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Union Electric Co. d/b/a Ameren Missouri

Primary Credit Analyst:
William Hernandez, Farmers Branch + 1 (214) 765-5877; william.hernandez@spglobal.com

Secondary Contacts:
Gerrit W Jepsen, CFA, New York + 1 (212) 438 2529; gerrit.jepsen@spglobal.com
Daria Babitsch, New York 917-574-4573; daria.babitsch1@spglobal.com

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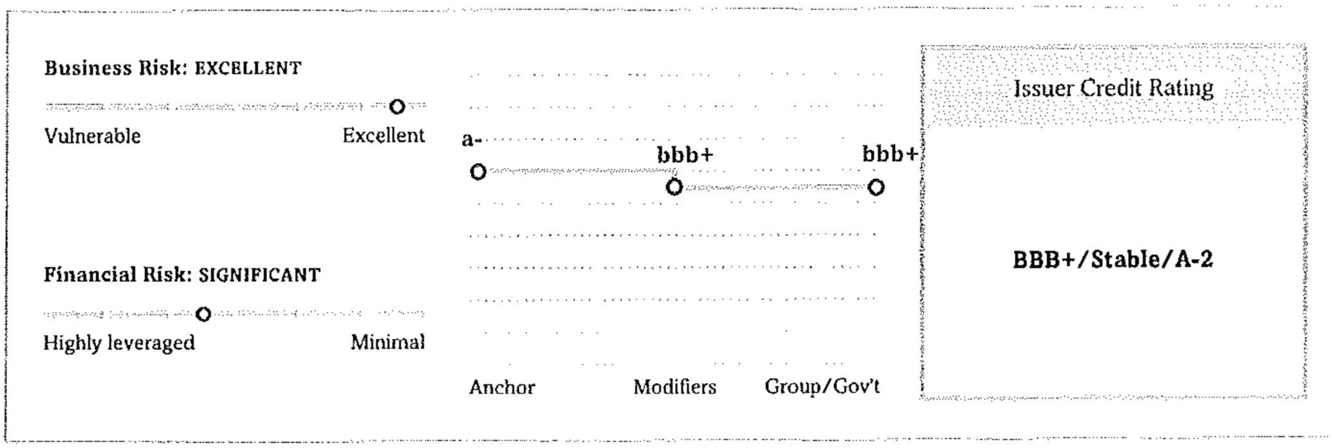

Credit Highlights

Overview

Key Strengths	Key Risks
Fully rate-regulated, lower-risk electric and natural gas utility operations that serve 1.3 million customers.	Coal-based electricity generation about 65% of Ameren Missouri's total supply.
Timely recovery of authorized expenses and investments through various regulatory mechanisms.	Higher operational risk from owning and operating the Callaway nuclear plant.
Credit agreement provides $850 million of liquidity through December 2024.	Regulatory lag could pressure financial measures given elevated capital spending program.

S&P Global Ratings expects the economic recovery from COVID-19 could accelerate in mid-2021 in the U.S., on the back of a massive fiscal stimulus plan. In 2020, the electric margins of Union Electric dba Ameren Missouri (AM) decreased 2.4%, or about $60 million, compared to 2019. As local economies continue to reopen through 2021, we expect the recovery from COVID-19 will contribute to more normal top line trends.

Reflecting over 50% of parent Ameren Corp.'s (Ameren) $17.1 billion five-year capital spending plan, AM's credit quality is dependent upon timely rate increases and funding access. According to its latest regulated infrastructure investment plan, AM plans to spend $9 billion through 2025 on grid modernization, transmission system build-out, and renewable generation capacity. While we believe the company's regulatory construct in Missouri provides multiple avenues for cost recovery--including those implemented through Senate Bill 564--the ultimate determinate of credit quality depends upon timely rate recovery and funding access, including capital contributions from parent Ameren. Further, rate increases in Missouri are subject to a cap of 2.85% on a compounded annual basis between 2017 and 2024, limiting upside, and underlining the importance of a balanced strategy.

AM recently filed for rate relief of about $300 million, which incorporates costs related to its 700 megawatts (MW) of new wind capacity and spending on grid modernization. The company's filing also includes revised depreciation rates for its Sioux and Rush Island coal plants--from 2033 to 2028 and from 2045 to 2039, respectively. This request will serve as a glimpse into the company's strategy--balancing elevated spending with elevated rate relief, but it comes during a period of economic recovery. However, AM's financial measures, including funds from operations (FFO) to debt, have cushion should any potential amounts be deferred for future recovery.

