REBUTTAL TESTIMONY

OF

THOMAS M. IMHOFF

UNION ELECTRIC COMPANY

CASE NO. EM-96-149

Q. Please state your name and business address.

A. Thomas M. Imhoff, P.O. Box 360, Jefferson City, Missouri 65102.

Q. By whom are you employed and in what capacity?

A. I am a Regulatory Auditor with the Missouri Public Service Commission (Commission).

Q. Please describe your educational background.

A. I attended Southwest Missouri State University at Springfield, Missouri, from which I received a Bachelor of Science degree in Business Administration, with a major in Accounting, in May 1981. In May 1987, I successfully completed the Uniform Certified Public Accountant (CPA) examination and subsequently received the CPA certificate. I am currently licensed as a CPA in the state of Missouri.

Q. What has been the nature of your duties with the Commission?

A. I have directed and assisted with various audits and examinations of the books and records of public utilities operating within the state of Missouri under the jurisdiction of the Commission.

Q. Have you previously filed testimony before this Commission?

A. Yes. A list of cases in which I have filed testimony before this Commission is attached as Schedule 1 to my rebuttal testimony.

Q. Have you made an examination of the Application filed by Union Electric Company (UE or Company) in regard to Case No. EM-96-149?

A. Yes, I performed an examination of the Application of the Company in conjunction with other Commission Staff (Staff) members.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to present the Staff's recommendation concerning ratemaking treatment of all costs, other than the alleged "merger premium", related to UE's proposed merger with CIPSCO Incorporated (CIPSCO). Central Illinois Public Service Company (CIPS) is a wholly owned subsidiary of CIPSCO, offering retail and wholesale electric and natural gas service in Illinois. UE and CIPS in this case have proposed to form a holding company named Ameren Corporation (Ameren) which will own all of the common stock of UE and CIPS. The holding company structure will be addressed in the rebuttal testimony of Staff witness Jay W. Moore, of the Commission's Financial Analysis Department. The "merger premium" issue will be addressed in the rebuttal testimony of Staff Accounting witnesses Cary G. Featherstone and Charles R. Hyneman. The specific merger costs that I will address are the transaction costs and "costs to achieve" (also known as transition costs) that are related to the merger. I will also address certain aspects of the Company's estimated merger savings related to labor costs.

TRANSACTION COSTS

Q. Please describe transaction costs.

A. Transaction costs are expenses that are incurred prior to the close of the merger and are costs necessary to consummate the merger. These costs include fees charged by the investment bankers related to the transaction; fees for outside consultants for legal, accounting and public relations services; and other merger related costs.

Q. What is the estimated level of transaction costs for this merger?

A. UE's and CIPS' estimated level of transaction costs for this merger is approximately $21,834,000. The direct costs incurred by UE will be charged on UE's books, and costs incurred by CIPS will likewise be charged on CIPS' books. All joint costs (i.e., the Joint Proxy Statement of Union Electric and CIPSCO/Prospectus of Ameren) incurred by UE and CIPS will be allocated between the two companies. The following chart presented in the direct testimony of UE witness Gary L. Rainwater, Schedule 7, identifies the estimated costs by category:

Pre-Merger Transaction Costs

Type	Total
Printing	$1,500,000
Solicitation/Postage	$1,064,000
Legal	$4,175,000
Financial Advisors	$11,100,000
Accountants	$170,000
Deloitte & Touche	$300,000
SEC Filing Fees	$1,750,000
Planmetrics (consultants)	$1,200,000
Other	$575,000
Total Pre-Merger Transaction Costs	**$21,834,000**

Q. What were the actual merger transaction costs UE recorded in 1995?

A. In UE's response to Staff Data Request No. 14, UE's Securities and Exchange Commission (SEC) Form 10K states that UE recorded $9 million and CIPS recorded $4.7 million of transaction costs for the year ending December, 1995.

Q. How did UE account for these costs?

A. UE booked the $9 million to Federal Energy Regulatory Commission (FERC) Uniform System of Accounts (USOA) Account No. 426, Other Deductions. This is a non-operating "below-the-line" account, and accordingly is not included in UE's cost of service to customers.

Q. Is UE seeking rate recovery for transaction costs incurred and booked in 1995?

A. Yes. UE is seeking recovery of these costs in future periods (the ten-year period 1997-2006) despite the fact that UE expensed these costs as incurred for financial purposes. (Response to Staff Data Request No. 126).

