MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EF-2014-0227, Union Electric Company, d/b/a Ameren Missouri

FROM: David Murray, Financial Analysis

/s/ David Murray 03/14/2014 — Project Coordinator / Date

/s/ Steven Dottheim 03/14/2014 — Staff Counsel's Office / Date

SUBJECT: Staff Recommendation concerning the Application of Union Electric Company, d/b/a Ameren Missouri ("Ameren Missouri," "Company," or "Applicant"), for Authority to issue and sell up to $350,000,000 aggregate principal amount of additional long-term indebtedness.

DATE: March 14, 2014

1. (a) **Type of Issue:** Secured indebtedness issued under indentures previously filed with the Missouri Public Service Commission ("Commission"). See Paragraph 6, c. and d. in the Application.

   (b) **Amount:** Up to $350,000,000.

   (c) **Rate:** Fixed or variable rate not to exceed the greater of (i) 6.50%, or (ii) a rate that is consistent with similar securities of comparable credit quality and maturities issued by other issuers considering prevailing financial market conditions at the time.

   (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 98% or more than 100% of the aggregate principal amount thereof; the terms of maturity for the various series of the secured indebtedness will not exceed 40 years.

2. **Proposed Date of Transaction:** Anytime during the one-year period after the effective date of the order or orders resulting from the Company's Application.

3. (a) **Statement of Purpose of the Issue:** The Application states: "Applicant proposes to use the proceeds from the issuance and sale of the New Indebtedness, after deduction of commissions or discounts paid to underwriters in connection with the New Indebtedness: (1) to pay at maturity $104,000,000 principal amount of the Applicant's 5.50% Senior Secured Notes due May 15, 2014, and (2) to refinance short-term debt consisting of commercial paper borrowings issued to investors through a dealer from the Applicant's commercial paper program and/or borrowings under a credit agreement with various financial institutions under which Applicant is a borrower."

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

Yes, with conditions imposed.

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

Such instruments have not been executed, but a statement of the general terms and conditions were included in the Application.

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

Yes

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

Yes

7. **Capital expenditure schedule reviewed:**

Yes

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

No

9. **Recommendation of the Staff:**

Conditional Approval granted pending receipt of definite terms of issuance (see Comments and Recommended Conditions)

COMMENTS:

Ameren Missouri is a public utility engaged in providing electric and gas utility services in portions of Missouri under the jurisdiction of this Commission.

On February 14, 2014, Ameren Missouri filed an Application with the Commission requesting approval for authority to issue and sell up to $350,000,000 aggregate principal amount of secured indebtedness under indentures previously filed with the Commission (see Paragraph 6 c. and d.). Ameren Missouri states in its Application:

> The series of the New Indebtedness will be offered to the public or privately placed (or a combination of both) through commercial or investment banking firms or groups of firms selected through negotiation and/or competitive bidding. Sales of the series of the New Indebtedness could be through underwriters or dealers, directly to a limited number of purchasers or to a single purchaser, or through agents designated by Applicant. Compensation to be paid for underwriting or privately placing the New Indebtedness will be determined based on prevailing financial market conditions.

The Applicant further states that it:

> …proposes to issue the New Indebtedness under its existing authority from the Securities and Exchange Commission ("SEC"), for such securities issued in public transactions or pursuant to private placement with or without registration rights.

In Paragraph 4 of the Application Ameren Missouri states its intent is to use the funds for purposes of refinancing "short-term debt consisting of commercial paper borrowings issued to investors through a dealer from the Applicant's commercial paper program and/or borrowings under a credit agreement with various financial institutions under which Applicant is a borrower." Staff's review of Ameren Missouri's December 31, 2013 balance sheet filed with the Securities and Exchange Commission revealed that Ameren Missouri's short-term debt outstanding consisted of $105 million of indirect borrowing from Ameren Corporation (Ameren), not direct borrowings through Ameren Missouri's commercial paper program or under its credit agreement. After further discovery and verification of both Ameren Missouri's and Ameren's financial statements, Staff determined that Ameren Missouri refinanced this $105 million of intercompany borrowings in January 2014 through commercial paper borrowings. Ameren's ability to access the funds it lent to Ameren Missouri is driven mainly by the credit facilities it shares with Ameren Missouri and Ameren Illinois. If Ameren does not use funds it receives from Ameren Missouri to reduce its short-term debt balance, this may impair Ameren Missouri's direct access to liquidity. In this situation, Ameren did reduce its commercial paper borrowings by the $105 million it received from Ameren Missouri.

