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Witness: Cary G. Featherstone
Sponsoring Party: MoPSC Staff
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Case No.: EM-96-149

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

CARY G. FEATHERSTONE

UNION ELECTRIC COMPANY

CASE NO. EM-96-149

**Jefferson City, Missouri
May 1996**

**** Denotes Highly Confidential Information ****

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1 increases, earnings investigations and complaint cases as well as cases relating to merger and
2 acquisitions and certification cases.

3 Q. Have you previously filed testimony before this Commission?

4 A. Yes, I have.

5 Q. Have you prepared a schedule to this testimony detailing your prior
6 involvement in Missouri rate cases?

7 A. Yes. Schedule 1 to this testimony is a summary of rate cases in which I have
8 submitted testimony. In addition, I have directly supervised and assisted in other audits of
9 public utilities which are also identified in Schedule 1.

10 Q. With reference to Case No. EM-96-149, have you made an examination and
11 study of the books and records of Union Electric Company and CIPSCO Incorporated
12 relating to the proposed merger application?

13 A. Yes, in conjunction with other members of the Commission Staff (Staff).

14 Q. What has been your past experience relating to other mergers and acquisitions?

15 A. I have been involved in Staff's review of several merger and acquisition
16 applications filed with the Commission. Along with other members of the Staff, I was
17 involved in the review of the hostile tender offer to Kansas Gas & Electric Company (KGE)
18 shareholders made by Kansas City Power & Light Company (KCPL). On July 16, 1990,
19 KCPL filed an application before this Commission to acquire and merge with KGE which was
20 docketed as Case No. EM-91-16. After KGE signed a Merger Agreement with Western
21 Resources, Inc. (Western Resources), formerly Kansas Power & Light Company (KPL),
22 KCPL withdrew its tender offer on December 13, 1990.

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1 I was also involved in the review of KPL's merger and acquisition of KGE.
2 On November 21, 1990, KPL filed an application with this Commission, docketed as Case
3 No. EM-91-213, requesting authority to acquire all classes of capital stock of KGE, merge
4 with KGE, issue stock and incur debt obligations. This application was a result of a definitive
5 Agreement and Plan of Merger dated October 28, 1990, which was executed between the two
6 companies. The Commission authorized the KPL merger with KGE in an Order dated
7 September 24, 1991. The State Corporation Commission of the state of Kansas (KCC), in
8 Consolidated Docket Nos. 172,745-U and 174,155-U, approved that merger on
9 November 15, 1991. After receiving the necessary regulatory approvals, KPL completed the
10 merger with KGE on March 31, 1992.

11 I was also involved in the Joint Application filed with the Commission on
12 August 5, 1993 for the authorization to sell, transfer and assign certain assets relating to the
13 provision of natural gas service in Missouri from Western Resources, Inc. to Southern Union
14 Company (Southern Union). This case was docketed as Case No. EM-94-40. The Joint
15 Application was a result of an Agreement for Purchase of Assets dated July 9, 1993 which
16 was executed between the two companies. The Commission approved this purchase
17 transaction on December 29, 1993.

18 Q. What other experience do you have regarding mergers and acquisitions?

19 A. Along with other staff members, I was involved in discussions on the Union
20 Electric acquisition of Arkansas Power & Light Company's (APL) Missouri properties,
21 docketed as Case No. EM-91-29.

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1 I have been involved in several other merger and acquisition applications filed
2 with the Commission. This includes the application of United Cities Gas Company (United
3 Cities) to acquire Monarch Gas Company, docketed as Case No. GM-96-180. This
4 application was filed on November 29, 1995 and was approved by the Commission on
5 March 22, 1996.

6 I presented testimony in Case No. GO-90-152 on the proper ratemaking
7 treatment of the acquisition adjustment resulting from the acquisition of Associated Natural
8 Gas Company by Arkansas Western Gas Company.

9 Also, I have been involved in examining the impacts of acquisition and merger
10 activities of another utility operating within the state of Missouri. Specifically, I was involved
11 in the supervision of an audit of UtiliCorp United, Inc.'s (UtiliCorp) Missouri Public Service
12 (MPS) Division in Case No. GO-88-194, wherein the Staff examined UtiliCorp's Corporate
13 Office function, particularly the impacts on cost of service of that utility's acquisition and
14 merger strategy, in the context of a natural gas rate increase case.

15 I was the principal Staff witness on the Corporate Office costs issue in
16 UtiliCorp's 1990 electric rate increase case, Case No. ER-90-101, et al., respecting MPS
17 Division's electric operations.

18 I have also reviewed several other applications relating to acquisitions of utility
19 property, primarily involving UtiliCorp.

20 Q. How is your testimony organized?

21 A. The following represents the structure of the testimony by areas:

- 22 • Discussion of Merger page 7

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- 1 • Standard of Public Detriment page 13
- 2 • “Merger Premium” page 15
- 3 • Amount of Net Merger Savings page 26
- 4 • Earnings Dilution page 31
- 5 • UE’s “Merger Premium vs. page 37
- 6 Acquisition Adjustment
- 7
- 8 • Recovery of “Merger Premium” page 42
- 9 • Summary and Conclusion page 49

10 Q. What is the purpose of your rebuttal testimony?

11 A. The purpose of my rebuttal testimony is to respond to the direct testimony of
12 Union Electric Company (Union Electric or UE) regarding its proposal to merge with
13 CIPSCO Incorporated (CIPSCO). I will provide testimony setting out a general review of
14 the regulation of utility merger and acquisition activity in the state of Missouri. I will present
15 testimony relating to what Union Electric believes to be a “merger premium” resulting from
16 the merger with CIPSCO. I will also address the issue of rate recovery of this “merger
17 premium” along with Staff witness Charles R. Hyneman. My rebuttal testimony will include
18 a discussion of the differences between the “merger premium” allegedly resulting from the
19 pooling of interests method of accounting (pooling method) for mergers and acquisitions and
20 the more traditional “acquisition adjustment” resulting from the purchase method of
21 accounting (purchase method).

22 Q. Do Union Electric and CIPSCO currently operate utility services within the
23 state of Missouri?

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1 A. Union Electric operates regulated retail and wholesale electric utility service
2 in the states of Missouri and Illinois. Union Electric also operates a local natural gas
3 distribution system in both the Missouri and Illinois jurisdictions. CIPSCO provides retail and
4 wholesale electric utility service in the state of Illinois and also operates a local natural gas
5 distribution system in that state, both through a wholly owned subsidiary named Central
6 Illinois Public Service Company (CIPS).

7 Q. What caused the Staff's review in this case?

8 A. On November 7, 1995, Union Electric filed an application with the
9 Commission requesting approval of a merger between Union Electric and CIPSCO.

10 The application was a result of an "Agreement and Plan of Merger" (merger
11 agreement) between Union Electric and CIPSCO dated August 11, 1995. Under terms of the
12 merger agreement, Union Electric and CIPSCO will merge as wholly owned subsidiaries into
13 a newly formed registered holding company called Ameren Corporation (Ameren). Union
14 Electric and CIPS will continue as operating companies under Ameren along with Ameren
15 Services Company (Ameren Services). The merger was announced to the public on
16 August 14, 1995.