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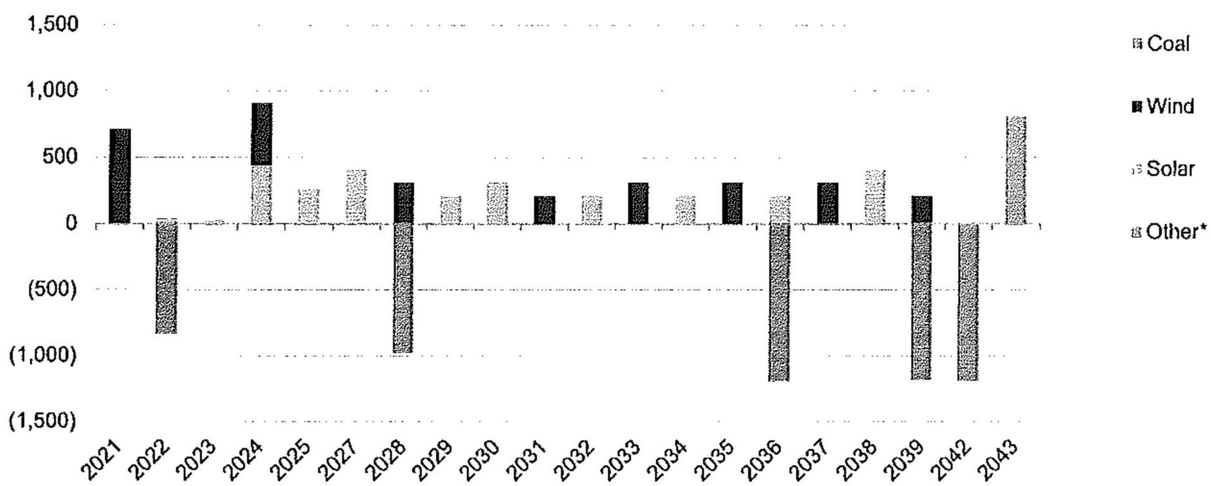
AM's most recent integrated resource plan could reduce business risk. AM recently filed a plan with the Missouri commission targeting a 50% reduction in carbon-based emissions by 2030, 85% by 2040, and net-zero by 2050. To achieve these goals, the company's multifaceted plan incorporates the accelerated retirement of its coal-fired generating capacity, the addition of at least 3,100 MW of renewable generation by 2030, and the potential extension of the operating license beyond 2044 of the Callaway nuclear facility, to name a few.

While AM's low-risk regulated utility operations serve as the ultimate driver of its level of business risk, the company's coal-fired generation--which represents around 65% of AM's energy supply--weakens our assessment. This reflects the aging facilities' heightened exposure to operating and environmental risks, including the ongoing cost of operating older units in the face of disruptive technology advances and the potential for increasing environmental regulations requiring significant capital investments. As such, any plan to decarbonize its fleet could reduce the company's overall level of business risk.

Chart 1

Ameren Missouri Generation Additions/Retirements



*Unspecified carbon-free generation.

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Outlook: Stable

The stable outlook on AM reflects that of parent Ameren, which reflects our base-case scenario that Ameren's adjusted FFO to debt in the 15%-17% range through 2022. Fundamental to our forecast is our expectation that the company will continue to manage its regulatory risk, enabling some of the regulated companies to earn their allowed return on equity. We also expect the company will continue to fund its capital spending initiatives in a credit-supportive manner.

Downside scenario

We could lower ratings on Ameren and its subsidiaries over the next two years if the company's ability to manage its regulatory risk weakens or if its financial performance unexpectedly deteriorates such that the adjusted FFO to debt consistently falls below 13%. This could occur because of lower-than-expected cash flow support through the regulatory process or if there is a material increase to capital spending that is primarily funded with debt.

Upside scenario

We could raise ratings on Ameren and its subsidiaries over the next two years if the company's financial performance strengthens from more credit-supportive and prudent capital structure management and from higher operating cash flow, supporting an adjusted FFO-to-debt ratio consistently at or above 18% over the next few years.

Our Base-Case Scenario

Assumptions

Average gross margin growth between 4%-5% through 2023 driven by:

- Periodic rate relief associated with its elevated electric and natural gas distribution investment plan;
- Annual rate adjustments through various recovery mechanisms, including its customer energy efficiency programs; and
- Ongoing electric and gas volumetric growth.