Staff also verified that the requested long-term financing in the Application could be reconciled to long-term needs, such as investment in plant or refinancing of long-term debt. In response to Staff Data Request No. 1, Ameren Missouri indicated it used most of the proceeds from the short-term debt to redeem and/or retire long-term debt in October 2013. The total amount of this long-term debt was $245 million, which when added to the $104 million of long-term debt that Ameren Missouri intends to refinance in May 2014, approximates the $350 million of requested financing authority. However, as Staff discussed previously, as of December 31, 2013, only $105 million of short-term debt (the intercompany note payable) was outstanding, which implies that $140 million of the long-term debt had been retired with a source of funds other than short-term debt. If no other capital was issued, then the only other source would be cash flow generated from the utility properties. In fact, this amount of cash was not only sufficient to cover the $140 million of funds needed to retire the long-term debt, but it was also sufficient to pay Ameren a quarterly dividend of $140 million.

Staff inquired about Ameren Missouri's dividend to Ameren in Staff Data Request No. 7 because Staff recognized that Ameren Missouri's 2013 annual dividend was $60 million higher than it was in 2012. Ameren Missouri indicated the following: "Annual dividend amount may vary based on a variety of factors, including, but not limited to, capital structure considerations." Staff notes that Ameren Missouri's dividend payment to Ameren was greater than its net income, which causes a reduction in the amount of equity in Ameren Missouri's capital structure. If Ameren Missouri maintains a constant debt amount without receiving contributed capital from Ameren, then its capital structure would become more leveraged.

Although Staff's analysis of the cash flows between Ameren and Ameren Missouri illustrates Ameren's tendency to maintain liquidity at the holding company level rather than at Ameren Missouri, Staff has determined that the requested long-term financing request can be indirectly tied to long-term uses for Ameren Missouri. Before Ameren Missouri retired/redeemed the long-term debt in the fourth quarter of 2013, its total long-term debt outstanding was approximately $4 billion. ** ** The specifics of the impact on Ameren Missouri's and Ameren's balance sheet follow:

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As can be seen from the above capital structure ratios, because Ameren Missouri and Ameren plan to use the proceeds from the long-term debt to refinance short-term debt, these are the only ratios that have any notable change.

Staff also analyzed three key credit metrics to assess the relative impact the proposed financing may have on both Ameren Missouri's and Ameren's credit quality. Because the proposed financing in the Application is to simply refinance current short-term debt and maturing long-term debt, the impact on the credit metrics is minimal. Consequently, the proposed financing should not have a negative impact on Ameren or Ameren Missouri's credit rating, and therefore, its ability to attract capital. The specifics of Staff's analysis can be found in its entirety on the Highly Confidential - Schedule 1 attached to this recommendation.

OTHER ISSUES:

Paragraph 11 of Ameren Missouri's Application indicates that it attached a 5-year capital expenditure schedule. While Staff accepts that the schedule does provide a forecast of annual capital expenditures for the next five years, the capital expenditure schedule provided did not address Staff's concern it expressed in its recommendation in Case No. EF-2009-0266:[1] "That AmerenUE shall be required to file a five-year capitalization expenditure schedule in future cases involving the refinancing of short-term debt." Staff's concern was identifying historical capital expenditures in which short-term financing was used to at least initially fund the capital expenditures. Although it is difficult to trace all short-term financing to its specific uses, having information that at least generally shows that short-term debt was used as a bridge for capital expenditures would help with evaluating the prudence of issuing long-term capital to refinance the short-term debt. Staff proposes a further clarifying condition to address this matter.

RECOMMENDED CONDITIONS:

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

1. That nothing in the Commission's order shall be considered a finding by the Commission of the value of this transaction for rate making purposes, and that the Commission reserve the right to consider the rate making treatment to be afforded the financing transaction and its impact on cost of capital, in any later proceeding;

2. That the Company shall file with the Commission within 10 days of issuance of any financing authorized pursuant to a Commission order in this proceeding, a report including the amount of secured indebtedness issued, date of issuance,

[1] 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 $350,000,000 Aggregate Principal Amount of Additional Long-Term Indebtedness.

interest rate (initial rate if variable), maturity date, redemption schedules or special terms, if any, use of proceeds, estimated expenses, and loan or indenture agreement concerning each issuance;

3. That the Company shall file with the Commission any information concerning communication with credit rating agencies concerning any such issuance;

4. That Ameren Missouri be required to file a five-year capitalization expenditure schedule in future finance cases;

5. That Ameren Missouri be required to file in future finance cases, a schedule that reconciles short-term debt incurred for purposes of long-term capital projects specifically and individually disclosed in quarterly and annual filings with the Securities and Exchange Commission. For those capital expenditures not categorized in Securities and Exchange Commission filings, Ameren Missouri shall provide an aggregate sum of the miscellaneous expenditures;

6. That the Commission's grant of authority shall expire one year from the effective date of the order in this proceeding.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Union Electric Company d/b/a Ameren Missouri For an Order Authorizing the Issue and Sale of Up to $350,000,000 Aggregate Principal Amount of Additional Long-term Indebtedness.	))))))	Case No. EF-2014-0227

AFFIDAVIT OF DAVID MURRAY

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

David Murray, 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.