Q. What is the Staffs' general position on transaction costs incurred by UE?

A. The Staff believes that, in general, prudently incurred actual transaction costs by UE should be allowed recovery in rates if the merger Application is approved by the Commission. Since these transaction costs were incurred to consummate the merger, it is my opinion that these costs should be recovered over an extended period, as the benefits of the merger are asserted by the Company to be applicable for at least 30 years. (Direct Testimony of Company witness Rainwater, pp. 17-18).

Q. What should be the recovery period for transaction costs?

A. For purposes of this case, the Staff proposes that the recovery period for transaction costs should be 20 years. Twenty (20) years appears to be reasonable in light of the magnitude of these costs and UE's assertion of merger benefits occurring over the long term.

Q. Under the Experimental Alternative Regulation Plan (Incentive Plan) for UE approved by the Commission in its Report and Order in Case No. ER-95-411, is recovery of merger transaction costs specifically allowed?

A. No. Therefore, the Staff recommends that a modification be made to Attachment C, "Reconciliation Procedure" to the Case No. ER-95-411 Stipulation and

Agreement to allow for a 20 year amortization of transaction costs above-the-line (i.e., included in cost of service).

Q. Is UE's accounting for merger transaction costs that were incurred in 1995 proper in the Staff's opinion?

A. No. If rate recovery is to be sought for transaction costs incurred, UE should capitalize or defer these costs as they are incurred.

Q. In the Staff's opinion, how should UE account for its transaction costs subsequent to 1995 in order to obtain future rate recovery?

A. The Staff proposes to account for transaction costs incurred in 1996 and subsequent years in the FERC USOA Account 301, Organization Costs. According to the most current version of the FERC USOA fees and expenses incurred for mergers or consolidations should be booked to Account 301. An alternative to this proposal would be to book these fees and expenses as incurred to Account 186, Miscellaneous Deferred Debits. This would allow UE to defer these costs and enable UE to seek subsequent recovery of prudently incurred actual transaction costs. Rate amortizations of transaction costs, whether the costs are booked to Account 301 or 186, should not begin until regulatory approvals are received and the merger is closed.

Q. Does the Staff agree with the Company's proposal for the future recovery of 1995 transaction costs?

A. No. It is the Staff's recommendation that no future recovery of the 1995 transaction costs expensed below-the-line by the Company be allowed. The Company chose not to capitalize these costs or seek an accounting authority order for deferral of the costs to obtain the opportunity for recovery in future periods, but instead expensed these costs as incurred for financial statement purposes, thereby foregoing the opportunity to seek recovery of these costs.

Q. Did the expensing of these 1995 costs greatly impact UE's earnings?

A. No. In UE's 1995 Annual Shareholders Report (obtained in response to Staff Data Request No. 16) Charles W. Mueller, President and Chief Executive Officer (CEO) of UE states:

> I'll start by simply saying that 1995 was one of our best years yet. UE pulled $2.95 a share to the bottom line despite a credit to Missouri electric customers equivalent to 18 cents a share, an electric rate reduction costing 8 cents a share and expenses totaling 9 cents a share related to our pending merger with CIPSCO Incorporated.

The "9 cents a share" expenses mentioned in the above quote by Mr. Mueller are a reference to the transaction costs charged below-the-line by UE in 1995.

The table below indicates that the dividends paid per common share were higher in 1995 than in the four previous years, and the Return on Equity (ROE) on average common stock for 1995 is within the range of the four previous years:

Year	1995	1994	1993	1992	1991
Dividend/Common Share	$2.455	$2.395	$2.335	$2.26	$2.18
Average ROE Common	13.23%	13.84%	13.01%	13.70%	14.99%

(UE 1995 Annual Shareholders Report)

Q. You mentioned previously in your testimony that in expensing actual transaction costs in 1995, the Company chose to forego the opportunity to recover these transaction costs. Please explain.

A. The Staff believes that rate recovery of these costs after they were previously expensed would constitute retroactive ratemaking.

Q. What is "retroactive ratemaking"?

A. Retroactive ratemaking, which is prohibited in Missouri, constitutes the setting of rates in order for a utility to recover specific costs of past events incurred by the utility so as to make the utility's shareholders "whole". This is in contrast to setting rates to allow a utility to recover a normal ongoing level of cost.

Q. When would retroactive ratemaking occur under the Company's proposal?

A. Retroactive ratemaking would occur if the Company recovers in rates the 1995 transaction costs that have been previously expensed and reflected in its financial statements.

