Ameren Corporation

Scott A. Cisel
President Illinois Energy Delivery

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March 16, 2007

CONFIDENTIAL

PUBLIC VERSION

Mr. Tim Anderson
Executive Director
Illinois Commerce Commission
527 East Capitol Avenue
Springfield, Illinois 62701

Dear Mr. Anderson:

The Ameren Illinois Utilities have reviewed your letter of March 14, 2007, requesting certain information from us regarding steps that we intend to take to address our current financial situation in the wake of the downgrade of our Moody's issuer credit ratings to "junk" status on March 12, 2007. We appreciate the Commission's concern regarding the Ameren Illinois Utilities' discharge of our obligations under the Public Utilities Act to provide safe and reliable utility service. We know and understand that your letter was prompted by our public statements and the Commission's obligations to supervise utilities subject to its jurisdiction. I wish to personally assure you that we are not considering any action that would needlessly impair the delivery of such service.

As discussed in the specific responses to the questions posed with your letter, the Ameren Illinois Utilities are finalizing contingency plans to be implemented if – and only if – we become, or are about to become, unable to pay our bills. We had expected that such a situation would occur fairly contemporaneously with a downgrade. We had not anticipated a downgrade as early as it occurred. We expected that a downgrade, if it came, would occur at a point when a legislative rate roll-back and freeze seemed inevitable. In that circumstance, we would not wait for final enactment to implement further steps to preserve liquidity. Our release was intended to warn those interested in brinksmanship that this is not a game and that we would take the actions to protect the utilities and our customers. We do not believe, however, that enactment of a rate roll-back and freeze is inevitable at present and we are working with the legislature to avoid such a result.

We do not yet have the data you seek in the form you seek it. We do have a generalized sequence of events and measures, which is attached. This is subject to continued review by our senior management and, when it is final, we can provide you with the specific data you request.

Before responding to the specific questions posed in your letter, I wish to discuss several points. First, I would remind the Commission that Ameren Corporation literally rescued Illinois Power, which was in danger of default, and halted the decline of CILCO. Both companies were owned by financially troubled parents whose problems were visited upon the utilities. Ameren Corporation invested over $1 billion in excess of acquisition price to restore these companies to health, and has not yet seen anything approaching an adequate return on investment. The earned returns on equity for our regulated electric and gas operations at all three utilities have been extremely low in recent periods.

Further, Ameren Corporation has continued to invest in the utilities, notwithstanding disappointing earnings. Capital expenditures for AmerenIP were $179 million in 2006 and $132 million in 2005; for AmerenCIPS, $82 million in 2006 and $64 million in 2005; and for AmerenCILCO, $53 million in 2006 and $55 million in 2005. Thus, investment totaled $314 million in 2006 and $251 million in 2005.

In this regard, I would like to note that AmerenCIPS last paid a common dividend in the third quarter of 2006, AmerenCILCO in the first quarter of 2006, and AmerenIP not since the last quarter of 2005. Ameren Corporation has not been draining the utilities of cash. I did not interpret your letter to imply that somehow this was the case, but I want this to be absolutely clear.

I would also like to explain the immediate consequences of the ratings downgrade on us. You observe that one immediate consequence of the downgrade is to increase the utilities' cost of borrowing, but that the downgrade "is not a response to any actual reduction in the Ameren Illinois utilities' cash flows." However, the downgrade can itself cause significant reductions in the utilities' cash and liquidity. Many of the utilities' supply contracts – and especially our gas supply contracts – contain provisions that give suppliers the right to require us to post collateral or prepay for deliveries. Additionally, under our electric supply contracts, suppliers can require us to pay every two weeks – well before we recover the cost from customers. [redacted]

[redacted]

[redacted]

[redacted]

Against this background, we have been planning for a downgrade in the event that one or more ratings agencies reacted to the actions of the legislature. A downgrade, due to the consequences I mentioned, requires that we manage cash and liquidity in a way that minimizes the effect on the provision of utility service. It would be imprudent not to engage in such planning.

After receipt of approval by the Commission on March 7, our three Illinois utilities closed on a new credit facility on March 9. With the establishment of this new agreement, the three utilities now have in aggregate credit of $635 million with a syndicate of banks. [redacted]

[redacted]

Accordingly, we have planned or are considering several measures to ease the impact of a downgrade:

- We structured our utility budgets so that no dividends would be paid until much later in the year. This makes more cash available during the Spring legislative session, when we had believed a downgrade was more likely to occur.

- We structured our rate freeze mitigation programs such that our obligations would terminate if a downgrade were to occur. Our Rider CEP, for example, would have allowed customers to defer a portion of their bills without interest. Power suppliers, however, would have had to be paid in the interim, meaning that the utilities would have had to finance the deferrals, reducing both cash and net income. Similarly, Rider RMC would have had a significant effect on our liquidity.

