MOODY'S
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Credit Opinion: Union Electric Company

Global Credit Research - 08 Dec 2015

St. Louis, Missouri, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A2
Senior Secured	A2
Senior Unsecured Shelf	(P)Baa1
Subordinate Shelf	(P)Baa2
Pref. Stock	Baa3
Commercial Paper	P-2
Parent: Ameren Corporation	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1
Subordinate Shelf	(P)Baa2
Commercial Paper	P-2

Contacts

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Key Indicators

[1]**Union Electric Company**

	9/30/2015(L)	12/31/2014	12/31/2013	12/31/2012	12/31/2011
CFO pre-WC + Interest / Interest	6.3x	5.6x	5.3x	5.4x	4.6x
CFO pre-WC / Debt	28.3%	24.1%	25.4%	25.1%	20.9%
CFO pre-WC - Dividends / Debt	11.3%	11.8%	14.4%	16.3%	12.0%
Debt / Capitalization	39.6%	39.8%	39.2%	41.4%	42.6%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

- Environmental compliance and investments could be a significant long-term driver

- Missouri's regulatory environment is stable but still challenging

- Ameren Missouri manages a consistent financial profile through various regulatory cycles

Corporate Profile

Union Electric Company (d/b/a Ameren Missouri: Baa1 stable) is a vertically integrated utility with a regulated electric generation, transmission and distribution system and a regulated natural gas transmission and distribution system in Missouri, with a service territory in and around the city of St. Louis. Ameren Missouri is the largest subsidiary of Ameren Corporation (Ameren: Baa1 stable), contributing approximately 59% of revenue and 67% of earnings in 2014. Ameren is an energy holding company with regulated utility operations in Missouri and Illinois. Ameren Missouri serves 1.2 million electric and 127,000 gas customers, and its electric and gas rates are regulated by the Missouri Public Service Commission (MPSC).

SUMMARY RATING RATIONALE

Ameren Missouri's Baa1 rating reflects a challenging but stable regulatory framework in Missouri and improved key credit metrics, which we believe will remain stable. While the implementation of a fuel adjustment clause and cost trackers for pension/OPEB have helped to reduce some regulatory lag, it is constrained by the use of a historical test year in its general rate cases which continues to create meaningful regulatory lag in investment cost recovery.

DETAILED RATING CONSIDERATIONS

- Environmental compliance and investments could be a significant long-term driver

Ameren Missouri estimates total environmental investments between 2015 and 2019 to range from $350 million to $400 million per year, funded with a mix of equity and debt to maintain an approximate 50%/50% debt to equity ratio going forward. Total capital expenditures are expected to be around $3.7 billion from 2015 to 2019, compared to $3.5 billion from 2010 to 2014. Although the total amount of capital expenditures is about the same, the focus on environmental compliance has increased. The estimates include investments associated with Ameren Missouri's plan for compliance with air emissions regulations through burning ultralow-sulfur coal and installing new or optimizing existing pollution control equipment, as well as the expenditures required for Coal Combustion Residual (CCR) regulations, and compliance with the MATS and cooling water intake structures at existing power plants under the Clean Water Act. Although a Missouri law enacted in 2005 enables the MPSC to authorize an environmental cost recovery mechanism, Ameren Missouri currently does not have any specific recovery mechanism for its environmental investment. Without a specific recovery mechanism, we believe Ameren Missouri will have to rely on its general rate cases to recover the prudently incurred environmental investment cost.

Ameren Missouri files a non-binding integrated resources plan with the MPSC every three years, and as such filed a 20-year integrated resource plan with the MPSC in October 2014 to transition to a cleaner and more diverse generation portfolio. Since the plan was filed prior to the issuance of the Clean Power Plan, Ameren Missouri expects the plan will need to be modified as increased net fuel and operating costs and the potential of new or accelerated capital expenditures is expected. Ameren Missouri's current generation portfolio consists of 77% coal, 19% nuclear and 4% natural gas, renewable and oil-fired generation sources. Its integrated resource plan lays out a proposed investment to achieve CO_2 emissions reductions proposed by EPA by 2035. The plan includes $1.9 billion of environmental capex and $1 billion of additional renewables in the generation portfolio between 2015 and 2024. In addition, Ameren Missouri proposed $1 billion of new natural gas fired generation investment as well as an additional $400 million of renewables and $200 million of environmental controls between 2025 and 2034. We believe there could be additional opportunities for environmental investments based on the currently proposed integrated resource plan. However, while additional investment opportunity could be a credit positive, we believe transparent and well-defined cost recovery mechanisms and returns on these investments are needed to minimize regulatory lag and are important to mitigate any potential deterioration of the company's financial profile.

- Missouri's regulatory environment is stable but still challenging

We consider Missouri's regulatory environment to be stable but still challenging as it has limited interim base rate recovery mechanisms, resulting in longer regulatory lag, and tends to be more litigious. The contentious regulatory environment is further exacerbated by an active intervener base in Missouri. Examples of the MPSC's limited credit supportiveness include a lack of a forward test year, the inability to include construction work in progress (CWIP) in rate base, and no tracker for capital investments for electric utilities. The company's efforts to establish a rider for infrastructure replacement investments through legislation failed in May 2013.