In addition to:

- Capital spending of about $2.2 billion in 2021, and about $1.7 billion on average in 2022 and 2023;
- Production tax credits that offset annual cash taxes;

Key Metrics

Key Metrics

	2020a	2021e	2022e
FFO to debt (%)	22.2	18-20	20-22
FFO cash interest coverage (x)	6	5.5-6	6-6.5
Debt to EBITDA (x)	3.7	4-4.5	4-4.5

FFO--Funds from operations.

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- Discretionary cash flow deficit after dividends and capital spending between $400 million to $1.15 billion annually;
- Parental infusion of $115 million in 2021, and subsequent infusions on an as-needed basis; and
- All debt maturities refinanced.

Company Description

AM operates in central and eastern Missouri as a vertically integrated electric utility serving 1.2 million electric customers and as a natural gas distribution utility serving 120,000 customers in the St. Louis metropolitan area.

Peer Comparison

Table 1

Union Electric Co. d/b/a Ameren Missouri -- Peer Comparison

Industry Sector: Electric

	Union Electric Co. d/b/a Ameren Missouri	Oklahoma Gas & Electric Co.	Public Service Co. of Colorado	Northern States Power Co.
Ratings as of April 9, 2021	BBB+/Stable/A-2	A-/Negative/A-2	A-/Stable/A-2	A-/Stable/A-2
	--Fiscal year ended Dec. 31, 2020--			
(Mil. $)				
Revenue	3,109.0	2,122.3	4,183.0	5,101.0
EBITDA	1,297.0	925.1	1,540.0	1,927.8
Funds from operations (FFO)	1,061.5	771.5	1,281.8	1,611.2
Interest expense	230.5	158.9	262.2	388.6
Cash interest paid	210.5	153.8	235.2	263.6
Cash flow from operations	849.5	642.3	1,196.8	1,219.2
Capital expenditure	1,722.0	648.6	1,684.2	1,926.2
Free operating cash flow (FOCF)	(872.5)	(6.3)	(487.4)	(707.0)
Discretionary cash flow (DCF)	(940.0)	(331.3)	(1,318.4)	(1,115.0)
Cash and short-term investments	136.0	0.0	28.0	46.0
Debt	4,789.0	3,704.5	6,720.0	6,526.4
Equity	5,170.0	3,975.6	7,592.0	6,769.0
Adjusted ratios				
EBITDA margin (%)	41.7	43.6	36.8	37.8
Return on capital (%)	7.0	7.1	6.4	7.7

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Table 1

Union Electric Co. d/b/a Ameren Missouri -- Peer Comparison (cont.)

Industry Sector: Electric

	Union Electric Co. d/b/a Ameren Missouri	Oklahoma Gas & Electric Co.	Public Service Co. of Colorado	Northern States Power Co.
EBITDA interest coverage (x)	5.6	5.8	5.9	5.0
FFO cash interest coverage (x)	6.0	6.0	6.4	7.1
Debt/EBITDA (x)	3.7	4.0	4.4	3.4
FFO/debt (%)	22.2	20.8	19.1	24.7
Cash flow from operations/debt (%)	17.7	17.3	17.8	18.7
FOCF/debt (%)	(18.2)	(0.2)	(7.3)	(10.8)
DCF/debt (%)	(19.6)	(8.9)	(19.6)	(17.1)

Business Risk: Excellent

We base our assessment of AM's business risk on its low-risk regulated utility operations that provide essential services to its local economies in Missouri. Given material barriers to entry, AM and the regulated utility industry as a whole are insulated from competitive market challenges. This underlies our view of regulated utilities' very low industry risk compared to other industries.

Our assessment of AM's business risk is supported by a regulatory framework based on historical test-year ratemaking and constructive trackers and riders. Legislation enacted in 2018 allows utilities in Missouri to defer and recover expenses on certain investments placed in service between rate cases; however, electric rate increases are now subject to a cap of 2.85% on a compounded annual basis between 2017 and 2024.

AM's 1.3 million electric and natural gas distribution customers in central and eastern Missouri, including the St. Louis metropolitan area, supports the stability of its revenues. We expect operational performance to remain steady and consistent with historical trends as the company continues to make investments in renewables, the electric grid, and natural gas infrastructure.

