

RESEARCH

Summary:

Union Electric Co. d/b/a AmerenUE

Publication date: 27-May-2008
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Credit Rating: BBB-/Stable/A-3

Rationale

The ratings on Union Electric Co., Ameren Corp.'s largest subsidiary, are based on the consolidated credit profile of the Ameren family of companies. Ameren's utility subsidiaries also include Central Illinois Public Service Co. (CIPS), Central Illinois Light Co. (CILCO), and Illinois Power Co., which account for roughly 55% of net income. Ameren's units also consist of unregulated Ameren Energy Generating Co. (AEGC), CILCORP Inc., the intermediate holding company of CILCO, and AmerenEnergy Resources Generating Co. (AERG), CILCO's unregulated generation subsidiary. Ameren's unregulated businesses represent about 45% of net income.

In August 2007, the Illinois governor signed a law under which Ameren's Illinois utilities, Commonwealth Edison, and certain merchant generators will provide a total of \$1 billion in rate relief over four years to the state's electric customers. In addition, the law created the Illinois Power Agency, which will administer the power procurement process on behalf of the state's utilities, replacing the reverse-auction process that had resulted in huge retail rate increases in early 2007. Under the terms of the pact, Ameren will provide \$150 million of the \$1 billion. Although the financial impact is manageable, Ameren's ratings are more a function of the apparent indifference by state leaders to the financial health of the state's utilities during the debate over the level of rates that had been determined in accordance with the 1997 restructuring law. This debate raises the prospect of future uncertainty if electric rates again climb to politically unacceptable levels.

Ameren's satisfactory business profile reflects the highly politicized environment in Illinois, a restrictive regulatory climate in Missouri and the current lack of a fuel adjustment clause, the challenges of owning and operating a nuclear facility whose performance has been mixed, and ownership of a riskier unregulated generating fleet. These factors are partially offset by Ameren's position as one of the lowest-cost power producers in the Midwest, strong transmission ties, and limited industrial exposure.

Union Electric is in healthier financial condition on a stand-alone basis, than its parent owing to a lower debt burden. In addition, the company has a slightly better business position of 'strong', reflecting the absence of the unregulated generation businesses but encompassing many of the aforementioned attributes and weaknesses.

In light of rising fuel and transportation costs, material outlays for environmental compliance and energy infrastructure to enhance reliability, the company will need to control costs, improve plant performance, finance conservatively, and secure rate relief to enhance credit quality. A combined annual electric and gas revenue increase request of \$220 million is pending before the Illinois Commerce Commission. A commission decision is expected in the fall of 2008. In Missouri, the company has filed for a \$251 million electric rate hike and has requested implementation of a fuel adjustment clause, which would allow the company to recoup fuel and purchased power costs in a more timely manner. A final rate order is required by March 2009.

Due to rising operating expenses, the costs associated with the Illinois concession package, accelerating capital expenditures, and lack of rate relief until the fall of 2008, Ameren's consolidated financial metrics are expected to slip in 2008. In this regard, Standard & Poor's expects adjusted funds from operations (FFO) to total debt to fall below 18% and total debt to capital to exceed 54%. Although adjusted FFO interest coverage is likely to decline a bit, it should remain healthy at around 4.0x.

Short-term credit factors

The short-term rating on Ameren and Union Electric is 'A-3'. Following execution of the comprehensive settlement in Illinois, the company's principal immediate focus is on significant expenditures for environmental compliance and energy infrastructure, operational improvements, rate cases and cost recovery mechanisms, and the competitive market for its unregulated generation fleet. Standard & Poor's expects that consolidated FFO will hover around \$1.1 billion to \$1.4 billion in 2008. This level of cash would significantly fall short of covering rising capital expenditures (estimated at \$2.2 billion in 2008) and dividends of about \$550 million. The actual level of prospective cash flows will depend on the future amounts of rate relief ultimately granted in

pending rate cases.

After paying down its remaining \$250 million of debt in May 2007, Ameren has no outstanding long-term debt at the parent level. As of March 31, 2008, Ameren had \$186 million in cash and cash equivalents. The company faces manageable maturities with \$105 million remaining in 2008, excluding amortization of Illinois Power Co.'s transitional funding notes.

An amended \$1.15 billion agreement will terminate on July 14, 2010, with respect to Ameren; however, Union Electric and AEGC will have the option to seek an annual renewal on a 364-day basis after their current termination date of July 10, 2008. CIPS, CILCORP, CILCO, and Illinois Power do not have borrowing authority under this facility. At the end March 2008, \$242 million was available under the \$1.15 billion multiyear revolver, which is used primarily to support commercial paper programs.