Since 2013, Ameren Missouri has benefitted from the execution of its three-year energy efficiency plan under the

Missouri Energy Efficiency Investment Act (MEEIA), which facilitates the recovery of energy efficiency program costs and projected lost revenues as well as incentive rewards based on performance compared to the target. In early 2015, Ameren Missouri sought an approval of a new three-year energy efficiency plan covering 2016-2018; however, in October 2015, the MPSC issued an order rejecting the proposed plan.

In general, we view Missouri's regulatory environment to be relatively consistent and predictable. However, we view Ameren Missouri's ability to recover costs and earn appropriate returns as below average. On the other hand, Ameren Missouri's gas operations enjoy more favorable regulatory treatment but are a relatively small part of its total operations.

- Ameren Missouri manages a consistent financial profile through various regulatory cycles

To mitigate Missouri's longer regulatory lag, Ameren Missouri has filed frequent rate cases over the last several years. In its first rate case filing in over two years, Ameren Missouri filed a request on July 3, 2014, for an increase in its electric base rate by $264.1 million, based on a 10.4% ROE with a 51.59% common equity layer and $7.3 billion electric rate base for the test year ended March 31, 2014. The MPSC issued its final order on April 29, 2015, authorizing a $121.5 million base rate increase based on a 9.53% ROE and 51.76% equity structure, effective May 30, 2015.

Ameren Missouri had previously made some regulatory progress with the implementation of a fuel adjustment clause (FAC) and cost trackers for pension/OPEB, vegetation management, and storm costs. However, in this most recent case, tracking mechanisms associated with storm costs, vegetation management, and infrastructure inspection were all deemed no longer necessary, resulting in discontinuation. Such changes in recovery mechanisms will not only contribute to future regulatory lag, it also can be read as an indication of a less credit-supportive regulatory environment. Ameren Missouri estimates that transmission charges previously included in the FAC that are now included in base rates totaled $30 million in 2014 and are expected to increase to $41 million in 2015, with further cost increases expected in the foreseeable future. Ameren Missouri will have to rely on its general rate cases to recover these costs.

On average, Ameren Missouri's credit metrics have been consistent and stable over the last three years. The company generated around $1 billion of cash flow from operations pre working capital (CFO pre-WC) annually between 2012 and 2014 on average. Its annual capex ranged $600 million to $750 million during the same period. The company also managed its leverage consistently and received a capital contribution from Ameren in 2014 when its capex was higher. The company's three-year metrics for LTM ending September 30, 2015 are robust for the rating, including 5.6x interest coverage ratio and 25.2% CFO pre-WC to debt, after Moody's adjustments. We expect Ameren Missouri to prudently manage its capex and operating expenses, maintaining its CFO pre-WC to debt ratio in the low to mid-20s on average.

Liquidity

Ameren Missouri's short-term rating is P-2, and we expect the company to maintain a good liquidity profile over the next 12 months.

Ameren Missouri maintains a joint $1.0 billion bank credit facility with the parent under its 2012 Missouri Credit Agreement maturing in December 2019, under which it has a borrowing sublimit of $800 million. Under the terms of the credit facility, Ameren and Ameren Missouri must each maintain a total debt to capitalization ratio of no greater than 65%. As of September 30, 2015, both companies were in compliance with this covenant, with debt to capitalization ratios of 50% and 48%, respectively. There is no material adverse change clause for new borrowings under the facility.

Ameren Missouri had no short-term borrowings under the facility as of September 30, 2015, with the full amount available under its $800 million borrowing sublimit. As of the same period, Ameren Missouri had no commercial paper outstanding, while the parent had $783 million of commercial paper outstanding. Ameren Missouri has two long-term debt maturities in 2016 and 2017, totaling $260 million and $425 million, respectively. On September 30, 2015, Ameren Missouri had $69 million of cash on hand.

Rating Outlook

The stable outlook reflects Ameren Missouri's consistent financial and credit profile, slightly offset by the challenging regulatory environment in Missouri. While the regulatory framework in Missouri has been stable, Ameren Missouri's ability to recover costs and to earn appropriate returns continues to be below average.

What Could Change the Rating - Up

Ameren Missouri could be upgraded if the regulatory environment in Missouri improves and the regulatory lag is shortened meaningfully on a sustained basis. Also, if Ameren Missouri is able to maintain strong key credit metrics, such as CFO pre-WC to debt ratio above 25% on a sustained basis, an upgrade is a possibility.

What Could Change the Rating - Down

A downgrade could be considered if there are any adverse regulatory developments or unsupportive rate case outcomes or a decline in cash flow coverage measures, including CFO pre-WC to debt falling below 19% on a sustained basis.

Rating Factors

Union Electric Company

Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 9/30/2015		[3]Moody's 12-18 Month Forward ViewAs of 12/2/2015	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Baa	Baa	Baa	Baa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Ba	Ba	Ba	Ba
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	5.6x	A	5.2x - 5.5x	A
b) CFO pre-WC / Debt (3 Year Avg)	25.2%	A	22% - 25%	A
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	13.3%	Baa	13% - 16%	Baa
d) Debt / Capitalization (3 Year Avg)	40.1%	A	39% - 42%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		Baa1		Baa1
HoldCo Structural Subordination Notching	0	0	0	0
a) Indicated Rating from Grid		Baa1		Baa1
b) Actual Rating Assigned				Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 9/30/2015(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

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