17 Q. What regulatory approvals must Union Electric and CIPSCO receive to
18 complete the merger?

19 A. Paragraph 17 of the Application filed with the Commission by Union Electric
20 identifies the regulatory approvals the companies must receive to complete the merger.
21 Besides this Commission, the Companies must receive approvals from the Illinois Commerce
22 Commission (Illinois Commission or ICC) and the Federal Energy Regulatory Commission

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1 (FERC). Since Ameren will be a registered public utility holding company under the Public
2 Utility Holding Company Act of 1935, the merger will need approval from the Securities and
3 Exchange Commission (SEC). Because Union Electric operates the Callaway nuclear
4 generating unit, the Nuclear Regulatory Commission must also approve the merger
5 transaction. In addition, the Federal Trade Commission and Department of Justice will have
6 to review the merger.

7
8 **DISCUSSION OF MERGER**
9

10 Q. What is the purpose of the merger between Union Electric and CIPSCO?

11 A. In Union Electric's 1995 Annual Report to shareholders,
12 Mr. Charles W. Mueller, President and Chief Executive Officer of Union Electric, stated the
13 following regarding merger benefits:

14 The key to the merger is the opportunity it offers. Ameren
15 will be able to operate more efficiently than the two separate
16 companies, saving \$590 million over 10 years. Our markets
17 will be more diversified, our ability to buy and sell power to
18 other utilities will be expanded, and our systems and expertise
19 will complement each other.
20

21 [Source: 1995 Annual Report to Shareholders--pp. 3 and 4.]

22 The Joint Proxy Statement of Union Electric and CIPSCO and Prospectus of
23 Ameren (Joint Proxy Statement) on file with the SEC also identified merger benefits:

24 The Union Electric Board believes: that Union Electric's
25 shareholders will benefit by participation in the combined
26 economic growth of the Union Electric and CIPS service
27 territories, and from the inherent increase in scale economies,
28 the market diversification and the resulting increased financial
29 stability and strength; that the Mergers will result in cost

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1 savings from decreased electric production and gas supply
2 costs, a reduction in operating and maintenance expense and
3 other factors discussed above; and that the combined
4 enterprise can more effectively participate in the increasingly
5 competitive market for the generation of power. All of these
6 factors offer a potential increase in earnings and dividend
7 growth and the creation of a larger, financially stronger
8 company.

9 [Source: Joint Proxy Statement--p. 30.]

10 CIPSCO's 1995 Annual Report to the Shareholders also identified benefits
11 from the proposed merger:

12 Shareholders will benefit from a stronger company with the
13 ability to market its products over a larger, more diverse
14 region. There should be greater potential to increase earnings
15 and dividends through expanded markets and cost efficiencies.

16
17 Customers will benefit because synergies from the
18 combination will work to hold down prices and help preserve
19 competitive rates. The long-term outlook is that prices will be
20 lower than they would have been if this strategic combination
21 had not occurred.

22
23 Competitive prices and combined resources of the companies
24 should enhance economic development of the region. And
25 employees will benefit because they will have greater
26 opportunity and security in a larger, stronger organization.

27
28 [Source: CIPSCO 1995 Annual Report to Shareholders--p. 9.]

29 Q. Why did Union Electric agree to merge with CIPSCO?

30 A. It appears that this merger is about size--about being a larger utility.

31 Competition in the electric industry is expected to intensify in the future. This merger is
32 viewed as being a strategic move in order for these two utilities to survive in the increasingly
33 competitive environment. In an investment report, Ed Tirello, an investment analyst for

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1 NatWest Securities, indicated that size of utilities was becoming of increasing importance.

2 Mr. Tirello said the following with regard to the Union Electric merger with CIPSCO:

3 While CIPSCO enjoys a growing service territory and a low
4 cost generating position, we believe its size in the future will
5 be a detriment and that it is wise to be pursuing a merger with
6 Union Electric. We believe that size is becoming of increasing
7 importance and that critical mass for a utility distribution
8 company will be 1-2 million customers. As a combined entity,
9 Ameren (the proposed new company name) will serve
10 2.5 million customers. Other benefits of the merger include a
11 projected savings of some \$570 million over 10 years. The
12 parties expect the transaction to be completed by late
13 1996/early 1997 and believe that it will not be dilutive to
14 earnings. We continue to recommend purchase of both UEP
15 and CIP shares.

16
17 [Emphasis added; Source: "Buyside", May 1996 issue, Data Request
18 No. 182.]

19
20 It is interesting to note in Mr. Tirello's analysis that both Union Electric and
21 CIPSCO believe the merger "will not be dilutive to earnings."

22 Q. Did Union Electric recognize the concern about the size of CIPSCO being too
23 small?

24 A. Yes. During a February 13, 1996 interview (see the rebuttal testimony of Staff
25 witness Mark L. Oligschlaeger for a description of this and other interviews), Mr. Mueller
26 commented on this very point:

27 I think they saw themselves as being too small to survive in
28 the long-term. They're a very financially strong company, but
29 at their size I've been told by their CEO that he thought they
30 could have gone along for another three, four or five years as
31 they were but that they would not survive.

32
33 [Source: Mueller Interview, transcript, p. 9.]
34

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1 Q. Has the merger been approved by Union Electric and CIPSCO shareholders?

2 A. Yes. At separate special shareholder meetings held on December 20, 1995,
3 shareholders of Union Electric and CIPSCO (Companies) approved the merger of these two
4 Companies. The approval required a two-thirds favorable vote of the outstanding shares of
5 each company. At Union Electric's special shareholder meeting, 96.2 percent of those shares
6 voting approved the merger which represented 71.1 percent of Union Electric's total
7 outstanding common and preferred shares. At CIPSCO's special shareholder meeting, 96.5
8 percent of the voting shares approved the merger representing 76.4 percent of CIPSCO's
9 total outstanding common shares.

10 Q. Did the shareholders of both Companies approve the stock exchange?

11 A. Yes. The merger agreement signed by the two Companies entitles holders of
12 Union Electric common stock to receive one share of Ameren common stock for each share
13 of Union Electric common stock. The holders of CIPSCO common stock will receive for
14 each share of CIPSCO common stock 1.03 shares of Ameren common stock. The Companies
15 state that this stock exchange ratio represents an approximate 23 percent premium being paid
16 by Union Electric's shareholders to CIPSCO shareholders. The total value of the merger
17 transaction is \$1.2 billion.