Our assessment also incorporates the company's exposure to nuclear and coal generation. Nuclear generation increases operational risks and carries long-term spent nuclear fuel storage concerns; this is partly offset by the technology's emission-free generation. The company's coal generation exposes it to heightened environmental risks, including the ongoing cost of operating older units in the face of disruptive technology advances and the potential for increasing environmental regulations requiring significant capital investments. AM has over 5,000 megawatts of coal-fired operating capacity, representing 65% of its total net generation, but recently filed a plan with the Missouri commission targeting a 50% reduction in carbon-based emissions by 2030, 85% by 2040, and net-zero by 2050.

Our negative comparable ratings analysis modifier reflects the consolidated exposure to nuclear and coal generation.

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Financial Risk: Significant

We expect over $5.5 billion in capital spending through 2023 across its electric and gas distribution businesses to drive its financial performance. While we expect the company's regulatory construct to provide rate relief of various levels on an annual basis as rate base grows, we forecast operating cash flows to contribute about 60% to 80% of the company's total financing needs. We anticipate the shortfall to be filled with a balanced mix of incremental debt issuances and capital contributions from parent Ameren, net of any upstream dividend payments. We forecast adjusted FFO to debt in the 18%-22% range through 2023, placing AM slightly above the midpoint of the benchmark range. We forecast the company's ability to cover annual cash interest payments based on FFO as bolstering our assessment of AM's financial standing, with coverage averaging 6x annually through 2023. Finally, we forecast leverage, as indicated by adjusted debt to EBITDA, to be around 4.2x through 2023, indicating aggressive use of debt to fund operations. Our assessment incorporates the potential for weaker financial measures due to regulatory lag and/or incremental debt leverage given its robust capital spending plan.

We assess AM's financial risk profile using our medial volatility financial benchmarks, reflecting its lower-risk regulated utility operations and effective management of regulatory risk. These benchmarks are more relaxed than those used for typical corporate issuers.

Financial summary

Table 2

Union Electric Co. d/b/a Ameren Missouri -- Financial Summary

Industry Sector: Electric

	--Fiscal year ended Dec. 31--				
	2020	**2019**	**2018**	**2017**	**2016**
(Mil. $)					
Revenue	3,109.0	3,243.0	3,589.0	3,539.0	3,523.0
EBITDA	1,297.0	1,288.0	1,429.0	1,391.5	1,383.5
Funds from operations (FFO)	1,061.5	982.3	1,087.1	998.3	1,131.4
Interest expense	230.5	221.3	245.6	246.2	252.1
Cash interest paid	210.5	204.7	213.9	215.2	225.1
Cash flow from operations	849.5	1,056.3	1,234.1	995.3	1,149.4
Capital expenditure	1,722.0	1,095.0	952.0	826.0	781.0
Free operating cash flow (FOCF)	(872.5)	(38.7)	282.1	169.3	368.4
Discretionary cash flow (DCF)	(940.0)	(470.2)	(94.4)	(195.7)	10.4
Cash and short-term investments	136.0	9.0	0.0	0.0	0.0
Gross available cash	392.0	272.0	270.0	0.0	0.0
Debt	4,789.0	4,226.0	3,855.3	4,036.8	4,072.6
Equity	5,170.0	4,309.0	4,189.0	4,081.0	4,090.0
Adjusted ratios					
EBITDA margin (%)	41.7	39.7	39.8	39.3	39.3
Return on capital (%)	7.0	8.5	10.3	10.0	10.1
EBITDA interest coverage (x)	5.6	5.8	5.8	5.7	5.5

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Table 2

Union Electric Co. d/b/a Ameren Missouri -- Financial Summary (cont.)

Industry Sector: Electric

	--Fiscal year ended Dec. 31--				
	2020	**2019**	**2018**	**2017**	**2016**
FFO cash interest coverage (x)	6.0	5.8	6.1	5.6	6.0
Debt/EBITDA (x)	3.7	3.3	2.7	2.9	2.9
FFO/debt (%)	22.2	23.2	28.2	24.7	27.8
Cash flow from operations/debt (%)	17.7	25.0	32.0	24.7	28.2
FOCF/debt (%)	(18.2)	(0.9)	7.3	4.2	9.0
DCF/debt (%)	(19.6)	(11.1)	(2.4)	(4.8)	0.3

Reconciliation

Table 3

Union Electric Co. d/b/a Ameren Missouri--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts

--Fiscal year ended Dec. 31, 2020--

Union Electric Co. d/b/a Ameren Missouri reported amounts (mil. $)

