STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Session of the Public Service Commission held at its office in Jefferson City on the 26th day of August, 1998.

In the Matter of the Application of Union Electric Company, d/b/a AmerenUE for an Order Authorizing Applicant to Incur an Indebtedness by Undertaking the Obligation to Pay the Principal, Interest, and Redemption Premium, if any, on up to $160,000,000 Principal Amount of Revenue Bonds Issued by the State Environmental Improvement and Energy Resources Authority of the State of Missouri for the Purpose of Discharging Outstanding Financial Indebtedness.	)	**Case No. EF-99-5**

ORDER APPROVING FINANCING

On July 2, 1998, Union Electric d/b/a AmerenUE (AmerenUE or Applicant) filed an application with the Commission requesting authority to enter into a Loan Agreement in connection with the issuance of up to $160,000,000 principal amount of revenue bonds issued by the State Environmental Improvement and Energy Resources Authority (the Authority) of the State of Missouri for the purpose of discharging outstanding financial indebtedness, the principal, interest, and redemption premium on $160,000,000 (the "1984A and 1984B Environmental Bonds" or Prior Bonds).

In its application, AmerenUE states that the funds acquired from the proposed issuance of a new series of environmental improvement revenue bonds (1998 Environmental Bonds or New Bonds) will be used to refinance and pay the principal, interest and redemption premium on $160,000,000 principal amount issued by the Authority for the purpose of financing pollution control equipment. These prior bonds, all of which remain outstanding, were issued pursuant to the authority granted by the Commission in EF-84-137.

AmerenUE states in its Application that the Authority will execute an Indenture of Trust under which the New Bonds are to be issued, and will deposit the proceeds of the financing with the Trustee. The Trustee will hold these funds in a special escrow account invested in appropriate investments. On December 1, 1998, the Trustee for the New Bonds will transfer these proceeds from the escrow account to the Prior Bond Trustee who will redeem the Prior Bonds. AmerenUE stated that any interest earned by the escrow account will be turned over to the Applicant, which may then use the funds to offset any expenses, redemption premium or interest on the Prior Bonds.

The application further states that the New Bonds will be issued with a maturity of approximately 40 years or less (the New Bonds may have staggered maturities but will not exceed 40 years). AmerenUE states that the redemption provisions applicable to the New Bonds will be established on the basis of market conditions just prior to their sale. The provisions of the New Bonds will allow a variety of interest rates and interest rate periods during the term of the New Bonds ranging from daily to full term (Interest Rate Mode). AmerenUE states that this flexibility will provide the Applicant the ability to change the type of interest rates and interest, and the length of the interest rate periods depending upon market conditions. AmerenUE explains that the Interest Rate Mode can be changed at the end of an interest rate period with appropriate notice to the bondholders. The specific interest rate for each period within an Interest Rate Mode may be set through a "Dutch Auction" process conducted by an auction agent or set by a remarketing process conducted by a remarketing agent, as elected by the Applicant. AmerenUE states that it is not possible to predict the interest rate or rates for New Bonds. However, the Applicant expects to realize substantial savings in connection with the transactions proposed over the interest cost it would otherwise incur by financing through the issuance of its own long-term debt.

AmerenUE states that the New Bonds will be offered to the public through an investment banking firm or firms (Underwriter(s)). The Application states that the Authority and the Underwriter(s) will enter into a Purchase Contract or Purchase Contracts pursuant to which the Underwriter(s) will purchase the New Bonds and sell them to the public. The compensation to be received by the Underwriter(s) will be determined in light of the financial market conditions just prior to the sale of the New Bonds. The New Bonds will be sold at such price or prices as the Authority, with the approval of the Applicant, shall determine, based on prevailing market conditions, but at not less than ninety-five percent (95%) of the principal amount thereof.

