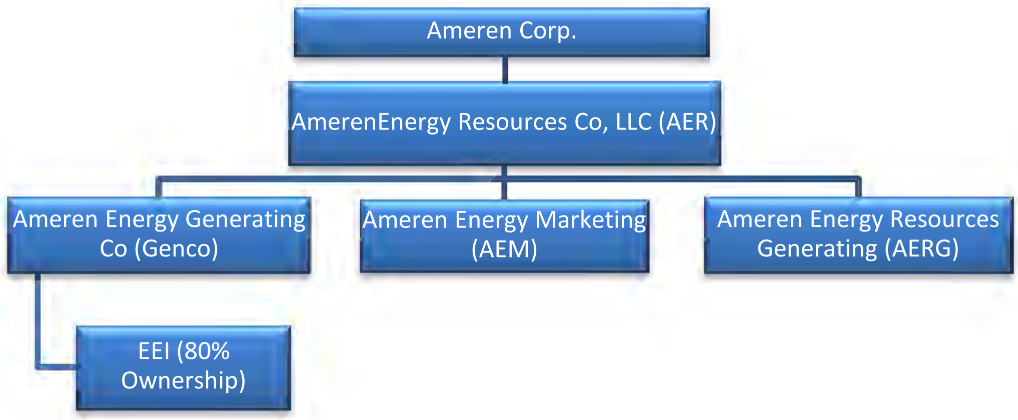
To:	Dan K. Arbough, Treasurer
From:	John H. Early, Manager, Credit and Contract Administration
Date:	August 27, 2013
Subject:	Credit Review for Ameren Energy Generating Company

Louisville Gas and Electric Company and Kentucky Utilities Company are assessing results from an RFP and are evaluating the possibility of entering into a Power Purchase Agreement ("PPA") with Ameren Energy Marketing Company ("AEM"), Ameren Corp.'s ("Ameren") power marketer for Ameren Energy Generating Company ("Genco"), Ameren Energy Resources Generating ("AERG") and Electric Energy Inc. ("EEI"). Because of the current structure of the Ameren assets, this credit review will focus on the most recent financial information available on Genco.

Company Summary

Genco is a merchant generating, wholly-owned subsidiary of Ameren which owns and operates more than 1,300 MWs of gas-fired generation capacity and about 3,100 MW of coal-fired generation capacity in Illinois, including the 1,002 MW Joppa coal-fired plant that is owned by EEI. The coal plants generate most of the energy (>90%), with the gas plants providing incremental supply during peak demand. Genco has an 80% ownership interest in EEI with the remaining 20% ownership interest owned by Kentucky Utilities Company.

Ameren operates its merchant business as one unit, which includes Genco, AERG and AEM. Ameren Energy Resources Company ("AER") is an intermediate holding company that owns all of Ameren's merchant subsidiaries. Within the merchant operation, Genco is the only rated entity. See Ameren Corp.'s current corporate structure below:



On March 14, 2013, Ameren Corp. announced its intention to sell AER, including Genco among other assets, to an indirect, wholly-owned subsidiary of Dynegy Inc. ("Dynegy"). Upon the expected closing in the fourth quarter of 2013, Dynegy has indicated it intends to hold Genco and the other Ameren merchant generation assets it is acquiring in Illinois Power Holdings, LLC ("IPH"), a Special Purpose Vehicle ("SPV") that will be largely ring-fenced from the rest of Dynegy. Dynegy does not intend to provide any guarantees or other extraordinary support for Genco or its debt obligations. Dynegy may, however, be able to generate some incremental cost savings and synergies from its ownership of other coal fired generating assets in southern Illinois.

Credit Worthiness

Below are the current ratings from the three major rating agencies for the key entities involved in this transaction:

Company	S&P	Moody's	Fitch
Genco			
Issuer/corporate credit rating	CCC+	—	CC
Senior unsecured debt	CCC+	B3	CCC-
Ameren Corp.			
Issuer/corporate credit rating	BBB	Baa3	BBB
Senior unsecured debt	BBB-	Baa3	BBB
Dynegy Inc.			
Issuer/corporate credit rating	B	B2	—
Senior unsecured debt	B+	B3	—

S&P releases an annual corporate default study for the companies it rates. Historically, companies with lower credit ratings have a higher default frequency than higher rated entities. For example, the S&P Global Corporate Average Cumulative default rates (1981-2012) for the 6 year time horizon equal to the life of the PPA (now through 2019) is ~48% for a 'CCC' rated entity (Genco's rating, and reasonably expected rating for IPH), and 22% for a 'B' rated entity (Dynegy).

S&P's rating of Genco is based on a "vulnerable" business risk assessment and a "highly leveraged" financial risk assessment. Below are the key factors for S&P's rationale:

Business Risk: Vulnerable

- Stand-alone credit profile with no parental support
- Merchant business that depends on the commodity price of electricity
- Genco's Midwest location lacks a robust capacity market
- Management has proactively addressed many of the areas that it can directly influence

Financial Risk: Highly Leveraged

- Financial measures will materially weaken over the next three years so that funds from operations (FFO) to debt is less than 5% and debt to EBITDA is more than 10x
- Sustained low electricity prices that are expected to remain low
- Slow economic growth that by itself will not sufficiently increase electricity price
- Less than adequate liquidity
    - Cash of about $225 million by year-end 2013
    - Funds From Operations of about $45 million in 2013 with deficits expected in future years
    - Projected capital spending of about $50 million in 2013
    - No external sources of funding

S&P has a negative outlook on Genco due to the continued trend of weak power prices. On the downside, S&P would lower Genco's rating if there is a worse-than-expected cash burn rate which would most likely occur if the market for electricity remained well below $40/MWh. On the upside, S&P could revise the outlook to stable if FFO to debt were greater than 7% and debt to EBITDA were less than 9x, which would most likely occur if the market for natural gas improved to more than $4.30 per million cubic feet.