18 Q. When did merger discussions between Union Electric and CIPSCO begin?

19 A. According to the direct testimony of Mr. Mueller, he met with
20 Mr. Clifford L. Greenwalt, President and Chief Executive Officer of CIPSCO, on June 19,

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1 1995 to discuss the possibility of a business combination between the two Companies. The
2 following is a brief description of key events relating to the merger:

- 3 • December 6, 1994 CIPSCO Board of Directors briefed that CIPSCO
4 management was reviewing various strategic
5 alternatives.
- 6
7 • May, 1995 CIPSCO management concluded that UE offered a
8 better overall strategic fit than any other potential
9 merger partner.
- 10
11 • June 6, 1995 At CIPSCO Board of Directors meeting, CIPSCO
12 management reviewed possible strategic alternatives
13 for CIPSCO, including a business combination with
14 Union Electric. CIPSCO Board of Directors
15 authorized management to continue further studies
16 regarding a business combination with Union Electric.
- 17
18 • June 15, 1995 Goldman Sachs Highly Confidential presentation
19 materials for Union Electric.
- 20
21 • June 1995 (Prior to June 19, 1995
22 meeting) Series of discussions between the CEOs Mueller and
23 Greenwalt resulted in the June 19, 1995 meeting.
- 24
25 • June 19, 1995 Meeting between CEOs Mueller and Greenwalt to
26 discuss in a very preliminary fashion the concept of a
27 business combination
- 28
29 • June 21, 1995 Officers of Union Electric and CIPSCO discuss
30 potential merger savings. UE officers were
31 Donald E. Brandt, Senior Vice-president, Finance and
32 Corporate Service, and William E. Jaudes,
33 Vice-president and General Counsel. CIPSCO officers
34 were William A. Koertner, Vice-President, and Craig
35 D. Nelson, Treasurer. Following the June 21, 1995
36 meeting, the Companies entered into a confidentiality
37 agreement.
- 38
39 • July 14, 1995 Introductory meeting to discuss timetable for
40 accomplishing tasks required to negotiate, prepare and
41 execute merger transaction. The meeting was held

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with Messrs. Brandt, Jaudes, Koertner and Nelson with other UE and CIPSCO personnel, as well as their financial and legal advisors. Deloitte & Touche (jointly retained by UE and CIPSCO to examine potential merger synergies) was also present. "Working groups composed of representatives of both companies were formed to examine various issues, including structure, financial modeling, regulatory considerations, integration of employee benefit plans, communications and an analysis of synergies."

- July 26, 1995 Messrs. Brandt, Jaudes, Koertner and Nelson as well as other personnel from UE and CIPSCO and their financial advisors held a meeting to conduct due diligence and discuss further the potential synergies from merger. Also discussed were the legal and regulatory implications of alternative combination structures.
- August 1, 1995 CIPSCO management, Morgan Stanley (CIPSCO's financial advisor), Deloitte & Touche, legal counsel and a nuclear consultant met with the CIPSCO Board of Directors regarding the merger. Deloitte & Touche reported on the analyses of the potential synergies that could be achieved by a business combination.
- August 8, 1995 UE Board of Directors met to receive detailed information and advice from Goldman Sachs (Union Electric's financial advisor) and legal counsel. The Board of Directors also received a detailed report on merger negotiations, and a report on potential synergies. Counsel outlined terms and conditions of the draft merger agreement.
- August 8, 1995 CIPSCO Board of Directors met to receive detailed information and advice from Morgan Stanley and legal counsel. Also received an updated briefing from Deloitte & Touche on analysis of potential synergies. Morgan Stanley presented financial and other information concerning UE and CIPSCO and the status of negotiations with respect to an exchange ratio. Counsel outlined terms and conditions of the draft merger agreement.

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- 1
2 • August 11, 1995 Both UE and CIPSCO Boards of Directors approve
3 the merger agreement and the stock option agreements
4 and authorize their execution. CIPSCO Director
5 John L. Heath votes against approval.
6
7 • August 14, 1995 Announcement made to public regarding UE and
8 CIPSCO's intention to merge.
9
10 • November 7, 1995 UE files merger application with the Missouri Public
11 Service Commission. UE and CIPSCO file joint
12 merger application with the Illinois Corporation
13 Commission.
14
15 • December 20, 1995 Shareholders of both Companies approve the merger.
16

17 [Source: Joint Proxy Statement, pp. 24-28; Data Request No. 119]
18
19
20

21 **STANDARD OF PUBLIC DETRIMENT**

22 Q. What standard did Staff utilize to develop its recommendation regarding Union
23 Electric's proposed merger with CIPSCO?

24 A. The Staff utilized the standard of detriment to the public interest as it has in
25 the other merger cases which I have participated in. If Union Electric fails to show that the
26 merger with CIPSCO is not detrimental to the public interest in Missouri, i.e., if it is
27 demonstrated that the Missouri public will be harmed by the proposed merger, then the
28 Commission should reject this application and not approve the proposed merger. Staff
29 counsel has advised that the not detrimental to the public interest standard is based on case
30 law generally cited in Commission Orders as State ex rel. City of St. Louis v. Public Serv.
31 Comm'n, 73 S.W.2d 393 (Mo. banc 1934); State ex rel. Fee Fee Trunk Sewer Co., Inc. v.
32 Litz, 596 S.W.2d 466 (Mo. App. 1980). Staff counsel also advises that the Commission has

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1 incorporated the not detrimental to the public interest standard in its rules.
2 4 CSR 240-2.060(6)(D).

3 Q. How is Staff defining the term "public"?

4 A. Consistent with Staff's position in other cases, Staff views the members of the
5 "public" that are to be protected as those consumers taking and receiving utility service from
6 Union Electric's electric and natural gas operations in the state of Missouri.

7 In this case, Staff would define "public interest" as referring to the nature and
8 level of the impact or effect that Union Electric's merger action will have on its Missouri
9 customers. There is a fundamental concern in the regulation of public utilities that the public
10 being served will not be impacted adversely or harmed by those responsible for providing
11 monopoly services. Public utilities in Missouri are charged with providing safe and adequate
12 service at just and reasonable rates.

13 In the merger case involving KPL, now Western Resources, and KGE which
14 occurred in 1991, the Commission identified the "public" as Missouri ratepayers. At pages 12
15 to 13 of its Report and Order (Case No. EM-91-213), the Commission stated the following:

16 The Commission has found no evidence in this record that
17 KPL would be unable to render safe and adequate service to
18 its Missouri ratepayers as a consequence of the proposed
19 merger. However, the Commission has found that the savings
20 sharing plan proposed by KPL as part of its merger application
21 has the potential of exposing Missouri ratepayers to higher
22 rates than would be the case without the merger which would
23 be detrimental to the public interest

24 The Commission has also found that there is potential for a
25 detrimental effect on Missouri ratepayers from the merger
26 through increased A & G and capital costs
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1 Based upon these findings and determinations, the
2 Commission concludes that Missouri ratepayers will be
3 shielded from any potential ill effects from the proposed
4 merger and will suffer no detriment as a result. Therefore, the
5 Commission concludes that, in the absence of a finding of
6 detriment to the public interest, it may not withhold its
7 approval of the proposed merger and will authorize KPL to
8 acquire and merge with KGE.
9

10 Clearly, the Commission was identifying the Missouri ratepayers as the relevant "public" in
11 its Report and Order.

12
13 **"MERGER PREMIUM"**

14 Q. What is the expected amount of the alleged "merger premium" related to the
15 proposed merger between Union Electric and CIPSCO?

16 A. Union Electric identifies the "merger premium" as \$232 million (UE witness
17 Gary L. Rainwater's direct testimony, page 18 and Schedule 6). Union Electric specifies
18 additional costs relating to transaction costs, i.e., costs of the merger, and transition costs,
19 i.e., costs to achieve the merger. Transaction costs and "costs to achieve" the merger are
20 discussed in the rebuttal testimony of Staff Accounting witness Thomas M. Imhoff. Union
21 Electric shows what it believes to be the total costs of the merger as follows:

22 "Merger premium"	\$232 million
23 Transaction costs	22 million
24 (Costs of the merger)	
25	
26 Transition Costs	19 million
27 ("Costs to achieve")	_____
28	
29 Union Electric position	\$273 million
30 on total merger costs	

31
32 [Source: Rainwater direct--Schedules 6 and 7.]