Q. What is your basis for determining that UE's proposal for recovery of these expensed transaction costs would constitute retroactive ratemaking?

A. The basis for my statement is my understanding of what UE is seeking to do in ratemaking and the forms of ratemaking that I have been advised the Commission is not authorized to permit. Staff counsel has directed me to the following decision of the Missouri Supreme Court in a case which is sometimes referred to as the second UCCM case. Said case states in relevant part as follows:

> The utilities take the risk that rates filed by them will be inadequate, or excessive, each time they seek rate approval. To permit them to collect additional amounts simply because

> they had additional past expenses not covered by either clause is retroactive rate making, i.e., the setting of rates which permit a utility to recover past losses or which require it to refund past excess profits collected under a rate that did not perfectly match expenses plus rate-of-return with the rate established. *Board of Public Utility Commissioners v. New York Telephone Co.*, 271 U.S. at 31, 46 S.Ct. 363; *Lightfoot v. Springfield* 236 S.W.2d at 353.

State ex rel. Utility Consumers Council of Missouri v. P.S.C., 585 S.W.2d 41, 59 (Mo. banc 1979); (Emphasis added.).

A company takes the risk that rates will be inadequate, or excessive, each time it seeks rate recovery. To permit a company to recover past expenses which were not recovered in rates is retroactive ratemaking unless an accounting authority order is appropriate and in place. Accounting authority orders are generally used for deferral of the costs of "extraordinary items", for which spreading the costs for accounting and/or rate purposes over several periods is judged to be more appropriate then charging the entire amount to expense in one period.

Q. Why would rate recovery of an expense that has been charged to income in past periods constitute retroactive ratemaking?

A. In the Staff's opinion, subsequent rate recovery of such an expense would be more suggestive of ratemaking based on present recovery of past expenditures, as opposed to recovery in the present of a normalized, ongoing level of expense.

Q. Do you have any other concerns with the Company's accounting for transaction costs?

A. Yes. In the Company's response to Staff Data Request No. 12, UE states that:

> Union Electric and CIPSCO are not currently capturing the time their employees work on merger-related activities. This is due to the fact that Union Electric and CIPSCO will not incur significant incremental labor-related costs for merger-related activities. While the merger-related work is incremental to the Company's normal operating activities, employees that have or will devote time to this effort are principally salaried supervisory and managerial level employees that are not compensated for overtime worked. As a result, Union Electric and CIPSCO do not believe it is necessary to capture the time their employees work on merger-related activities.

Dan Cole, Manager of Resource Planning in the Corporate Planning Department at UE, informed the Staff during the course of an interview that he is devoting approximately 90% of his total time on merger related activities. In fact, the Company's response to Staff Data Request No. 111 indicates that four UE employees who are working on the merger do not keep time sheets, including Mr. Cole. In the Staff's opinion, time spent working on merger related activities represents transaction costs that should be accounted for appropriately as merger related.

Q. Is UE's position on charging time spent by employees on merger related matters consistent with past Commission precedent?

A. No. The Commission was concerned in a Missouri Public Service/Utilicorp United, Inc. (MPS) case, No. ER-90-101, that MPS was not accounting for merger and acquisition costs separately. The Commission directed MPS to account for merger and acquisition costs separately so that they could be readily identified and excluded in future MPS rate cases.

Also in the Kansas Power & Light Company (KPL) (now Western Resources Inc.)/Kansas Gas & Electric Company merger case, No. EM-91-213, KPL agreed to address the Staff's concerns about allocating payroll after the merger by including in its payroll accounting system the following features, among others:

1) Provide flexibility to charge payroll:
   a) between jurisdictions;
   b) between capital and O&M;
   c) to track merger and acquisitions activity; and
   d) to track nonregulated activities

2) Tracking all payroll costs associated with the KPL/KGE merger, including the Integration Planning activities;

3) Documentation will be retained for individual and departmental distributions. Documentation will be maintained in greater detail than is presently the case.

A copy of this agreement is attached as Schedule 2.

The Staff believes that as a condition of Commission approval of the proposed merger, UE should be ordered by this Commission to maintain merger related payroll costs separately and on a prospective basis beginning January 1, 1996. These costs are merger related and not related to the normal day-to-day activities of the Company, and should be treated as transaction costs for rate purposes.

Q. Are the merger transaction costs tax deductible?

A. No, they are not.

Q. Is UE seeking rate recovery of the tax effect for the non-deductibility of these costs?

A. No. The Company's response to Staff Data Request No. 125 states UE's position of not increasing revenue requirement further for corporate income taxes associated with the income tax impact of the merger transaction costs. For purposes of this case, the Staff is in agreement with the Company regarding this treatment.