David Murray

Subscribed and sworn to before me this 14th day of March, 2014

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070

D Suzie Mankin
Notary Public

SCHEDULE 1

HAS BEEN DEEMED

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Criteria | Corporates | General:

Methodology: Business Risk/Financial Risk Matrix Expanded

Criteria Officer:
Mark Puccia, Managing Director, New York (1) 212-438-7233; mark.puccia@standardandpoors.com

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Criteria | Corporates | General:

Methodology: Business Risk/Financial Risk Matrix Expanded

*(**Editor's Note:** We originally published this criteria article on Sept. 18, 2012. We're republishing it following our periodic review completed on Sept. 11, 2013. This article has been partially superseded by the article titled, "Corporate Methodology," published on Nov. 19, 2013, for issuers within the scope of that criteria, but remains in effect for the following sectors or entities: project finance entities, project developers, transportation equipment leasing, auto rentals, commodities trading, investment holding companies and companies that maximize their returns by buying and selling equity holdings over time, Japanese general trading companies, corporate securitizations, nonprofit and cooperative organizations, master limited partnerships, general partnerships of master limited partnerships, and other entities whose cash flows are primarily derived from partially owned equity holdings.*

Table 1 in this criteria article supersedes table 1 in the articles titled: Key Credit Factors: "Global Criteria For Rating Real Estate Companies," published on June 21, 2011; "Methodology And Assumptions On Risks In The Global High Technology Industry," published Oct. 15, 2009; "Methodology And Assumptions On Business And Financial Risks In The U.S. Movie Exhibitors Industry," published Aug. 28, 2009; "Methodology And Assumptions On Risks In The Hotel And Lodging Industry," published Aug. 11, 2009; "Methodology And Assumptions On Risks In The Aerospace And Defense Industries," published June 24, 2009; "Methodology And Assumptions On Risks In The Mining Industry," published June 23, 2009; "Business And Financial Risks In The Auto Component Suppliers Industry," published Jan. 28, 2009; "Business And Financial Risks In The Global Pharmaceutical Industry," published Jan. 22, 2009; "Business And Financial Risks In The U.S. For-Profit Health Care Facilities Industry," published Jan. 21, 2009; "Business And Financial Risks In The Investor-Owned Utilities Industry," Nov. 26, 2008; "Business And Financial Risks In The Commodity And Specialty Chemical Industry," published Nov. 20, 2008; "Business And Financial Risks In The Global Building Products And Materials Industry," Nov. 19, 2008; and "Business And Financial Risks In The Retail Industry," published Sept. 18, 2008.)

1. Standard & Poor's Ratings Services is refining its methodology for corporate ratings related to its business risk/financial risk matrix, which we published as part of "2008 Corporate Ratings Criteria" on April 15, 2008. We subsequently updated this matrix in the article "Criteria Methodology: Business Risk/Financial Risk Matrix Expanded," published May 27, 2009. In order to provide greater transparency on the methodology used to evaluate corporate ratings, this article updates table 1 of the May 27, 2009, article to reflect how we analyze companies with an excellent business risk profile and minimal financial risk profile, as well as companies with a vulnerable business risk profile and a highly leveraged financial risk profile. This article amends and supersedes both the 2008 and 2009 articles mentioned above. This article is related to "Principles Of Credit Ratings," published on Feb. 16, 2011.

2. We introduced the business risk/financial risk matrix in 2005. The relationships depicted in the matrix represent an essential element of our corporate analytical methodology (see table 1).

Table 1

Business And Financial Risk Profile Matrix

Business Risk Profile	--Financial Risk Profile--					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA/AA+	AA	A	A-	BBB	--

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Table 1

Business And Financial Risk Profile Matrix (cont.)						
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	B- or below

These rating outcomes are shown for guidance purposes only. Actual rating should be within one notch of indicated rating outcomes.

3. The rating outcomes refer to issuer credit ratings. The ratings indicated in each cell of the matrix are the midpoints of a range of likely rating possibilities. This range would ordinarily span one notch above and below the indicated rating.

Business Risk/Financial Risk Framework

4. Our corporate analytical methodology organizes the analytical process according to a common framework, and it divides the task into several categories so that all salient issues are considered. The first categories involve fundamental business analysis; the financial analysis categories follow.