	Debt	Shareholders' equity	EBITDA	Operating income	Interest expense	S&P Global Ratings' adjusted EBITDA	Cash flow from operations	Dividends	Capital expenditure
	5,104.0	5,210.0	1,191.0	587.0	190.0	1,297.0	911.0	69.0	1,732.0
S&P Global Ratings' adjustments									
Cash taxes paid	--	--	--	--	--	(25.0)	--	--	--
Cash interest paid	--	--	--	--	--	(199.0)	--	--	--
Reported lease liabilities	37.0	--	--	--	--	--	--	--	--
Intermediate hybrids reported as equity	40.0	(40.0)	--	--	1.5	(1.5)	(1.5)	(1.5)	--
Accessible cash and liquid investments	(392.0)	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	10.0	(10.0)	(10.0)	--	(10.0)
Asset-retirement obligations	--	--	29.0	29.0	29.0	--	--	--	--
Nonoperating income (expense)	--	--	--	30.0	--	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	(9.0)	--	--
U.S. decommissioning fund contributions	--	--	--	--	--	--	(41.0)	--	--
EBITDA: Other income/(expense)	--	--	77.0	77.0	--	--	--	--	--
Depreciation and amortization: Other	--	--	--	(77.0)	--	--	--	--	--

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Table 3

Union Electric Co. d/b/a Ameren Missouri--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (cont.)									
Total adjustments	(315.0)	(40.0)	106.0	59.0	40.5	(235.5)	(61.5)	(1.5)	(10.0)

S&P Global Ratings' adjusted amounts

	Debt	Equity	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Dividends paid	Capital expenditure
	4,789.0	5,170.0	1,297.0	646.0	230.5	1,061.5	849.5	67.5	1,722.0

Liquidity: Adequate

We assess AM's stand-alone liquidity as adequate because we believe its sources are likely to cover uses by more than 1.1x over the next 12 months and meet cash outflows even with a 10% decline in EBITDA. The assessment also reflects the company's generally prudent risk management, sound relationships with banks, and a generally satisfactory standing in credit markets.

Principal Liquidity Sources

- Estimated cash FFO of about $1 billion;
- Credit facility availability of $850 million; and
- Cash and liquid investments of about $140 million.

Principal Liquidity Uses

- Maintenance capital spending of at least $1.5 billion; and
- Debt maturities of about $8 million.

Environmental, Social, And Governance

Environmental factors are material to our credit analysis primarily due to AM's exposure to nuclear and coal generation. AM has over 5,000 MW of coal-fired operating capacity, representing 65% of its total net generation. However, Ameren expects to advance the retirement of all coal-fired plants by 2042, contingent on regulatory approval. Ameren additionally has a goal of reducing carbon-based emissions to net-zero by 2050 from a 2005 base level. AM's governance and social practices are consistent with those of other publicly traded utilities.

Group Influence

Under our group rating methodology, we consider AM a core subsidiary of parent Ameren with a group credit profile of 'bbb+'. This core status reflects our view that AM is highly unlikely to be sold, integral to the group's overall strategy, possesses a strong long-term commitment from senior management, and closely linked to the parent's name and reputation. Given its core subsidiary status and Ameren's group credit profile of 'bbb+', the issuer credit rating on

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AM is 'BBB+'.

Issue Ratings - Subordination Risk Analysis

The 'A-2' short-term rating on AM is based on our issuer credit rating. We rate the preferred stock two notches below the issuer credit rating to reflect the discretionary nature of the dividend and the deeply subordinated claim if a bankruptcy occurs.

Issue Ratings - Recovery Analysis

AM's first-mortgage bonds benefit from a first-priority lien on substantially all the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue rating two notches above the issuer credit rating.

Ratings Score Snapshot

Issuer Credit Rating

BBB+/Stable/A-2

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Strong

Financial risk: Significant

- **Cash flow/leverage:** Significant

Anchor: a-

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Negative (-1 notch)

Stand-alone credit profile : bbb+

- **Group credit profile:** bbb+
- **Entity status within group:** Core (no impact)

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Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of April 30, 2021)*

Union Electric Co. d/b/a Ameren Missouri	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock	BBB-
Senior Secured	A
Issuer Credit Ratings History	
29-Nov-2018	BBB+/Stable/A-2
22-Nov-2017	BBB+/Positive/A-2
04-Dec-2013	BBB+/Stable/A-2

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Ratings Detail (As Of April 30, 2021)*(cont.)

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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