In 2006, CIPS, CILCORP, CILCO, Illinois Power, and AERG entered into a \$500 million multiyear credit facility that terminates on Jan. 14, 2010. An additional \$500 million revolver was entered into on Feb. 9, 2007, and also expires in January 2010. Each borrower's obligations are several, and Ameren doesn't guarantee them. As of March 31, 2008, \$315 million had been borrowed under the 2006 facility and \$450 million had been borrowed under the 2007 facility.

The credit facilities require Ameren and each subsidiary to maintain a maximum debt-to-capital ratio of 65%, with which they comfortably comply. None of Ameren's credit facilities or financing arrangements contains credit rating triggers. The \$1.15 billion credit agreement does not require a representation of no material adverse change to borrow; however, the Illinois facilities include this requirement, subject to certain exceptions.

Outlook

Ratings stability for Union Electric mirrors that of parent Ameren and reflects the elimination of a rate-freeze threat and the manageable rate-relief package established in Illinois. The stable outlook also incorporates expectations for sufficient future rate relief in both Illinois and Missouri and management's continuing credit-supportive actions. Downside momentum would result from a weakening of consolidated financial metrics beyond current expectations or if rising power prices were again to become a high priority target of the executive and legislative branches in Illinois. In light of accelerating capital outlays, rising operating, fuel, and transportation costs, and expected slippage in the company's overall financial condition, upgrade potential in the near term is unlikely.

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Major Rating Factors

Strengths:

- Relatively low-cost producer with competitive rates;
- Limited industrial exposure; and
- Union Electric's stand-alone bondholder protection measurements are stronger than that of parent Ameren.

Corporate Credit Rating

BBB-/Stable/A-3

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Weaknesses:

- Challenging regulatory climate in Missouri and current lack of a fuel adjustment clause;
- Inherent operating and financial challenges of owning a nuclear unit whose performance has been mixed;
- Escalating capital outlays for investments in infrastructure and pollution control equipment; and
- Parent's investment in riskier unregulated generation business.

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Table 1

Ameren Corp. -- Peer Comparison*

Industry Sector: Utilities

	--Average of past three fiscal years--				
	Ameren Corp.	Exelon Corp.	Vectren Corp.	Integrus Energy Group Inc.	SCANA Corp.
Rating as of May 28, 2008	BBB-/Stable/A-3	BBB+/Stable/A-2	A-/Stable/--	A-/Stable/A-2	A-/Negative/NR
(Mil. \$)					
Revenues	7,068.7	15,497.3	2,117.2	8,002.9	4,653.7
Net income from cont. oper.	597.7	1,755.7	129.6	161.1	314.7
Funds from operations (FFO)	1,345.8	3,500.7	295.9	291.0	751.8
Capital expenditures	1,208.9	2,406.6	282.3	393.7	549.5
Cash and short-term investments	196.0	225.0	24.6	30.7	132.3
Debt	7,463.7	15,701.4	1,716.7	2,356.4	3,835.0
Preferred stock	162.5	87.0	0.0	134.1	56.8
Equity	6,612.6	9,340.1	1,176.3	2,119.4	2,838.1
Debt and equity	14,076.3	25,041.4	2,893.0	4,475.8	6,673.1

Adjusted ratios

EBIT interest coverage (x)	3.7	4.4	2.8	2.8	2.4
FFO int. cov. (X) *	4.5	4.1	3.9	3.2	4.1
FFO/debt (%)	18.0	22.3	17.2	12.4	19.6
Discretionary cash flow/debt (%)	(6.9)	(1.5)	(5.0)	(16.0)	(2.2)
Net cash flow / capex (%)	68.5	99.5	71.8	42.3	101.7
Total debt/debt plus equity (%)	53.0	62.7	59.3	52.6	57.5
Return on common equity (%)	9.2	17.9	10.8	9.4	11.0
Common dividend payout ratio (un-adj.) (%)	87.5	83.1	72.0	75.6	61.8

*Fully adjusted (including postretirement obligations).