S&P also issues a Recovery Rating report on companies. Recovery Ratings focus solely on expected recovery in the event of a payment default of a specific issue, and utilize a numerical scale that runs from 1+ to 6. S&P has assigned a '3' recovery rating to Genco, indicating that in the event of a default, debt holders could expect a recovery in the 50%-70% range. **The key information gleaned from this report is S&P's assumption that Genco will default in 2016.** The default scenario is driven by the loss of the company's existing hedges that expire after 2014. S&P also states that Genco would not be able to withstand a material low probability event, such as a prolonged outage. Notably, a similar S&P default simulation scenario of Dynegy contemplates a default by Dynegy in 2015 assuming natural gas prices remain low, they have higher than expected capital expenditures and experience higher operational outages.

Moody's believes Genco should be free cash flow neutral in 2013 with the help of the tax monetization of its net operating losses, as provided by a tax sharing agreement with other Ameren affiliates. Moody's projects Genco to have a total free cash flow deficit of about $60 million in 2014 and $30 million in 2015. In comparison, Genco is expected to have around $130 million of excess liquidity available (net of working capital and other funding requirements) at closing. Post-closing, Genco will not have access to any external bank credit facilities or other extraordinary sources of support in the event of unexpected events or larger than anticipated calls on liquidity.

Key information from Genco's 2nd quarter Form 10-Q underscores the company's continued challenges with losses and lack of liquidity. Genco reported a net loss of $22 million for the quarter, making year-to-date losses $151 million as of June 30, 2013. Beginning in the 1st quarter of 2013, Genco's interest coverage ratio fell to less than the specified minimum (2.3 in Q1 and 1.6 in Q2 vs. requirement of >=2.5) required in the company's debt covenants covering $875MM of outstanding bonds, and Genco expects that this ratio will remain less than this minimum level through at least 2015. As a result, Genco's ability to borrow additional funds from external, third-party sources is restricted. With no borrowing capacity and only $25 million in cash and cash equivalents at June 30, 2013, Genco faces serious liquidity issues. (The credit department notes here, however, that according to the acquisition announcement, the Ameren assets will be transferred to Dynegy at closing with $226MM in cash, of which approximately $70MM will be held at Genco, $160MM in working capital and two years of credit support from Ameren).

See Key Research Document 1 in the Appendix for additional financial metrics and the proprietary internal credit score.

Recommendation

Based on the research reports from S&P, Moody's and the results found in the company's most current 10Q, the credit department does not recommend entering into the above noted PPA with AEM/Genco.

This recommendation is further supported by: (1) Genco's stand-alone credit profile and lack of parental support from Ameren and no anticipated support from Dynegy, assuming the transaction closes; (2) S&P's near-term anticipated default scenarios for both Genco and Dynegy; (3) very poor ratings from the major rating agencies; (4) poor operating cash flow metrics; (5) restricted additional external borrowing; and (6) a weak overall financial profile.

Appendix

Key Research Documents

1. Global Credit Services proprietary scoring model for Ameren Energy Generating Company

   GCSScore_AMERENE
   NERGYGENERATINGC

2. S&P Recovery Report: Ameren Energy Generating Co.'s Recovery Rating Profile, dated February 8, 2013 (access by subscription only)

   https://www.globalcreditportal.com/ratingsdirect/RatingsDirect_Analysis_1075049_08_23_2013_12_28_30.articlePDF?rand=2loe6SGam5&id=1075049&sourceId=&type=&outputType=&from=&prvReq=&pager.offset=&SIMPLE_SEARCH_TYPE=&CONID=&entl=&requestFrom=getPDF&articleType=Analysis

3. S&P Summary: AmerenEnergy Generating Co., March 28, 2013 (access by subscription only)

   https://www.globalcreditportal.com/ratingsdirect/RatingsDirect_Analysis_1105554_08_23_2013_12_26_35.articlePDF?rand=rbMJl760kx&id=1105554&requestFrom=getPDF&articleType=Analysis

4. Ameren Energy Generating Company 2nd quarter 2013 Form 10-Q

   http://www.sec.gov/Archives/edgar/data/1135361/000113536113000009/genco2013q2.htm

5. Moody's Rating Action: Ameren Energy Generating Company, March 14, 2013

   https://www.moodys.com/research/Moodys-downgrades-Ameren-Gencos-senior-unsecured-and-Corporate-Family-Ratings--PR_268520

6. S&P Research Update: Dynegy Inc. Assigned 'B' Corporate Credit Rating; New Senior Secured Debt Rated 'BB-', April 2, 2013 (access by subscription only)

   https://www.globalcreditportal.com/ratingsdirect/RatingsDirect_Research+Update_1108529_08_23_2013_12_32_07.articlePDF?rand=MITrTIe9Xc&id=1108529&sourceId=&type=&outputType=&from=MRA&prvReq=&pager.offset=&SIMPLE_SEARCH_TYPE=&CONID=&entl=&requestFrom=getPDF&articleType=Research%20Update

7. Dynegy Inc. 2nd quarter 2013 Form 10-Q

   http://www.sec.gov/Archives/edgar/data/1379895/000137989513000015/dyn-2013630x10q.htm

8. S&P 2012 Annual U.S. Corporate Default Study and Rating Transitions, March 20, 2013 (access by subscription only)

   https://www.globalcreditportal.com/ratingsdirect/RatingsDirect_Commentary_1098627_08_27_2013_12_06_32.articlePDF?rand=6rKAkPZfX7&id=1098627&sourceId=&type=&outputType=&from=&prvReq=&pager.offset=&SIMPLE_SEA

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