Q. Does the Staff have any additional comments to make concerning merger transaction costs?

A. Yes. The Staff would like to emphasize its position that only actual merger transaction costs should be used for ratemaking purposes in the future; estimates of these costs should not be used in setting rates. Staff Accounting witness Mark L. Oligschlaeger specifically addresses the Staff's overall position on the use of merger estimates as proposed by the Company.

<u>"COSTS TO ACHIEVE"</u>

Q. Please describe "costs to achieve".

A. "Costs to achieve" relate to costs after the merger is closed that will be incurred by the operating companies of Ameren (UE and CIPS) in order to become a merged entity. These costs potentially include voluntary severance packages for management; severance packages for executives; pay changes for some employees in the new organization; relocation programs for affected employees of the organization; the consolidation of the customer information systems, computer systems, and communications systems; and retraining of personnel.

Q. What is UE's and CIPS' estimated level of "costs to achieve" for this merger as stated in their direct testimony?

A. UE's and CIPS' estimate of "costs to achieve" for this merger is approximately $19,137,000. The following chart presented in the direct testimony of Gary L. Rainwater, Schedule 7 identifies the UE and CIPS estimated costs by category:

Post-Merger "Costs to Achieve"

Type	Total
Staffing Related Costs	$3,137,000
Systems Consolidation/Telecommunications	$12,000,000
Facilities Integration	$1,000,000
Communications (Internal & External)	$1,000,000
Retraining	$1,000,000
Transition Costs	$1,000,000
Total Post-Merger "Costs to Achieve"	**$19,137,000**

Q. Is UE's position on the accounting and rate recovery of "costs to achieve" similar to its position on transaction costs?

A. Yes, it is. The Company's response to Staff Data Request No. 127 states: "UE intends to record the costs to achieve "below-the-line", consistent with the other merger transaction costs". UE then proposes to recover its estimated level of "costs to achieve" through an amortization over ten years (1997-2006).

Q. What is the Staff's position as it relates to the accounting treatment and recovery of these "costs to achieve"?

A. The Staff believes in general that prudent actual "costs to achieve" incurred by UE should be allowed recovery in rates, as the Company will incur these costs in order to effectuate the merger. These costs should be booked in Account 301 or 186, in a similar fashion to transaction costs. The Staff recommends that these costs be recovered over an extended period of time--20 years. The Staff proposes to treat these costs in the same manner as the Staff's recommendation respecting transaction costs. This treatment includes modifying the current Incentive Plan Agreement to allow UE to amortize 1/20th of the "costs to achieve" above-the-line for purposes of determining sharing of UE earnings during the pendency of the Incentive Plan. The Staff, however, does not propose to include one component of the Company's estimated "costs to achieve" in rates, the executive severance packages. This cost is reflected in the Company's estimated amount for "staffing related costs", previously noted. I will address this item later in this testimony.

Q. Are all potential "costs to achieve" reflected in the Company's $19 million estimate of these costs?

A. No. The potential for UE to exceed its "costs to achieve" estimate is very likely. Two particular areas of concern are executive salaries and salary equalization.

Q. What is the Staff's concern on executive salaries?

A. It is often argued that an increase in responsibility should equal an increase in pay. For example, Ameren, compared to UE and CIPS individually, will have a larger customer base, larger employee base, greater level of revenues and larger asset size. Yet, there is no amount in the current estimate of "costs to achieve" for executive salary increases related to greater executive responsibility. In an interview on March 19, 1996, Mr. Clifford Greenwalt, CEO of CIPSCO, was asked about possible salary increases for himself and the other officers of Ameren, compared to their stand-alone salaries at UE and CIPS. Mr. Greenwalt indicated that no salaries at the Ameren level had been established. He also stated as follows:

> . . . What we will have is there will be a compensation committee of the board of Ameren made up of outside directors and it will be entirely up to that compensation committee as to what they do with salaries. I suppose individually you would always be hopeful, but there's nothing been said establishing any salaries at this point. It will be up to outside directors of Ameren. (Greenwalt March 19, 1996 Transcript, p. 5)

Mr. Greenwalt also indicated that no decisions on items like this will be made until the merger is completed and the Board of Directors of Ameren is in place. (Greenwalt March 19, 1996, Transcript, p. 6). In his interview on February 13, 1996, Mr. Mueller, CEO of UE, indicated that decisions on executive compensation levels probably would not be made before the close of the merger, which he assumed would not take place until the latter part of 1996 or later. (Mueller Transcript, p. 39). Mr. Mueller stated that although comparability in salary levels between CIPS and UE employees was not an explicit goal or objective:

> . . . We obviously have to do a lot of work on compensation and benefits to make sure that we achieve savings that are consistent, primarily benefits. You have to get some consistency in administration to be fair, so there's a lot of work to be done in that area. (Mueller Transcript, p. 40).