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2 Q. What is a "merger premium"?

2

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A. The "merger premium" represents, in general, any portion of the purchase price for a company which reflects a valuation above the current book value of the acquired company's assets, or market value of the acquired company's stock.

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For Union Electric specifically, the "merger premium" represents the transfer of shareholder wealth from Union Electric to CIPSCO to consummate the merger, measured by the gain in stock price and increase in the number of shares of Ameren stock to be held by CIPSCO shareholders, compared to the market value and the number of shares of pre-merger CIPSCO stock.

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Q. Why did Union Electric agree to give CIPSCO shareholders an exchange ratio of 1.03 shares of Ameren common stock for each share of CIPSCO common stock?

12

13

A. Since Union Electric wanted to maintain control of the merged company, it believed it had to pay a "merger premium". Mr. Mueller stated the reasons Union Electric was willing to pay a "merger premium" for CIPSCO in the February 13, 1996 interview:

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I think from our perspective because of size that it was essentially a given, I think, that we [Union Electric] would pay a premium because they [CIPSCO] were giving up loss of control, because of size that we would have control of the board of directors, we would provide the CEO and the headquarters would be in St. Louis.

22

. . . .

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. . . I mentioned that there is always an ongoing debate as to who is chairman and who is vice chairman in the holding company, the buying company. Again, through the negotiations because we [Union Electric] were paying a

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1 premium essentially--Although it's a merger, It's not a merger
2 of equals. We call it a strategic alliance. But surely by their
3 size and our size and our takeover of control that we would
4 pay a premium, that we would provide the chairman and they
5 would provide the secondary role of vice chairman.
6

7 [Source: Mueller interview, transcript, p. 12.]
8

9 From the above quote, it is clear that Union Electric determined a "merger
10 premium" was appropriate so it could maintain control of the positions of the new holding
11 company, Chairman of the Board of Directors and Chief Executive Officer, maintain control
12 of the Board of Directors itself and maintain control of the location of the corporate
13 headquarters in St. Louis. These are important benefits to Union Electric's management and
14 Board members and perhaps even its shareholders, but Staff considers these factors to be of
15 relatively little importance to Union Electric's customers. In essence, Union Electric is
16 attempting through its ratemaking proposal for the "merger premium" to shift the merger
17 costs to its customers while keeping the majority of the tangible and intangible benefits of the
18 merger for Ameren shareholders.

19 Q. What is Union Electric's proposed ratemaking treatment of the "merger
20 premium"?

21 A. Union Electric witness Gary L. Rainwater addresses the "merger premium"
22 and the Company's proposed recovery treatment on pages 17 to 26 of his direct testimony.
23 Essentially, Union Electric's proposed treatment represents a risk-free recovery from Union
24 Electric's ratepayers of some of the purported merger costs to Union Electric and CIPSCO
25 shareholders. The Companies would have its customers pay for the merger with the
26 shareholders receiving the bulk of the asserted merger benefits. Through Union Electric's

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1 recovery proposal, the estimated gross merger savings are reduced by the “merger premium”
2 (along with transaction costs and “costs to achieve”) resulting in “net merger savings”. The
3 net savings are further reduced through a “cost of service adjustment” which in effect exempts
4 half of net savings from potential sharing with customers in the current Experimental
5 Alternative Regulation Plan (Incentive Plan). For a more detailed discussion of Union
6 Electric’s ratemaking proposal, please refer to Staff witness Oligschlaeger’s rebuttal
7 testimony.

8 Q. Is Staff opposed to the ratemaking treatment Union Electric has proposed in
9 this case?

10 A. Yes. Staff witnesses Hyneman and myself will present testimony relating to
11 Union Electric’s proposed recovery of the “merger premium”. Staff witness Oligschlaeger
12 will address the Company’s “sharing of savings” proposal in his rebuttal testimony. Staff
13 witness Imhoff will address the transaction costs and transition costs (costs to achieve) in his
14 rebuttal testimony.

15 Q. Why is Staff opposed to the Union Electric proposal to recover the “merger
16 premium”?

17 A. The Staff believes that Union Electric’s “merger premium” recovery proposal
18 constitutes an attempt by Union Electric to shift risks associated with the merger to Missouri
19 customers through their rates. Under Union Electric’s proposal, its customers would pay for
20 the “merger premium” through reduced merger savings. This proposal will directly reduce
21 any merger savings before any sharing of savings with customers occurs which insulates the

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1 shareholder from the risks of the merger. In addition, this "merger premium" will not be
2 booked or amortized on Ameren records.

3 Q. What has the Illinois Commission Staff recommended in regard to Union
4 Electric's and CIPSCO's proposal to recover the "merger premium" in the Illinois merger
5 docket?

6 A. The Illinois Commission Staff is opposed to Union Electric's and CIPSCO's
7 treatment of the "merger premium". The Illinois Commission Staff has taken a very similar
8 view of the actual existence of the "merger premium" and any recovery of the "merger
9 premium" as has the Missouri Commission Staff.

10 Q. Is the "merger premium" identified by company witness Rainwater what the
11 Staff would define as an actual premium?

12 A. No. The "merger premium" which Union Electric identifies as \$232 million
13 is not in any sense an actual expenditure which it will pay to CIPSCO shareholders. Under
14 the pooling method, no amount of the "merger premium" will appear on the financial
15 statements of Union Electric or on the post-merger financial statements of the holding
16 company Ameren. Unlike a premium resulting from the purchase method for mergers and
17 acquisitions, no amount relating to the "merger premium" under the pooling method will ever
18 appear on the balance sheet or ultimately be charged as an amortization to the income
19 statement of Ameren or either of its operating companies, Union Electric or CIPS. Future
20 earnings will not be reduced by one dollar as a result of the "merger premium". Put simply,
21 UE's alleged "merger premium" does not and will not exist for financial reporting purposes.
22 This is further explained in the rebuttal testimony of Staff witness Hyneman.

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1 Q. Are earnings affected by actual amortizations of premiums related to mergers
2 and acquisitions recorded under the purchase method?

3 A. Yes. Under the purchase method, the amount relating to the original cost of
4 the acquired company is identified on the books and records of the acquiring company. The
5 difference between original cost and purchase price results in an intangible asset, commonly
6 referred to as an "acquisition adjustment" for regulated companies. The acquisition
7 adjustment is identified in the acquiring company's balance sheet and is amortized over a
8 period of time as a charge-off to earnings. This amortization is usually for a period of
9 thirty (30) to forty (40) years or over the remaining life of the assets purchased. The
10 charge-off is made to either an amortization or a depreciation account and reduces earnings
11 in the current period. However, no such charge-off to earnings will result from the pooling
12 method proposed by Union Electric. I will further address the effects of the acquisition
13 adjustment under the purchase method for mergers and acquisitions later in this rebuttal
14 testimony.

15 Q. Do Union Electric and CIPSCO recognize that Union Electric will make no
16 "actual" payment for the amount it identifies as the "merger premium"?

