-9285 (Fax)

shelley.brueggemann@psc.mo.gov (e-mail)

Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 22nd day of May 2008.

/s/ Shelley Syler Brueggemann

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EF-2008-0349, Union Electric Company, d/b/a AmerenUE

FROM: Matthew Barnes, Financial Analysis Department

/s/ Matthew Barnes 05/22/08

/s/ Shelley Brueggemann 05/22/08

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 up to \$314,000,000 aggregate principal amount of additional long-term indebtedness.

DATE: May 22, 2008

1. (a) **Type of Issue:** Unsecured or secured debt securities.
- (b) **Amount:** \$314,000,000.
- (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:
 3. ...to issue and sell from time to time, in one or more transactions, up to \$314,000,000 aggregate principal amount of New Indebtedness in one, or a combination of the following forms, with such terms and provisions as hereinafter described in this Application: first mortgage bonds or other forms of secured indebtedness, and promissory notes or other forms of unsecured indebtedness (including subordinated deferrable interest debentures).
 4. Applicant proposes to use the proceeds from the issuance and sale of the New Indebtedness to refinance short-term debt and pay related expenses, including but not limited to commissions or discounts paid to the initial purchasers or placement agents of the New Indebtedness. Applicant incurs short-term debt to fund its cash needs when

and to the extent cash expenditures exceed cash receipts. The amount of short-term debt outstanding on March 31, 2008 represents an accumulation of such external short-term funding of the Applicant's cash requirements.

- (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)
- ☒ 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)

COMMENTS:

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 May 9, 2008, AmerenUE filed Supplemental Information in Support of Application with the Missouri Public Service Commission (Commission) requesting approval for authority to issue and sale of up to \$314,000,000 aggregate principal amount of additional long-term indebtedness. AmerenUE states in its Application:

- 5. 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.
- 6. 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 3.44 times is within the FRP range of Intermediate to Aggressive, and because AmerenUE has a business risk profile of Strong, this is consistent with the benchmark for an A- to BBB- rating under S&P's new scale. The pro-forma FFO as a Percentage of Average Total Debt of 21.58 percent is within the FRP range of Aggressive, and because AmerenUE has a business risk profile of Strong, this is consistent with the benchmark for a BBB- rating under S&P's new scale. The pro-forma Total Debt to Total Capital of 48.81 percent is within the FRP range of Intermediate to Aggressive, and because AmerenUE has a business risk profile of Strong, this is consistent with the benchmark for a BBB- to A- rating under S&P's new scale. Please see Schedule 1, Page 7 of 7 of AmerenUE's Supplemental Information in Support of 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 did not ask for expedited treatment in this case, but they

have asked for Commission approval by May 31, 2008. Staff worked diligently to comply with AmerenUE's request in order to facilitate AmerenUE's need to keep capital costs at a reasonable level. Staff notes that this is a refinancing case, and there were no 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 May 23, 2008. 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.
2. That the interest rate for any debt issuance covered by the Application shall not exceed the greater of nine percent (9.00%), 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.

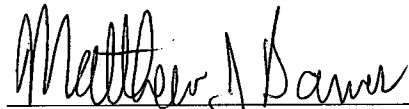
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Union)
Electric Company d/b/a AmerenUE for an) Case No. EF-2008-0349
Order Authorizing the Issue and Sale of up to)
\$314,000,000 Aggregate Principal Amount)
of Additional Long-Term Indebtedness)

AFFIDAVIT OF MATTHEW J. BARNES


STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Matthew J. 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 J. Barnes

Subscribed and sworn to before me this 22nd day of May, 2008.



Notary Public