Q. Is there any other information available in regards to potential increases in "costs to achieve"?

A. A document titled, "Merger Related Documents", given to Staff by UE on April 16, 1996, attached as Schedule 3 to this testimony, indicates the potential for increases in "costs to achieve" as it relates to Ameren's compensation policies and the Voluntary Severance Program offered to UE's General Executive Staff, excluding Officers, and to CIPSCO's manager level employees. Ameren's adoption of UE's compensation policy could increase the actually incurred "costs to achieve" through an increase of the salaries of CIPSCO personnel to attain equality with UE's current pay structure. The Company's response to Staff Data Request No. 193 provided a sample of salaries paid by UE and CIPS for comparable positions. The response reaffirms the Staff's finding that UE's average compensation is greater overall than CIPS. The Company's merger ratemaking proposal would allocate a portion of any increase in "costs to achieve" related to increased CIPSCO personnel salaries to Missouri UE customers--refer to Schedule 10 attached to Mr. Rainwater's direct testimony.

When asked about future plans to address any overall salary discrepancies between the two companies, Mr. Greenwalt, said as follows in his interview of March 19, 1996:

> This will be handled--Now, the internal compensation, we will have a human resources function that will monitor the salaries of both employees and I have not had any conversations in that area with anyone. So, there's not any plan at least to move any one group immediately up to something else. I would think over a period of time you may see some movement, but it will depend upon the comparability of those

> salaries with other jobs throughout Illinois, Missouri or whatever. So, it will be more the salaries will be established based on market comparability than it will be on any policy to move anybody just for the sake of moving them. (Greenwalt March 19, 1996 Transcript, p. 6).

Thus, Mr. Greenwalt indicates that Ameren may take some action in the future to equalize salaries, which would likely serve to increase "costs to achieve". The Company has not included any amount for UE/CIPS salary equalization in its estimated "costs to achieve" calculation. This is another reason the actual "costs to achieve" may be greater than estimated.

Q. Does the Staff oppose use of estimated "cost to achieve" amounts for ratemaking purposes?

A. Yes, for the same reasons previously given in regard to transaction costs.

Q. Please explain the Staff's position on executive severance package costs.

A. Executive severance packages within an organization are compensation packages that guarantee payments to these top executives and key employees on the occasion of a takeover, merger or some other related situation. The industry refers to these severance packages as "golden parachutes". The Staff's position is that no recovery of these costs from ratepayers is warranted. These are costs that benefit only a very few employees, and are created for their personal protection and, it is generally argued, also for the protection of the Company's shareholders. The Company supplied a copy of its severance package policy to the Staff in its response to Staff Data Request No. 21. Payment to the designated employee is computed as follows:

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Q. Is an excise tax imposed by the IRS on executive severance packages?

A. Yes. The IRS imposes a 20% excise tax on the recipient for nondeductible excess executive severance payments that are paid or accrued. The IRS has defined "excess payment" as an amount equal to the excess of any golden parachute payment over the portion of the base amount allocated to the payment. Such portion of the base amount is an amount that bears the same ratio to the entire base amount as the present value of the payment bears to the aggregate present value of all such payments. The allocable base amount is subtracted from the golden parachute payment, and the remainder is the excess golden parachute payment.

Q. **____
________**

A. **____
____**

Q. Is CIPSCO's executive severance package policy similar to UE's?

A. Yes. Both plans are similar in nature.

Q. What are the current number of participants in these plans?

A. UE has 24 participants in its golden parachute plan while CIPSCO currently has eight participants in its golden parachute plan. Schedule 4 attached to this testimony, lists the employees by position of both companies who are entitled to participate.

Q. Has the "costs to achieve" estimate changed for this merger since the filing of the Company's direct testimony?

A. Yes. In the Company's updated response to Staff Data Request No. 72 received April 20, 1996, the "costs to achieve" estimate has risen from $19,137,000 to $73,061,000. The information received to date on the new estimate of "costs to achieve" did not contain specific details for the reasons for the increase, though the Staff believes that some of the increase is related to the offering of a Voluntary Severance Package to UE and CIPS employees (to be discussed below). Staff witness Oligschlaeger addresses the April 1996 updated merger savings and cost estimates in his rebuttal testimony.