17 A. Yes. In a document prepared in early August 1995, Union Electric and
18 CIPSCO indicated that there was no actual merger premium being paid as a result of the
19 merger between Union Electric and CIPSCO. The following appeared in a "Question and

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1 Answer" format and was used to prepare Union Electric and CIPSCO company officials for
2 questions from the media and investment analysts at the time of the merger announcement:

3 Q. UE is paying a 23 percent premium that won't be
4 recoverable in rates. How will you get that back?

5
6 A. Since this is a business combination, strictly speaking,
7 UE is not "paying" anything. The exchange ratio is 1.03
8 shares of the new holding company for CIPSCO holders; 1
9 share in the new holding company for Union Electric
10 stockholders. Our regulators will look at that issue in today's
11 business climate--one of increasing utility competition, and
12 one in which UE is already committed to share savings with
13 customers. We expect this merger to create efficiencies that
14 will result in a sharing of net savings between our customers
15 and our stockholders.

16
17 [Emphasis added; Source: "Questions and Answers", p. 2--Data Request
18 No. 92.]

19
20 I will discuss the term "net savings" as it is used in the above quotation later
21 in this rebuttal testimony.

22 Q. What was the purpose of the "Question and Answer" format?

23 A. Its purpose was to prepare responses for the Union Electric and CIPSCO
24 Boards of Directors and officers to typically asked questions regarding a merger at the time
25 the merger was to be announced. The above excerpt is from a document containing several
26 pages of "Questions and Answers" relating to the merger. The information was obtained
27 through Staff's review of the CIPSCO Board of Directors meeting minutes during an on-site
28 visit to CIPSCO corporate headquarters in Springfield, Illinois. This information was part of

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1 the supporting documentation for the CIPSCO Board of Directors meetings of August 8 and
2 11, 1995. The document went through several draft versions, but Staff received a copy of
3 the "final" version through material supplied by CIPSCO pursuant to a Staff data request.

4 Q. Is it typical to see a proposal to recover the "merger premium" under a pooling
5 method?

6 A. No. Staff is not aware of any past or current request, either in Missouri or any
7 other jurisdiction, for a recovery of a "merger premium" associated with a merger accounted
8 for under the pooling method such as that which Union Electric is proposing in this case.

9 Union Electric, CIPSCO, their financial advisors and outside consultants,
10 including Deloitte & Touche, are all unaware of any merger or acquisition transactions where
11 recovery of a "merger premium" under the pooling method was requested.
12 Mr. Thomas J. Flaherty of Deloitte & Touche, who filed direct testimony on behalf of Union
13 Electric and is characterized as a national expert in utility mergers and acquisitions, stated in
14 his interview of April 1, 1996 that he was not aware of any company which had sought direct
15 or specific "above-the-line" treatment for rate recovery of a "merger premium" related to the
16 pooling method. He did say that some indirect rate recovery of "merger premiums" may be
17 implied as part of a regulatory approach such as use of rate moratoriums, or sharing of merger
18 savings. (Response to Data Request No. 109; Flaherty interview, transcript, pp. 37 and 88;
19 and Rainwater interview, transcript, p. 19.)

20 It is clear Union Electric's proposal is unique and it appears that there are not
21 any prior cases where this type of recovery proposal has ever been used.

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1 Q. Have other recently announced mergers requested ratemaking treatment
2 similar to the Union Electric proposal?

3 A. No. Several mergers have recently been announced for which the pooling
4 method is intended to be used and which will result in "merger premiums" similar in amount
5 to that calculated for Union Electric and CIPSCO.

6 The Baltimore Gas & Electric Company and Potomac Electric Power
7 Company merger announced on September 25, 1995, results in a "merger premium" of 21 per
8 cent. It is expected that a sharing of merger savings with the shareholders will provide a
9 contribution toward the merger premium.

10 The Puget Sound Power & Light Company and Washington Energy Company
11 merger, announced on October 18, 1995, results in a "merger premium" of 19 per cent. This
12 merger transaction, like the Baltimore Gas & Electric - Potomac Electric Power combination,
13 will be accounted for under the pooling method. This merger is expected to result in a
14 moratorium with a merger savings sharing proposal.

15 The above mergers have similar "merger premiums" in amount and type to that
16 incurred by Union Electric and CIPSCO, yet these companies have chosen not to seek explicit
17 recovery of the "merger premium", unlike the situation in this Application by Union Electric.
18 The decision by these other companies not to seek direct recovery of their "merger
19 premiums" is not surprising when one reflects that these companies' balance sheets and
20 income statements will show no negative impact from the "merger premium".

21 Q. Are KCPL and UtiliCorp requesting direct recovery of any "merger premium"
22 which may result from their recently announced merger?

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1 A. It is my understanding that KCPL and UtiliCorp are not seeking direct
2 recovery of any merger premium to the extent one exists, or may result from their merger.
3 This merger will also be accounted for under the pooling method. The Joint Application for
4 this merger was filed with the Commission on February 2, 1996 and designated as Case
5 No. EM-96-248.

6 Q. What has been the reaction of the investment community regarding the
7 proposed merger between Union Electric and CIPSCO?

8 A. The reaction to the merger has been generally favorable. The Staff reviewed
9 several sources of information identifying the reactions of investment security analysts. This
10 material included shareholder reports, SEC filings, the Joint Proxy Statement and the reports
11 of various investment firm analysts.

12 Q. Did Union Electric and CIPSCO represent to the investment community at the
13 time the merger was announced that the alleged "merger premium" would be recovered
14 through rates from their customers or as a reduction to the merger savings?

15 A. No. A review of information supplied by Union Electric and CIPSCO to the
16 investment community relating to the merger does not disclose any representation to the
17 investment community that an attempt would be made to recover the "merger premium" from
18 the Companies' customers, either directly through rates or as a reduction to the gross merger
19 savings. The information does indicate that a portion of the merger savings was expected to
20 be retained by the newly formed holding company for its shareholders.

21 Q. Did the investment analysts address the recovery of the "merger premium" in
22 their reports commenting on the merger?

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1 A. No. At the time of the merger announcement on August 14, 1995, Union
2 Electric and CIPSCO provided material to investment analysts including press releases and
3 information on the merger so that the investment community could assess the merits of this
4 merger (attached hereto as Schedule 2). Both Companies jointly held a conference call on
5 August 14, among other things, to provide an opportunity for investment analysts to ask
6 questions about the merger. This conference call was taped and a copy was provided to Staff.
7 Attached as Schedule 3 is a transcription of the conference call held between the investment
8 analysts and Union Electric and CIPSCO officials. It is noteworthy that at no time in this
9 conference call was there mention of Union Electric actually expending funds to pay for the
10 “merger premium”, which in testimony three (3) months later it was alleged to have resulted
11 from this transaction. Further, there was no discussion of any “actual” recovery of the merger
12 premium through rates or as a reduction of merger savings.

13 Q. What did the investment analysts report to the investment community
14 respecting their assessment of the proposed merger?

15 A. The reports discussed the merger savings which would result from the
16 combination of the two entities, the stock exchange ratio negotiated between Union Electric
17 and CIPSCO to implement the combination, and the needed regulatory approvals which are
18 required to be obtained before the merger can be finalized. The Companies indicated it was
19 expected that \$570 million of net merger savings would occur over ten years with a portion
20 of the net merger savings expected to be retained by the shareholders. The following are

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1 relevant excerpts from two investment reports (attached as Schedule 4) dated August 14 and
2 15, 1995 regarding reaction to the merger transaction. The Goldman Sachs report states:

3 . . . The companies anticipate savings of approximately
4 \$570 million (\$588 million before merger costs) over the 10
5 years following the proposed merger. About two-thirds of the
6 savings will come from eliminating duplication of
7 administrative and corporate programs, purchasing economies,
8 and lower electric production and gas costs. The remaining
9 one-third will result from the elimination of approximately 300
10 employees.