- We have been designing a sequence of contractor severances and employee lay-offs and salary adjustments, should those prove necessary. Tentatively, this sequence would comprise three distinct phases, each phase to be implemented based on certain cash flow metrics. [redacted] Again, we have not finalized, at this time, the detailed contractor release and employee layoff information you request.

We have been considering also a deferral of reliability projects. These would be driven in part by reduction of contractors and employees and in part by a decision to defer certain capital expenditures to preserve liquidity. [redacted]

I wish to emphasize that these are not steps we would ever take lightly – this is not saber-rattling directed at any audience. We have no desire to sever relationships with valued employees and contractors, or to negatively affect the communities in which they live, or to lessen in any respect the level of service we strive to provide. We may reach a point, however, where available cash and credit are, or are about to become, insufficient to pay the bills at hand. At that point, we would reluctantly have to implement lay-offs and other severances and take further measures.

You also state that the Commission granted us a $96.7 million increase in rates in 2006 which you believe covers costs such as employees, contractors and community donations and projects. You further state that the Commission believes it would be unjustifiable to take the steps we have outlined when rates cover such costs. We respectfully disagree with your statement for several reasons:

First, we disagree that existing rates are sufficient to provide adequate returns for our electric and gas operations in present circumstances. We cannot comment more specifically regarding electric rates, which are currently being litigated before the Commission, both because we do not wish violate any statute, rule or code of conduct relating to *ex parte* communications, and out of fairness to the other parties to the pending proceeding. However, we note that our request for increase was approximately $200 million, while, as you note, the Commission approved an increase of about $97 million – less than half of our request.

Second, the additional working capital and borrowing costs related to the downgrade I referenced above have never been considered in any rate proceeding. They are simply not reflected in or being funded by current rates. These costs will be borne by shareholders until they go away or there is a future rate adjustment.

Third, there are no amounts reflected in current rates that cover the costs of community donations or projects. These programs are funded at our discretion. It would be irresponsible to give money away when we are struggling to maintain reasonable cash flows.

Fourth, irrespective of how rates were constructed or what costs are reflected in them, if we reach the point where we cannot pay our bills, and service is threatened as a result, as I stated above, we will take the steps necessary to protect continuity of service to the greatest extent we can.

As a final point, I note that the Ameren Illinois Utilities will comply with your request for materials related to our conversations with ratings agencies. We have read the statements in the media accusing us of being in "cahoots" with the ratings agencies, "orchestrating" our own downgrades. I assure you that this is not the case, and we look forward to your review of our materials. We do not control the ratings agencies in any respect, and our very strong preference is for credit ratings far above the levels we are currently experiencing.

We want to sit down and discuss these matters with you. As I stated above, we appreciate your concern. This is a difficult time, and we are all trying to make the best of a bad situation. We have to be realistic, however, and recognize that things may get worse before they get better.

Sincerely,

SACisel

Scott A. Cisel

Attachment A
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Response to Questions Regarding March 7, 2007 News Release

1) The "immediate steps" regarding lay-offs to which the news release refers are the finalization of lay-off sequences in the event we need to make the lay-offs. We expect to finalize our plan in the next few days and we will share it with you. As mentioned above, a plan under consideration is attached as Attachment B..

2) As with lay-offs of employees, we are in the process of finalizing a sequence of contractor severances. We expect to finalize our plan in the next few days and we will share it with you. See Attachment B.

3) The specific reliability projects that would be postponed would be largely dependent on the nature of contractor severances and employee lay-offs. More specific data is not yet available. See Attachment B.

4) Connections for new homes and businesses would be delayed if the workforce that would perform them is reduced. More specific data is not yet available. See Attachment B.

5) Response to customer calls would be lengthened if the call center workforce is reduced. More specific data is not yet available. See Attachment B.

6) The community donations and projects being discontinued now are those we previously identified to you and to the General Assembly. We had proposed to spend $15 million to support residential bill paying assistance programs and energy conservation activities as follows: $3 million for bill paying assistance for those customers whose income falls between 150% and 200% of LIHEAP; $3 million for bill paying assistance for senior citizens and disabled customers; $3 million for compact florescent bulbs, a rebate program for most customers and to be given at no charge for LIHEAP recipients; $3 million for residential audits and insulation; $1 million for compact florescent bulbs for senior citizens; $1 million for a residential percentage income plan to waive a portion of a customer's past due amounts; $1 million for a low income refrigerator replacement program; and $100,000 for school solar education Again, we note that these donations were to voluntary undertakings by the Ameren Illinois Utilities. We can discontinue these at will, and we regret that we now have to do so.