5. Our ratings analysis starts with the assessment of the business and competitive profile of the company. Two companies with identical financial metrics can be rated very differently, to the extent that their business challenges and prospects differ. The categories underlying our business and financial risk assessments are:

Business risk

- Country risk
- Industry risk
- Competitive position
- Profitability/Peer group comparisons

Financial risk

- Accounting
- Financial governance and policies/risk tolerance
- Cash flow adequacy
- Capital structure/asset protection
- Liquidity/short-term factors

6. We do not have any predetermined weights for these categories. The significance of specific factors varies from situation to situation.

Updated Matrix

7. We developed the matrix to make explicit the rating outcomes that are typical for various business risk/financial risk combinations. It illustrates the relationship of business and financial risk profiles to the issuer credit rating.

8. We tend to weight business risk slightly more than financial risk when differentiating among investment-grade ratings.

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Conversely, we place slightly more weight on financial risk for speculative-grade issuers (see table 1, again).

9. This version of the matrix represents a refinement--not any change in rating criteria or standards--and, consequently, no rating changes are expected. However, the expanded matrix should enhance the transparency of the analytical process.

Financial Benchmarks

Table 2

Financial Risk Indicative Ratios (Corporates)

	FFO/Debt (%)	Debt/EBITDA (x)	Debt/Capital (%)
Minimal	greater than 60	less than 1.5	less than 25
Modest	45-60	1.5-2.0	25-35
Intermediate	30-45	2-3	35-45
Significant	20-30	3-4	45-50
Aggressive	12-20	4-5	50-60
Highly Leveraged	less than 12	greater than 5	greater than 60

How To Use The Matrix--And Its Limitations

10. The rating matrix indicative outcomes are what we typically observe--but are not meant to be precise indications or guarantees of future rating opinions. Positive and negative nuances in our analysis may lead to a notch higher or lower than the outcomes indicated in the various cells of the matrix.

11. In certain situations there may be specific, overarching risks that are outside the standard framework, e.g., a liquidity crisis, major litigation, or large acquisition. This often is the case regarding issuers at the lowest end of the credit spectrum--i.e., the 'CCC' category and lower. These ratings, by definition, reflect some impending crisis or acute vulnerability, and the balanced approach that underlies the matrix framework just does not lend itself to such situations.

12. Similarly, some matrix cells are blank because the underlying combinations are highly unusual--and presumably would involve complicated factors and analysis.

13. The following hypothetical example illustrates how the tables can be used to better understand our rating process (see tables 1 and 2).

14. We believe that Company ABC has a satisfactory business risk profile, typical of a low investment-grade industrial issuer. If we believed its financial risk were intermediate, the expected rating outcome should be within one notch of 'BBB'. ABC's ratios of cash flow to debt (35%) and debt leverage (total debt to EBITDA of 2.5x) are indeed characteristic of intermediate financial risk.

15. It might be possible for Company ABC to be upgraded to the 'A' category by, for example, reducing its debt burden to the point that financial risk is viewed as minimal. Funds from operations (FFO) to debt of more than 60% and debt to

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EBITDA of only 1.5x would, in most cases, indicate minimal financial risk.

16. Conversely, ABC may choose to become more financially aggressive--perhaps it decides to reward shareholders by borrowing to repurchase its stock. It is possible that the company may fall into the 'BB' category if we view its financial risk as significant. FFO to debt of 20% and debt to EBITDA of 4x would, in our view, typify the significant financial risk category.

17. Still, it is essential to realize that the financial benchmarks are guidelines, neither gospel nor guarantees. They can vary in nonstandard cases: For example, if a company's financial measures exhibit very little volatility, benchmarks may be somewhat more relaxed.

18. Moreover, our assessment of financial risk is not as simplistic as looking at a few ratios. It encompasses:

- A view of accounting and disclosure practices;
- A view of corporate governance, financial policies, and risk tolerance;
- The degree of capital intensity, flexibility regarding capital expenditures and other cash needs, including acquisitions and shareholder distributions; and
- Various aspects of liquidity--including the risk of refinancing near-term maturities.

19. The matrix addresses a company's standalone credit profile, and does not take account of external influences, which would pertain in the case of government-related entities or subsidiaries that in our view may benefit or suffer from affiliation with a stronger or weaker group. The matrix refers only to local-currency ratings, rather than foreign-currency ratings, which incorporate additional transfer and convertibility risks. Finally, the matrix does not apply to project finance or corporate securitizations.

Related Criteria And Research

- Principles Of Credit Ratings, Feb. 16, 2011
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- 2008 Corporate Ratings Criteria, April 15, 2008

20. These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.

Attachment 1

Attachment 1