11
12 The Paine Webber report states:

13
14 . . . It will be a tax-free exchange--a pooling of interests. It is
15 anticipated that the new company will adopt UEP's dividend
16 payment level (\$2.44 per share). The companies expect to
17 save \$570 million over ten years--eliminating duplicate
18 operations, economies of scale, etc. The transaction should be
19 completed by year-end 1996 and is not expected to be
20 delusive [delutive] of earnings . . .

21
22 [Emphasis added; Attached as Schedule 4; Source: Data Request No. 35.]

23 A. G. Edwards & Sons, Lehman Brothers, UBS Securities, Kemper Securities,
24 Dean Witter and others all made similar statements, showing similar positive reactions to the
25 merger. All analysts identified the net merger savings as the \$570 million amount given to
26 them by Union Electric and CIPSCO.

27
28 **AMOUNT OF NET MERGER SAVINGS**

29 Q. What was the amount of the merger savings identified by Union Electric and
30 CIPSCO at the time of the merger announcement on August 14, 1995?

31 A. Union Electric and CIPSCO identified in the material provided to investment
32 analysts \$570 million of net merger savings which were expected to result over the first ten

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1 years from the announced merger. This represented a total of \$590 million of gross merger
2 savings over that period less approximately \$20 million that was identified as transition costs
3 (“costs to achieve”) the merger. The \$20 million amount related to an estimate of costs
4 which the Companies expected to incur for training, relocation and other costs to implement
5 the consolidation of the two Companies. The investment analysts based their reaction to the
6 merger on the net savings of \$570 million.

7 Q. Did the net savings of \$570 million reflect any amount for the “merger
8 premium”?

9 A. No. The gross merger savings of \$590 million had only the \$20 million of
10 transition costs (costs to achieve the merger) as a reduction resulting in the net merger
11 savings of \$570 million. There was no reference to an amount for “merger premium”. The
12 \$570 million amount for net merger savings was consistently used respecting every decision
13 made by the shareholders, members of the Board of Directors and their financial advisors and
14 Union Electric and CIPSCO management, and in all analysis made by the investment
15 community. At no time was any other net merger savings amount identified for the public
16 prior to Union Electric’s regulatory filings in Missouri and Illinois.

17 Q. How did Union Electric and CIPSCO identify the net merger savings for their
18 shareholders?

19 A. Both Union Electric and CIPSCO sent a letter to all of their shareholders along
20 with a Joint Proxy Statement which identified various aspects of the merger. Both of these

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1 documents clearly identify the net merger savings expected to be achieved through the merger
2 as \$570 million. The Joint Proxy Statement identifies the net merger savings as follows:

3 . . . preliminary estimates by the managements of Union
4 Electric and CIPSCO indicate that the Mergers could result in
5 potential net cost savings (that is, after taking into account the
6 costs incurred to achieve such savings) of approximately
7 \$570 million during the 10-year period following the Mergers.

8 Approximately one-third of these savings are expected to be
9 achieved through personnel reductions involving
10 approximately 300 positions. Other potentially significant
11 costs savings are reduced corporate and administrative
12 programs (35% of total potential savings), reduced electric
13 production costs and lower gas supply costs (20%), and
14 purchasing economies for materials, supplies and contract
15 services (12%). Achieved savings in costs are expected to
16 inure to the benefit of both shareholders and customers. The
17 treatment of the benefits and cost savings will depend on the
18 results of regulatory proceedings in the jurisdictions in which
19 Union Electric and CIPSCO operate their businesses.

20
21 [Emphasis added; Source: Joint Proxy Statement--p. 30.]

22
23 Q. Is the net merger savings of \$570 million the same amount as identified by
24 Union Electric witness Rainwater in his direct testimony?

25 A. No. Mr. Rainwater has taken the gross savings of \$590 million and reduced
26 that amount by the \$20 million (actually \$19 million) of transition costs (costs to achieve).
27 He further reduces the \$570 million amount by his estimate of the "merger premium" and

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1 transaction costs. The following represents Mr. Rainwater's calculation of net merger
2 savings:

3	Gross merger savings	\$590 million
4	Less: Merger premium	\$232 million
5	Transaction costs	22 million
6	Transition costs (Costs to	
7	achieve)	<u>\$ 19 million</u>
8		
9	Total "costs"	<u>273 million</u>
10	Net merger savings	\$317 million
11		

12 [Source: Rainwater direct--Schedules 6 and 7.]

13
14 The difference between (1) the net merger savings of \$570 million identified
15 in August of 1995 which was used by members of the Board of Directors and provided to
16 investment analysts and (2) the amount of "net" merger savings of \$317 million which appears
17 in Union Electric's testimony in this proceeding is the alleged "merger premium" and the
18 merger transaction costs.

19 Q. Was there ever any expectation indicated by Union Electric or CIPSCO to the
20 financial community at the time the merger was announced that the "merger premium" would
21 be recovered in rates?

22 A. No. A review of the materials provided to the investment community as of the
23 date of the merger announcement, and the subsequent notices and the Joint Proxy Statements
24 sent to shareholders of Union Electric and CIPSCO requesting approval of the proposed
25 merger, revealed no discussion of direct recovery in rates or the reduction of the merger

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1 savings for the "merger premium". This material did indicate that there was an expectation
2 that a portion of the merger savings would be shared with the respective Companies'
3 shareholders and customers. Nowhere in this merger information is there a discussion of
4 Union Electric's current regulatory proposal as identified in the direct testimony of
5 Mr. Rainwater. Indeed, it appears that the current regulatory proposal was a subsequent
6 strategy developed by Union Electric and CIPSCO to retain a greater portion of the merger
7 savings for Ameren shareholders than was initially envisioned. Staff witness Oligschlaeger
8 discusses in his rebuttal testimony in detail the inequities of the regulatory treatment
9 advocated by Union Electric which would effectuate the recovery of the purported "merger
10 premium".

11 Q. Did Union Electric consider a "purchase" of CIPSCO?

12 A. No. At pages 30 and 31 of the Joint Proxy Statement, the Union Electric and
13 CIPSCO Boards of Directors identified the reasons why they approved the merger. One of
14 the factors considered by both Boards was that the merger was to be accounted for as a
15 pooling of interests transaction. The Boards noted that the pooling method avoids "the
16 reduction in earnings which would result from the creation and amortization of goodwill
17 [acquisition premium] under purchase accounting." Thus, one of the considerations made by
18 both Companies' Boards was structuring the merger as a pooling of interests to avoid any
19 reduction in earnings which would result if the purchase method of accounting was used.
20 Under the purchase method, any actual premium paid for CIPSCO would be treated as an
21 acquisition adjustment, requiring an amortization over a period of time resulting in reduction

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1 to earnings. Both Companies clearly wanted to avoid this. By using the pooling method, no
2 “merger premium” had to be utilized for financial or regulatory reporting purposes.