The Application states that the Applicant will be obligated to the Authority to pay the interest on and to redeem or pay at maturity the 1998 Environmental Bonds. Concurrent with the issuance by the Authority of the 1998 Environmental Bonds, AmerenUE will issue and deliver its evidence of long-term indebtedness in the form of the Loan Agreement, which is the specific transaction AmerenUE requests the Commission approve. Pursuant to the Loan Agreement, the Authority will lend the funds for the redemptions or refunding of the Prior Bonds to AmerenUE. The Agreement will also provide for the Applicant's payment of interest equal to the amount of interest on the New Bonds (except to the extent provision may be made for the payment of accrued interest). Further, the Loan Agreement will require payments of principal equal to the maturity payments on the New Bonds, will contain provisions in respect to prepayment of principal and premium, if any, corresponding to the redemption, repurchasing, call, sinking fund provisions of the New Bonds, and will require all payments to be made by the due date for the corresponding payment made on the New Bonds. The issuance and delivery of the Loan Agreement and compliance with this Loan Agreement will satisfy the Applicant's obligation to the Authority.

AmerenUE's objective in pursuing the refinancing, and in choosing the refinancing structure described, is to

> (a) remove the "put" option on the Prior Bonds which, under certain circumstances, allows the holder to "put" the bond back to the issuer;
>
> (b) remove the requirement of having letters of credit necessary for liquidity associated with the "put" risk;
>
> (c) provide flexibility in Interest Rate Modes to take advantage of the favorable interest rates, and
>
> (d) extend the maturity of the long-term indebtedness.

The Application states that on each June 1 anniversary date, the annual interest rate on the Prior Bonds is reset, at which time the Prior Bonds may be "put" back from the investors to the issuer, and the issuer may redeem the bonds or remarket them to the public. According to the terms of the Prior Bonds, the interest rates on the bonds may be fixed for their remaining life on any "put" date at the option of the issuer. If this feature were to be exercised, AmerenUE states that the bonds would no longer be remarketed annually and could be "put" back to the issuer prior to their year 2014 maturity date.

Further, the Applicant states that the Prior Bonds are backed by letters of credit from the Swiss Bank Corporation (Series 1984A) and Union Bank of Switzerland (Series 1984B) for the purpose of enhancing liquidity and creditworthiness of the securities. Currently, the letters of credit impose approximately $600,000 per year in added costs upon the Applicant and, given current market conditions and the ratings status of the Applicant, are no longer necessary. In addition, the Applicant expects that the added flexibility in Interest Rate Modes will likely provide pricing advantages which could result in more competitive rates. Finally, because the life of the underlying property is expected to be beyond 40 years, the proposed refinancing would provide the opportunity to extend the term of the lower-cost tax exempt financing from the year 2014 to the year 2038.

While the Applicant states that it looked at several alternatives of financing to achieve its objectives in refinancing; the refinancing structure which allows flexible Interest Rate Modes and the ability to utilize a "Dutch Auction" or remarketing process to determine interest rates allows the Applicant to achieve all of the above objectives. No fee would be required pursuant to Section 386.300(2) RSMo (1995), to the extent that the proceeds from the issuance of the debt instrument are used to retire the debt instrument.

The Application states that the capitalization ratios of the Applicant as of March 31, 1998 were: long-term debt and unamortized discount and premium - 42.9 percent; preferred stock - 3.6 percent; and common equity - 53.5 percent. AmerenUE states that the capitalization ratios would not materially change due to the Applicant's issuance of the New Bonds refinancing for the same dollar value as the Prior Bonds.

Along with the Application, the Applicant filed with the Commission a certified copy of the resolutions of the Board of Directors of the Applicant with respect to the proposed financing, the form of Indenture of Trust to be entered into between the Authority and the Trustee, the form of the Loan Agreement to be entered into between the Applicant and the Authority, and the form of Purchase Contract to be entered into by the Applicant, the Authority and the Underwriter(s). The current time schedule provides for the issuance of the New Bonds and the execution of the Loan Agreement on September 1, 1998.

The Staff of the Missouri Public Service Commission (Staff) filed its recommendation on August 11. Staff indicates that AmerenUE proposes to issue $160,000,000 in Environmental Improvement Revenue Refunding Bonds Series 1998 (multiple series) with a variable rate, with the final terms and conditions to be set at the time of issuance. Staff states that the purpose of the issuance is to refinance $160,000,000 in outstanding Pollution Control Revenue Bonds. From a financial perspective, Staff deems this stated purpose to be reasonable. Staff states that the notes will be sold in a public sale by underwriters (A. G. Edwards and Sons). Staff reviewed the pro-forma financial statements, the proposed Loan Agreement and other documents provided by the Company. Staff states there will not be any change in the capital structure of AmerenUE since the transaction is purely a refinance situation.