EMPLOYEE REDUCTIONS/VOLUNTARY SEVERANCE PACKAGES

Q. What are Voluntary Severance Packages (VSP)?

A. VSPs are designed to provide certain benefits to eligible employees who elect to terminate employment voluntarily. These are costs that will be incurred up front, but are presumed to have long-term benefits.

Q. Has CIPSCO offered any VSP recently?

A. Yes. CIPSCO CEO Clifford Greenwalt stated in his interview with the Staff on March 19, 1996 that:

> Well, we've had - - We recognize the need that you're going to have to really streamline your operations for several years and we started this probably two or two and a half years ago in what we called our business process reengineering study and we put together teams within the company to look at all of our division operations and our power plant operations and to reengineer how we do business and how we interface with customers, how we can reduce bureaucracy and levels of supervision, and we put together a plan to move forward with that and we had that in place before we ever even started discussions with Union Electric. We recognized through the reengineering process that we could essentially reduce our work force by maybe a hundred and twenty to a hundred and fifty employees. We felt that we wanted to do that rather than trying to do it through attrition over a period of maybe three years within our company that we would do the VSP. Rather than target any one particular group of employees, we offered the VSP to all employees other than the bargaining unit employees and we actually wound up with about a hundred and fifty-one accepting the VSP, so we got our objective done in a way we thought was fair to the employees and the last group left toward the end of last year. (Greenwalt March 19, 1996 Transcript, pp. 17-18).

Furthermore, the following information was provided in the response to Staff Data Request No. 37:

> In 1994, CIPSCO initiated a Business Process Re-engineering ("BPR") effort with the goal of achieving a lower cost structure. In late 1994, preliminary findings and recommendations resulting from the BPR study were released. A copy of these preliminary findings and recommendations are attached.
>
> Concurrent with the release of the preliminary BPR report, CIPSCO announced plans to implement a Voluntary Severance Program. CIPSCO offered the majority of its active salaried employees (the Information Systems Department and Executive Group were excluded) the opportunity to participate in the Voluntary Severance Program. Employees had to request participation by February 27, 1995, with actual severance date between April 1 and December 1, 1995. CIPSCO anticipated a participation rate of 110 to 120 employees. The final figure was 151 participants, making this a successful program.

Q. Has UE had any VSPs previously?

A. No. UE has been reducing employee levels through attrition. Mr. Mueller stated in his interview of February 13, 1996 that:

> We have been cutting our costs and downsizing for about eight or nine years now and at some point in time you reach some diminishing returns on that. You can just do it for so long. (Mueller Transcript, p. 6).

Q. Do UE and/or CIPSCO presently have a VSP in effect?

A. Yes. Schedule 3 to this testimony identifies the VSP package offered on March 29, 1996, to UE's General Executive Staff, excluding Officers, and to CIPS managers. Responses from these designated employees are anticipated by the middle of May 1996. The impact of this VSP on "costs to achieve" will not be known until subsequent to the Staff's filing. Employees will be paid a severance benefit equal to **____**percent of his or her annual base salary. The Staff proposes to account for and to treat this VSP in the same manner as the other "costs to achieve" described earlier in this testimony.

Q. Have both companies been successful at reducing employee levels in the past?

A. Yes. In UE's 1995 Annual Report, page 14, it is stated that "since 1987, one in five UE positions has been eliminated through attrition." In CIPSCO's 1995 Annual Report on page 2, it is stated that "the voluntary severance program was offered to most salaried employees and resulted in a reduction of about 150 positions or 6 percent of the overall workforce. The cost of the program is expected to be recovered through lower payroll expenses by the end of 1996." Both UE and CIPSCO have previously been successful at reducing their respective employee headcounts. The following table illustrates the number of employees for each Company for the past nine years:

Company	1995	1994	1993	1992	1991	1990	1989	1988	1987
UE	6,190	6,266	6,417	6,594	6,760	6,971	7,091	7,199	7,341
CIPSCO	2,428	2,608	2,618	2,692	2,664	2,601	2,600	2,592	2,612

(Response to Staff Data Request No. 10 and UE letter of April 16, 1996).

As can be noted from the table above, UE has had a 15.7% reduction in employees since 1987, while CIPSCO has experienced a 9.3% reduction in employees during the same time frame.