3 When asked about the underlying assumptions for the statement from the
4 Union Electric Board of Directors referenced above relating to the reasons for use of the
5 pooling method, Union Electric responded that the statement “makes no assumption
6 concerning the recovery of the merger premium and merger transaction costs”. (Data
7 Request No. 121)

8 Q. Is there anything further which addresses the reason why the purchase method
9 of treating the transaction was not considered by Union Electric and CIPSCO?

10 A. Yes, in the aforementioned “Question and Answer” document prepared in
11 early August 1995, the officers of both Union Electric and CIPSCO prepared themselves for
12 the question of why the merger transaction would not be treated as a purchase. The following
13 question and answer appear:

14 Q. Why not just an outright purchase? Why not just pay
15 cash?

16
17 A. The exchange ratio is appropriate in light of other
18 transactions in the industry. [I]nvestors favor the
19 stock-for-stock transaction . . . it doesn't trigger a tax event.
20 Also, a cash transaction would generate a significant amount
21 of goodwill, which would hang over earnings for years.

22
23 [Emphasis added; Source: “Questions and Answers”, p. 2; Data Request
24 No. 92.]

25
26 One factor considered by both Companies' Boards of Directors in their
27 decisions to merge was the advantage of not having to identify for financial (book) purposes
28 an amount of “merger premium”, or goodwill. Since under the pooling method of

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1 accounting, no "merger premium" is recognized on the books and records of the combined
2 companies, there is no need for an amortization that will cause a reduction to earnings.

3
4 **EARNINGS DILUTION**

5 Q. What is earnings "dilution"?

6 A. This term is defined in the rebuttal testimony of Staff witness Hyneman.

7 Q. Does Union Electric consider the effects of the merger transaction to be
8 dilutive?

9 A. While Union Electric has stated in its direct testimony that it believes the
10 merger to be dilutive if no recovery of the "merger premium" and no sharing of merger
11 savings occurs (Union Electric witness Douglas W. Kimmelman's direct testimony, p. 6), any
12 reference that this transaction will be dilutive appears to be directly in conflict with the
13 statements that Union Electric has made outside the regulatory arena. In the Joint Proxy
14 Statement, under the section, "Pro Forma Combination Analysis", there is a discussion of the
15 effect the merger is expected to have on earnings and earnings per share of common stock of
16 Union Electric and CIPSCO for the period 1997 through 1999. The following statement
17 appears at page 39 of the Joint Proxy Statement:

18 The first year of the analysis period is based on the assumption
19 that 1997 constitutes the first full fiscal year after the
20 consummation of the Mergers. The analysis was based on
21 earnings estimates for these years for Union Electric and
22 CIPSCO prepared by their respective managements and
23 includes ten percent per year of the total synergies expected to
24 result from the Mergers as estimated by managements of
25 Union Electric and CIPSCO with the assistance of a third
26 party consultant to Union Electric and CIPSCO. Based on
27 these forecasts and estimates and assuming the Merger will be

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1 accounted for as a pooling of interests, the Ratios would be
2 slightly accretive to Union Electric stockholders (ranging from
3 approximately 1% to 2.2%, depending upon the year). Based
4 on the same forecasts and estimates, Goldman Sachs
5 calculated that, given a Union Electric Ratio of 1.0, a CIPSCO
6 Ratio ranging from 0.99 to 1.12 would result in a pro forma
7 earnings per share accretion (after giving effect to the Mergers
8 and a portion of the expected Synergies) for holders of Union
9 Electric Common Stock of between 0% to 2% for the years
10 1997 and 1998.

11
12 [Emphasis added; Source: Joint Proxy Statement, p. 39.]

13
14 Goldman Sachs, Union Electric's financial advisor for the merger, indicates
15 that instead of earnings and earnings per share being diluted, it believes the merger transaction
16 will actually be accretive, or result in an increase in earnings and ultimately an increase in
17 earnings per share. This conclusion does assume that a portion of the merger savings will be
18 retained by Ameren shareholders, which is exactly the rate treatment that the Staff is
19 proposing in this proceeding.

20 The "Questions and Answers" used to prepare officers and Board members
21 for media and investment analyst inquiries respecting the merger also address the question of
22 dilution as indicated by the following excerpt:

23 Q. Is the transaction dilutive?

24
25 A. We expect no dilution in the first two years after the
26 transaction closes. After we achieve the synergies we expect,
27 we will see earnings accretion begin to flow to stockholders
28 and cost savings flow to customers.

29
30 [Source: "Questions and Answers", p. 1; Data Request No. 92.]

31
32 Q. What assumptions did Goldman Sachs use to determine that the merger would
33 increase earnings and earnings per share?

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1 A. Union Electric's financial advisor assumed that the net merger savings of
2 \$570 million over ten years would be shared equally between customers and shareholders.
3 (page 4 of August 11, 1995 Union Electric Board of Directors presentation by Goldman
4 Sachs; Data Request No. 5.) Goldman Sachs made presentations to Union Electric's Board
5 of Directors on August 8 and 11, 1995 to assist the Directors in reaching its decision relating
6 to the merger. It was at the August 11, 1995 Board of Directors meeting where the final
7 decision was made to merge with CIPSCO. Every analysis presented by Goldman Sachs at
8 both these Board of Directors meetings assumed shareholders would be allowed to retain fifty
9 percent of the \$570 million net merger savings which resulted in the accretive effect on
10 Ameren's future earnings levels and the increase in earnings per share.

11 Q. Is there any other indication that Union Electric and CIPSCO do not believe
12 the merger will result in earnings dilution?

13 A. Yes. Information on the merger was provided to the investment analysts
14 during the aforementioned August 14, 1995 conference call announcing the merger. During
15 this conference call, the subject of dilution was discussed. Many of the analysts cited in their
16 reports that dilution was not expected to be a problem. The following are relevant excerpts
17 from the investment reports dated August 14 and 15, 1995 regarding reaction to the merger
18 transaction.

19 On August 15, 1995, Lehman Brothers states:

- 20 • We view the proposed merger between UEP [Union
21 Electric] and CIPSCO favorably.
22

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- 1 • The combined entity will join two high-quality
- 2 low-cost producers with more critical mass than each
- 3 company on a stand-alone basis.
- 4
- 5 • Initial calculations indicate that the proposed
- 6 transaction is non-dilutive and in the longer term, will
- 7 provide for enhanced earnings power.
- 8

9 On August 14, 1995, Goldman Sachs states:

10
11 Any earnings above the 14.0% ROE are credited entirely to
12 ratepayers. We anticipate that the merger savings would
13 allow UEP [Union Electric] to earn an ROE safely in the
14 12.61% - 14.0% range, although we would not expect the
15 utility to exceed the 14.0% ROE ceiling in 1996 and 1997.
16 UEP indicated that it is unlikely that this rate agreement would
17 be reopened following news of the proposed merger and even
18 indicated that its incentive-based ratemaking provisions could
19 likely be extended beyond its current three-year experimental
20 timeframe. UEP management indicated that the merger would
21 be at least earnings-neutral in the first two years and accretive
22 in the third year.

23
24 [Emphasis added; Schedule 4; Source: Data Request No. 35.]