Table 2

Ameren Corp. -- Financial Summary*

Industry Sector: Utilities

	--Fiscal year ended Dec. 31--				
	2007	2006	2005	2004	2003
Rating history	BBB-/Stable/A-3	BBB/Watch Neg/A-3	BBB+/Watch Neg/A-2	A-/Negative/A-2	A-/Stable/A-2
(Mil. \$)					
Revenues	7,546.0	6,880.0	6,780.0	5,160.0	4,593.0
Net income from continuing operations	618.0	547.0	628.0	530.0	506.0
Funds from operations (FFO)	1,427.2	1,384.8	1,225.4	1,390.7	1,057.7
Capital expenditures	1,485.0	1,131.5	1,010.2	908.6	701.0
Cash and short-term investments	355.0	137.0	96.0	69.0	111.0
Debt	8,330.8	7,336.6	6,723.6	7,451.9	5,031.3
Preferred stock	97.5	195.0	195.0	195.0	182.0
Equity	6,871.5	6,794.0	6,172.4	5,592.4	4,413.1
Debt and equity	15,202.3	14,130.6	12,898.0	13,044.2	9,444.3
Adjusted ratios					
EBIT interest coverage (x)	3.3	3.6	4.3	3.6	3.4
FFD int. cov. (x)	4.2	4.7	4.7	5.1	4.2
FFO/debt (%)	17.1	18.9	18.2	18.7	21.0
Discretionary cash flow/debt (%)	(10.6)	(5.1)	(4.4)	(1.0)	(1.2)
Net Cash Flow / Capex (%)	61.0	78.2	70.7	100.3	92.4
Debt/debt and equity (%)	54.8	51.9	52.1	57.1	53.3
Return on common equity (%)	9.0	8.4	10.1	10.2	12.2
Common dividend payout ratio (un-adj.) (%)	86.8	95.4	81.4	90.4	81.0

*Fully adjusted (including postretirement obligations).

Table 3

Reconciliation Of Ameren Corp. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. \$) *

--Fiscal year ended Dec. 31, 2007--

Ameren Corp. reported amounts										
	Debt	Shareholders' equity	Operating income (before D&A)	Operating income (before D&A)	Operating income (after D&A)	Interest expense	Cash flow from operations	Cash flow from operations	Dividends paid	Capital expenditures
Reported	7,400.0	6,947.0	2,023.0	2,023.0	1,342.0	423.0	1,102.0	1,102.0	527.0	1,449.0
Standard & Poor's adjustments										
Operating leases	284.7	--	40.5	17.1	17.1	17.1	23.4	23.4	--	36.0
Intermediate hybrids reported as equity	97.5	(97.5)	--	--	--	5.5	(5.5)	(5.5)	(5.5)	--

Postretirement benefit obligations	548.6	--	42.0	42.0	42.0	--	14.3	14.3	--	--
Share-based compensation expense	--	--	--	18.0	--	--	--	--	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	67.0	--	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	307.0	--	--
Minority interests	--	22.0	--	--	--	--	--	--	--	--
US decommissioning fund contributions	--	--	--	--	--	--	(14.0)	(14.0)	--	--
Total adjustments	930.8	(75.5)	82.5	77.1	126.1	22.6	18.2	325.2	(5.5)	36.0

Standard & Poor's adjusted amounts

	Debt	Equity	Operating Income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid	Capital expenditures
Adjusted	8,330.8	6,871.5	2,105.5	2,100.1	1,468.1	445.6	1,120.2	1,427.2	521.5	1,485.0

*Ameren Corp. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Ratings Detail (As Of 28-May-2008)*

Union Electric Co. d/b/a AmerenUE

Corporate Credit Rating	BBB-/Stable/A-3
Commercial Paper <i>Local Currency</i>	A-3
Preferred Stock <i>Local Currency</i>	BB
Senior Secured <i>Local Currency</i>	BBB
Senior Unsecured <i>Local Currency</i>	BB+

Corporate Credit Ratings History

29-Aug-2007	BBB-/Stable/A-3
23-Apr-2007	BBB-/Watch Neg/A-3
05-Oct-2006	BBB-/Watch Neg/A-3
03-Oct-2005	BBB+/Watch Neg/A-2
30-Jul-2004	A-/Negative/A-2
03-Feb-2004	A-/Watch Neg/A-2

Financial Risk Profile

Aggressive on a consolidated basis

Related Entities

Ameren Corp.

Issuer Credit Rating	BBB-/Stable/A-3
Commercial Paper <i>Local Currency</i>	A-3
Senior Unsecured <i>Local Currency</i>	BB+

AmerenEnergy Generating Co.

Issuer Credit Rating	BBB-/Stable/--
Senior Unsecured <i>Local Currency</i>	BBB-

Central Illinois Light Co.

Issuer Credit Rating	BB/Positive/NR
Preferred Stock <i>Local Currency</i>	B

Senior Secured <i>Local Currency</i>	BBB
Central Illinois Public Service Co.	
Issuer Credit Rating	BB/Positive/NR
Preferred Stock <i>Local Currency</i>	B
Senior Secured <i>Local Currency</i>	BBB
Senior Unsecured <i>Local Currency</i>	B+
CILCORP Inc.	
Issuer Credit Rating	BB/Positive/--
Senior Unsecured <i>Local Currency</i>	BB
Illinois Power Co.	
Issuer Credit Rating	BB/Positive/NR
Preferred Stock <i>Local Currency</i>	B
Senior Secured <i>Local Currency</i>	BBB-

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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