Q. Had both utilities projected decreases in the number of employees absent the merger?

A. Yes. On a pre-merger basis, UE's employee headcount goal was 6,000 by December 31, 1998 (updated response to Staff Data Request No. 53). In CIPSCO's 1994 Annual Shareholders Report, Mr. Greenwalt stated:

> In 1995 we will continue to work toward our vision for the year 2000. We already know that by changing how we do things, fewer positions will be required. As the organization becomes leaner and flatter, we foresee personnel reductions in the range of 13 to 15 percent-about 350 to 400 positions.
>
> We plan to accomplish this over the next several years through a combination of voluntary severance and attrition. Early in 1995 most regular, salaried employees were offered a voluntary severance program which provides eligible employees the option to leave CIPS and receive a package of benefits. (Response to Staff Data Request No. 16.)

Since 1987, UE has reduced its employee levels by 1,151 and CIPSCO by 184.

Q. Do UE and CIPSCO believe that they can reduce employee levels further below their pre-merger targets absent the merger?

A. No. Mr. Greenwalt stated in his interview on March 19, 1996 as follows:

> . . . Union Electric's testimony indicates that they have had an employee reduction program, so to speak, for a number of years now but it's reaching the point of diminishing returns and the merger may be helpful in further opening up opportunities.
>
> We were getting our staff down to where it was pretty much going to be what was required. We had not totally reengineered the corporate functions. We had reengineered some of them within the process of doing some of the division operations but there were still a few departments that we had not reengineered in the corporate headquarters and there might have been some additional reductions there. . . . (Greenwalt Transcript, p. 18).

Mr. Charles Mueller stated in his interview on February 13, 1996 that:

> . . . We have been cutting our costs and downsizing for about eight or nine years now and at some point in time you reach some diminishing returns on that. You can just do it for so long. And in a merger with a company like CIPS you can obviously eliminate a lot of duplicative functions and reinvigorate cost cutting efforts and drive down your long-term cost of service. . . . (Mueller Transcript, p. 6).

Q. *What is the projected reduction by UE and CIPSCO in employee numbers due to the merger?*

A. The CIPSCO 1995 Annual Shareholders Report states:

> As duplicate functions and services are eliminated, we foresee a workforce reduction of about 300 positions, or 3.4 percent of the combined workforce. Both companies instituted a hiring freeze in 1995 to begin this reduction. Because this reduction is expected to be accomplished essentially through attrition, no early retirement or voluntary severance programs are anticipated.
>
> Workforce reduction will be achieved in a manner that is fair and equitable to employees of both companies, without regard to which company an employee worked for prior to the merger. All current labor agreements will remain in effect. Upon expiration, they will be subject to negotiation just as they would have been prior to the merger. (Response to Staff Data Request No. 16.)

Mr. Donald E. Brandt indicated in his interview on March 28, 1996 that approximately 300 jobs will be eliminated. (Brandt Transcript, p. 17). The new merger savings estimate provided to the Staff in the updated response to Staff Data Request No. 72 on April 20, 1996, indicated that an approximate total reduction of **____** employees is expected.

Q. What is the relationship between UE's and CIPS' past employee reductions and this merger application?

A. The Companies allege that labor savings are a merger benefit and are predicated on the assumption that a merger triggers this effect. UE and CIPS have been successful at reducing labor costs absent any past mergers, and prior to the merger projected a continuation of these reductions until the target employee levels are accomplished in the future. However, the Staff does believe that the proposed merger between UE and CIPS may allow some labor savings that would not have occurred absent the merger.

SUMMARY/CONCLUSIONS

Q. Please summarize the Staff's position on transaction costs and "costs to achieve".

A. The Staff proposes that prudently incurred actual transaction costs and "costs to achieve" incurred subsequent to 1995 should be recovered over a 20 year period. The Staff proposes no recovery of actual 1995 transaction costs and "costs to achieve". These costs have already been expensed for financial statement purposes in 1995, and to seek recovery of these costs would constitute retroactive ratemaking. The Staff also proposes no recovery for executive severance package costs included in the Company's "cost to achieve" totals.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of the application of Union Electric Company for an order authorizing: (1) certain merger transactions involving Union Electric Company; (2) the transfer of certain assets, real estate, leased property, easements and contractual agreements to Central Illinois Public Service Company; and (3) in connection therewith, certain other related transactions.	)	Case No. EM-96-149

AFFIDAVIT OF THOMAS M. IMHOFF

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

Thomas M. Imhoff, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 25 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Thomas M. Imhoff
THOMAS M. IMHOFF

Subscribed and sworn to before me this 6 day of May, 1996.

