



Moody's Investors Service

Global Credit Research

Rating Action

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Rating Action: Union Electric Company

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Moody's downgrades Ameren & utility subs, ratings remain on review

Approximately \$5 billion of debt securities downgraded

New York, March 12, 2007 -- Moody's Investors Service downgraded the ratings of Ameren Corporation (Ameren, Issuer Rating to Baa2 from Baa1); Union Electric Company (d/b/a AmerenUE, Issuer Rating to Baa1 from A3); Central Illinois Public Service Company (d/b/a AmerenCIPS; Issuer Rating to Ba1 from Baa3); CILCORP Inc. (senior unsecured to Ba2 from Ba1); Central Illinois Light Company's (d/b/a AmerenCILCO, Issuer Rating to Ba1 from Baa2), and Illinois Power Company (d/b/a AmerenIP, Issuer Rating to Ba1 from Baa3). A Corporate Family Rating (CFR) of Ba1 and a Probability of Default Rating (PDR) of Ba1 was assigned to CILCORP. The ratings of Ameren, Central Illinois Public Service, CILCORP, Central Illinois Light, and Illinois Power remain on review for possible further downgrade. Moody's placed Ameren's Prime-2 short-term rating for commercial paper on review for possible downgrade. The ratings of Union Electric are no longer on review, although the rating outlook is negative. The rating of AmerenEnergy Generating Company (Baa2 senior unsecured) is unchanged and remains on review for possible downgrade.

The downgrade of the ratings of Ameren, Central Illinois Public Service, CILCORP, Central Illinois Light, and Illinois Power is prompted by the passage of rate freeze legislation by both the Illinois House and by a committee of the Illinois Senate last week and the growing support for a rate freeze in both chambers. On March 6, 2007, the Illinois House approved, by an overwhelming 92-5 majority, legislation supporting the roll back of electric rates to 2006 levels and the enactment of a three year rate freeze through 2010. While rate freeze legislation had up until now not had widespread support in the Senate and the President of the Senate had voiced his opposition to a rate freeze, on March 8, 2007, the Senate Environment and Energy Committee voted by a unanimous 11-0 vote to support a bill specific to Ameren that would roll back rates to 2006 levels and freeze rates for at least six months. This bill is likely to be introduced into the entire Senate shortly.

"Although an acceptable rate phase-in solution may still be possible, the increasing support for a rate freeze and the continued political intervention in the utility regulatory process in Illinois has increased credit risk for investors and is no longer supportive of investment grade senior unsecured ratings", said Michael G. Haggarty, Vice President and Senior Credit Officer. Moody's believes that future distribution rate increase requests may be met with less constructive responses from state regulators due to the ongoing controversy over Ameren's relatively high rate increases. The ratings remain on review for possible further downgrade since the passage and enactment of rate freeze legislation could result in additional downgrades of the ratings of Ameren's Illinois utility subsidiaries well into speculative grade.

The downgrade of the ratings of Union Electric is prompted by higher costs at that utility, lower financial metrics, and a continued challenging regulatory environment in Missouri, most recently illustrated by the Missouri Public Service Commission (MPSC) staff's recommendation that Union Electric's annual electric revenues be reduced by between \$136 and \$168 million, compared to the utility's request for a \$360 million rate increase. Although the MPSC is not expected to rule on the case until later this year and may come to a more constructive decision than the staff recommendation, the large differential between the staff recommendation and utility's request makes it unlikely that AmerenUE will obtain sufficient rate relief to maintain financial ratios consistent with its former rating category.

"The ratings downgrade reflects increased cost pressures at Union Electric, including for environmental compliance, coal and coal transportation costs, transmission and distribution system and other energy infrastructure investments, and other expenses, that are unlikely to be offset by sufficiently higher rates", said Haggarty. The lower rating also reflects Moody's expectation that Ameren may have to rely more on Union Electric for upstreamed dividends if rate freeze legislation is passed and enacted in Illinois, severely restricting dividends from the other Ameren utility subsidiaries. The rating outlook of Union Electric is negative due to anticipated continued cost pressures at the utility, the uncertain outcome of the utility's pending Missouri rate case, the ongoing uncertainty with regard to its affiliate utilities in Illinois and their ability of Ameren's Illinois subsidiaries to provide dividends to the parent going forward.

The downgrade of parent company Ameren considers the challenging political and regulatory environment facing the company in both of its jurisdictions and the importance of the three Illinois utility businesses to its consolidated financial profile. The Illinois utilities make up nearly half of Ameren's total utility business and any material financial deterioration of those subsidiaries is expected to severely limit upstreamed dividends to the parent, which will increase the reliance of the parent on Union Electric to meet parent company interest and dividend obligations.

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Missouri Public
Service Commission

Ratings downgraded and remaining under review for possible downgrade include:

Ameren's senior unsecured debt and Issuer Rating to Baa2 from Baa1;

Central Illinois Public Service Company's senior secured to Baa3 from Baa2, Issuer Rating to Ba1 from Baa3, and preferred stock to Ba3 from Ba2;

Illinois Power Company's senior secured debt to Baa3 from Baa2, Issuer Rating to Ba1 from Baa3, and preferred stock to Ba3 from Ba2.

Ratings downgraded and assigned a negative outlook include:

Union Electric Company's senior secured debt to A3 from A2, Issuer Rating to Baa1 from A3, and preferred stock to Baa3 from Baa2.

Ratings and Loss Given Default assessments for CILCORP and its subsidiary Central Illinois Light Company have been determined in accordance with Moody's Loss-Given Default Methodology. More information on this methodology can be found at moodys.com/lgd.

Ratings downgraded/assessments assigned:

CILCORP, Inc.'s senior unsecured debt to Ba2 (LGD5, 80%) from Ba1;

Central Illinois Light Company's senior secured debt to Baa2 (LGD2, 13%) from Baa1; and Issuer Rating to Ba1 from Baa2;

Ratings affirmed/assessments assigned:

Central Illinois Light Company's preferred stock at Ba1 (LGD4, 54%).

Ratings assigned:

CILCORP Corporate Family Rating at Ba1;

CILCORP Probability of Default Rating at Ba1;

Ratings placed under review:

Ameren's Prime-2 short-term rating for commercial paper.

Ameren Corporation is a public utility holding company headquartered in St. Louis, Missouri. It is the parent company of Union Electric Company (d/b/a AmerenUE), Central Illinois Public Service Company (d/b/a AmerenCIPS), CILCORP Inc., Central Illinois Light Company (d/b/a AmerenCILCO), Illinois Power Company (d/b/a AmerenIP), and AmerenEnergy Generating Company.

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