Further, Staff has reviewed the proposed Interest Rate Modes method of determining the market interest rate based upon the market conditions. Staff noted that as of July 16, 1998, the tax-exempt commercial paper rate was 3.65 percent, a three to a five-year tax exempt fixed rate was between 4.3 and 4.45 percent, and the current fixed rate on tax exempt bonds with 25/30 year maturities was approximately 5.24 percent.

Staff of the Financial Analysis Department has a concern that this transaction would possibly be detrimental to the public interest if interest rates would rise over the life of this issue and in a rate proceeding an interest rate above the current long-term rate would be assigned to these issues. Staff reports that Staff and AmerenUE agree that all ratemaking treatment to be given these transactions will be deferred until the next rate proceeding and AmerenUE has agreed to develop and implement an interest management program, using interest rate management products such as interest rate conversion privileges, swaps, collars, caps and bond puts, among others. The objective of the interest management program is to maintain a low cost of debt while managing the interest rate risk on portions of the Company's variable rate debt.

After reviewing AmerenUE's application, Staff recommends that the Commission approve the Company's Application with the following conditions:

> 1. That AmerenUE develop and implement an interest rate management program, file a written description of its interest rate management plan with the Commission's Financial Analysis Department, notify the Financial Analysis Department in writing of its terms and conditions of interest rate management products entered into and submit quarterly reports regarding the performance of the interest rate management program and of the interest rate management products when such products are utilized. The quarterly reports will indicate the nature of any activity or inactivity for that quarter; and

> 2. That the Commission reserves the right to consider the ratemaking treatment to be afforded these transactions and the resulting cost of capital in a later rate proceeding.

On August 14, AmerenUE filed its Motion for Expedited Consideration and Waiver of Right For Rehearing, which states that the New Bonds must be priced by August 27, 1998, in order to allow for timely redemptions of the Prior Bonds on December 1, 1998. Further, AmerenUE states that Staff has recommended approval of Applicant's request, the Office of the Public Counsel has offered no objection and no other parties have intervened in this matter. Finally, AmerenUE requests that the order become effective on the date the Commission issues it.

On August 20, Staff and OPC filed a Joint Response stating that neither Staff nor OPC had any objection to AmerenUE's Motion for Expedited Consideration or the Waiver of the Right to Rehearing.

The Commission has reviewed the application of AmerenUE, the attached documents, the recommendation of the Staff, as well as all pending motions and waivers. The Commission finds the proposed transaction to be reasonable and not detrimental to the public interest. The Commission will, therefore, approve the requested financing.

IT IS THEREFORE ORDERED:

1. That Union Electric d/b/a AmerenUE is hereby authorized to execute and enter into a Loan Agreement and all documents necessary to facilitate the issuance of the 1998 Environmental Bonds by the State Environmental Improvement and Energy Resources Authority of the State of Missouri.

2. That AmerenUE develop and implement an interest rate management program, file a written description of its interest rate

management plan with the Commission's Financial Analysis Department, notify the Financial Analysis Department in writing of the terms and conditions of interest rate management products entered into and submit quarterly reports regarding the performance of the interest rate management program and of the interest rate management products when such products are utilized. The quarterly reports will indicate the nature of any activity or inactivity for that quarter.

3. That nothing in this order shall be considered a finding by the Commission of the value of this transaction for ratemaking purposes, and that the Commission reserves the right to consider the ratemaking treatment to be afforded these financing transactions and their results in any later proceeding.

4. That Union Electric d/b/a AmerenUE shall file with the Commission a copy of the Loan Agreement within ten days of successful completion of the Loan Agreement and advise the Commission within ten days of successful completion of the total transaction that this transaction has been completed.

5. That this order shall become effective on August 27, 1998.

BY THE COMMISSION

Dale Hardy Roberts

Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

(S E A L)

Lumpe, Ch., Crumpton, Murray,
Schemenauer and Drainer, CC., concur.

Register, Regulatory Law Judge