J. Kay Niemeier
Notary Public

J KAY NIEMEIER
NOTARY PUBLIC STATE OF MISSOURI
COLE COUNTY
My Commission Expires: MY COMMISSION EXP. FEB. 26,2000

RATE CASE PROCEEDINGS PARTICIPATION

THOMAS M. IMHOFF

Company Name	Case No.
Bowling Green Gas Company	GR-82-104
Atlas Mobilfone Inc.	TR-82-123
Missouri Edison Company	GR-82-197
Missouri Edison Company	ER-82-198
Great River Gas Company	GR-82-235
Terre-Du-Lac Utilities	SR-82-69
Terre-Du-Lac Utilities	WR-82-70
Citizens Electric Company	ER-83-61
General Telephone Company of the Midwest	TR-83-164
Missouri Telephone Company	TR-83-334
Mobilpage Inc.	TR-83-350
Union Electric Company	ER-84-168
Missouri-American Water Company	WR-85-16
Great River Gas Company	GR-85-136
Grand River Mutual Telephone Company	TR-85-242
ALLTEL Missouri, Inc.	TR-86-14
Continental Telephone Company	TR-86-55
General Telephone Company of the Midwest	TC-87-57
St. Joseph Light & Power Company	GR-88-115
St. Joseph Light & Power Company	HR-88-116
Camelot Utilities, Inc.	WA-89-1
GTE North Incorporated	TR-89-182
Capital Utilities, Inc.	SA-90-224
Empire District Electric Company	ER-90-138
St. Joseph Light & Power Company	EA-90-252

RATE CASE PROCEEDINGS PARTICIPATION

THOMAS M. IMHOFF

Kansas City Power & Light Company	EA-90-252
Sho-Me Power Corporation	ER-91-298
St. Joseph Light & Power Company	EC-92-214
St. Joseph Light & Power Company	ER-93-41
St. Joseph Light & Power Company	GR-93-42
Citizens Telephone Company	TR-93-268
Empire District Electric Company	ER-94-174
Missouri-American Water Company	WR-95-205
Missouri-American Water Company	SR-95-206

PAYROLL ALLOCATIONS

In order to address Staff's concerns about allocating payroll on an ongoing basis after the merger, the Company agrees to include the following features in its payroll accounting system:

1. The Company will incorporate a four week payroll monitoring period completed annually to provide the basis for the ensuing year's payroll distribution. Judgment will be incorporated to provide for known exceptions to the four week monitoring period. To the extent judgment is incorporated, it shall be noted and the reasons for the exceptions shall be documented and maintained.

2. The system will provide for "exception" reporting to facilitate temporary activities, or changes in activities, from normal payroll allocations.

3. The system will allow individuals to make permanent changes in payroll distributions as job functions change.

4. Documentation will be retained for individual and departmental distributions. Documentation will be maintained in greater detail than is presently the case.

5. The Company will exercise its best efforts to work to insure consistent payroll allocations between individuals and departments.

6. The system will provide flexibility to charge payroll:
   a) between jurisdictions;
   b) between capital and O&M;
   c) to track merger & acquisitions activity; and
   d) to track nonregulated activities.

7. The system will provide to Staff, as needed, the basis for payroll allocation percentages for specific individuals or departments; and

8. Evaluate the use of a "common" department for the purpose of collecting operating payroll costs not directly assigned to a specific jurisdiction, and develop a method to allocate common pool of costs.

For a one year period following the merger, or until such time when the information is deemed no longer necessary, the Company will also do the following:

1. Track all payroll costs associated with the KPL/KGE merger, including the Integration Planning activities;

2. Evaluate the use of a "common" department for the purpose of collecting operating payroll costs not directly assigned to a specific jurisdiction, and develop a method to allocate common pool of costs; and

3. Exercise its best efforts to estimate merger-related payroll charges incurred from July 23, 1990 through the completion of the merger.

4. Documentation will be retained for individual and departmental distributions. Documentation will be maintained in greater detail than is presently the case.

SCHEDULE 3
IS DEEMED TO BE

HIGHLY
CONFIDENTIAL

IN ITS ENTIRETY

SCHEDULE 4
IS DEEMED TO BE

HIGHLY
CONFIDENTIAL

IN ITS ENTIRETY