Ameren: a new breed of GenCo?

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Lehman Brothers has completed the $425 million bond financing for the Ameren Energy Generating Company. Ameren is typical of a number of US utilities looking to harness the high earnings growth predicted for the wholesale sector by hiving them off into a separate unregulated subsidiary. This deal, however, may present a way for the utility to use its strong cashflow in the service of the growth of its sister generating company (GenCo).

Ameren Corporation is a holding company whose main operations footprints stand at either end of the Midwest. It consists of two utility companies (AmerenUE, formerly Union Electric Company of Missouri, and AmerenCIPS, formerly Central Illinois Service Company) as well as marketing, development and leveraged lease investment companies. The new GenCo is a subsidiary of the Development arm, which has already brought close to 6GW online.

The note issue funds the incorporation of the Illinois assets into the GenCo and its funding on a non-recourse basis. The relationship between GenCo and holding parent however, suggests that the future development activity will still have a strong input at the corporate level, largely because of the cash available at this level from a commercial paper programme, amounting to roughly $500 million.

Using the cheaper funding available from an entity (Ameren Energy) with an A+ rating, the parent continues to carry out development and construction activities and then sells the completed facilities to the GenCo using an intercompany note. This note is then repaid from internal cashflow and extra debt. This transaction, however, covers the older, baseload, mainly coal-fired capacity formerly held by AmerenCISP.

Illinois is in the first throes of deregulation, and the restructuring plan allows for the eventual establishment of a Midwest Independent System Operator and a fully open electricity market in the region. Missouri has not yet taken this step, although a transfer as and when the climate changes is probable. The ground has been prepared through a renegotiation of high-cost fuel contracts and the formal creation of the generating arm, announced on 1 May 2000, at which time the asset transfer occurred.

The portfolio consists of 12 coal-fired units commissioned between 1948 and 1982, which will account for 84% of the revenue for the next ten years and the three gas-fired plants that have come online this year. Two of the coal units are up for repowering and switching to gas over the next twelve months, and the eventual aim will be to diversify into peaking capacity. However, if the current coal/gas price disparity continues to widen, and environmental rules stay static, then Ameren should make a killing.

The first transfer of assets will be funded mainly from the bond issue, structured to take account of the transitional period covered by the first part of the debt's life. The restructuring plan agreed with Illinois allows for the signing of interim power purchase agreements (PPAs). The GenCo has entered into a four-year PPA with the old CIPS utility for the entirety of its requirements, as well as a mirror agreement with Ameren's marketing arm. This means that, in preparation for the onset of full competition, the marketing arm is treated as a pass-through agent for the power.

The issue has been split into two tranches of different maturities, to reflect the abrupt change in risk profile after 2004. The first consists of $225 million of 5-year bonds, which carried a coupon of 7.75%, and were, according to a source close to the transaction, ?pretty much pure corporate, with the investor base that you'd expect for this type of paper?. The second, slightly smaller, tranche of $200 million carried a 10-year tenor and a coupon of 8.35%, and a concomitant market of merchant investors.

The bonds were Rule 144A and carried full registration rights, but Ameren considers the issue private and has declined to comment. Certainly ratings agencies were a key factor in the successful sell-down ? the five-year bonds alone went down to around 30 accounts. After a certain amount of work with the ratings agencies, bookrunners Lehman Brothers were able to obtain separate ratings for the two pieces from Moody's Investors Service. Moody's felt that the tranches were qualitatively different enough to give the short piece an A3 rating and the long a Baa2. Fitch assigned a Senior Unsecured debt rating of BBB+. Standard & Poor's continues to look at a portfolio as a whole in terms of credit quality, and assigned a BBB+ rating to both tranches.

The other risk for bondholders to consider was the refinancing risk, since both have a bullet maturity, with no amortisation over the life of the debt. According to the same source, though, ?the investors should be happy with this, because if Ameren are able to grow this vehicle then they should be OK with permanent capital in there. And the assets should make refinancing simple?.

Growth is at the top of Ameren's agenda, having recently put in an order for $1.1 billion-worth of GE 501F turbines. It has announced plans for a new greenfield 468MW combined cycle plant in Elgin county, Illinois that would use Siemens Westinghouse turbines, although a cost estimate is nor forthcoming. It has already put arrangements in place for additional gas storage and transmission capacity.

The Ameren Energy Generating Company may be the template that eliminates the difference between the open-ended ? corporate? GenCo and the stand-alone debt-financed entity. There are as yet no signs that an equity spin-off is on the cards, and it would be difficult to sustain any massive development effort along the lines of the large players ? the generating business will amount to at most 15% of Ameren's revenues. But the ability to leverage the parent's (and in particular AmerenUE's) balance sheet to bring working plant to market is an important source of strength for this regional player.