25
26 Other investment firm analysts made similar statements that this merger was
27 not expected to be dilutive. Thus, both the Board of Directors' and the shareholders'
28 decisions to merge with CIPSCO were based on an expectation of sharing of net merger
29 savings between customers and shareholders. The positive reaction of the investment analysts
30 also was based on Union Electric's belief that the merger would result in increased
31 shareholder value by the shareholders retaining a portion of the net merger savings.

32 Q. Did Union Electric make representations to the investment analysts in the
33 August 14, 1995 conference call that the merger was not going to be dilutive?

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1 A. Yes. During the conference call on August 14, 1995, Mr. Donald E. Brandt,
2 Senior Vice-President and Chief Financial Officer for Union Electric, made a statement that
3 the merger would not be dilutive (Attached as Schedule 3-3).

4 Q. Why was it important for Ameren to be able to share in the net merger
5 savings?

6 A. During a meeting held on September 8, 1995 with Union Electric and CIPSCO
7 officers and Transition Team Leaders, Mr. Mueller stressed the importance of the Transition
8 Team Groups achieving the merger savings so as to ensure that the merger would not result
9 in earnings dilution. Mr. Mueller stated the following:

10 And most important--we can't forget our shareholders. Since
11 UE will pay a 23% premium over market to make this
12 combination happen, we absolutely must achieve the savings
13 necessary to prevent earnings dilution. Again, that's the \$570
14 million we've talked about in our news release.

15 To illustrate how we're going to achieve these cumulative
16 savings over a 10-year period, the graph shows both our gross
17 savings by year and the \$19 million we'll have to spend to
18 achieve the net of \$570 million.

19 For the team leaders here, your job is to ensure that we
20 achieve these savings--or more.

21 [Emphasis added; Source: September 8, 1995 Officers and
22 Transition Team Leaders meeting, pp. 9 and 10; Data Request
23 No. 103.]

24 The function of the Transition Management Task Force process and the
25 Transition Teams are addressed in Staff witness Oligschlaeger's rebuttal testimony.

26 Q. Was Union Electric's ratemaking proposal contemplated at the time of the
27 merger announcement in August 1995?
28

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1 A. No. In an interview on March 27, 1996, Mr. Rainwater indicated that the
2 proposal which he is sponsoring in his direct testimony was not considered at the time of the
3 merger announcement on August 14, 1996. When asked about the presentation being made
4 to Union Electric's Board on the ** _____ ** of net merger savings of
5 \$570 million, Mr. Rainwater responded as follows to a question from the Office of Public
6 Counsel:

7 **Highly Confidential:**

8 MR. KIND: . . . some of your presentations to the board from
9 **Goldman Sachs they talked about expected changes in**
10 **earnings per share for both CIPS stock and UE stock after**
11 **the merger.** Are you familiar with that analysis being in the
12 presentation?
13

14 MR. RAINWATER: I recall it yes. I wouldn't say that I'm
15 familiar with it.
16

17 MR. KIND: . . . Some of those overhead slides that indicate
18 the change in earnings per share for UE and CIPS they have
19 a note at the bottom that states, **assumes five hundred and**
20 **seventy million over ten years, ** _____**
21 **_____** My question is, is this talking about an**
22 **alternative way in which shareholders can be made whole**
23 **in that they would get their merger premium back by**
24 **receiving ** _____** of the savings?**
25

26 MR. RAINWATER: **I think that assumption is correct in**
27 **that that's what was presented to the board.** The board
28 presentation was done on August 11th, and our proposal to
29 the commission was done in October. And over the period
30 from August 11th until we presented our proposal to the
31 commission, **our conclusion was we really required**
32 **recovery of the premium as well as half of the net savings**
33 **in order to make stockholders fully whole. I'd say we**
34 **think we required somewhat more than what was**
35 **presented in the board presentation.**
36

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1 [Emphasis added; Source: Gary Rainwater interview, March 27,
2 1996--transcript, pp. 21-22]

3
4 Q. Does Union Electric require direct recovery of the "merger premium" to avoid
5 earnings dilution from the merger?

6 A. No. Based on the statements noted above, dilution is not expected to occur
7 if a portion of the merger savings is retained for Ameren shareholders.

8
9 **UE's "MERGER PREMIUM" VS. ACQUISITION ADJUSTMENT**

10 Q. Can the "merger premium" identified in Mr. Rainwater's direct testimony be
11 thought of as an acquisition adjustment?

12 A. No. The premiums which have been associated with acquisition adjustments,
13 and which have been at issue previously before this Commission, result from mergers and
14 acquisitions accounted for under the purchase method. Union Electric's "merger premium",
15 identified in Mr. Rainwater's direct testimony, will not be reflected on the financial statements
16 of Ameren or affect earnings the way an actual merger premium does properly recorded as
17 an acquisition adjustment.

18 Q. What is an "acquisition adjustment"?

19 A. An acquisition adjustment results when utility property is purchased or
20 acquired for an amount either in excess of or below book value. Book value relates to the
21 value placed on utility property and recorded on the Company's books and records at the time
22 the utility property is first placed in public service. This assessment of value is referred to as
23 the property's "original cost".

24 Q. What is original cost?

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1 A. The term "original cost", as defined by the Electric Plant Instruction section
2 of the FERC Uniform System of Accounts (USOA), means as follows:

3 2. Electric Plant To Be Recorded At Cost
4

5 A. All amounts included in the accounts for electric plant
6 acquired as an operating unit or system, except as otherwise
7 provided in the texts of the intangible plant accounts, ***shall be***
8 ***stated at the cost incurred by the person who first devoted***
9 ***the property to utility service.*** All other electric plant shall be
10 included in the accounts at the cost incurred, by the utility,
11 except for property acquired by lease which qualifies as capital
12 lease property . . .

13 [Emphasis Added; Paragraph 15,052 of USOA]
14
15

16 Depreciation and amortization of the utility property from the previous owner
17 must be deducted from the original cost, which results in a net original cost figure to be
18 recorded on the purchaser's books and records. The acquired property is valued at the same
19 value the seller placed on it, thus the "original cost when first devoted to public service"
20 concept.

21 Q. Is use of net original cost for valuing rate base still the predominant form of
22 regulation?

23 A. Yes. In the state of Missouri, the use of "original cost" less depreciation to
24 set rates is not only the predominant form of regulation, but, to my knowledge, the only form
25 which has been employed by this Commission.

26 Q. How does an acquisition adjustment result?

27 A. Utility property is recorded on the Company's books and records at net
28 "original cost". A utility must account for any difference between the acquisition costs or

Rebuttal Testimony of
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1 purchase price of property and the net "original cost"; i.e., amount paid to the original owner
2 for utility property and the recorded net "original cost" amount. This difference in purchase
3 price is recorded in USOA Account 114, Electric Plant Acquisition Adjustments. The
4 amortization of the acquisition adjustment is made to Account 406, Amortization of Electric
5 Plant Acquisition Adjustments, if authorization is granted to include the adjustment in cost
6 of service for ratemaking purposes (above-the-line treatment). If no authorization is given
7 to include amortization for ratemaking purposes (below-the-line treatment), then
8 Account 425, Miscellaneous Amortization must be used. Schedule 5 identifies each of these
9 accounts as described in the USOA.

10 Q. Will Ameren or Union Electric and CIPSCO record on their financial records
11 any of the "merger premium" from this merger?

12 A. No. Neither Ameren nor the operating companies will make any entries to the
13 books and records of the merged companies for the "merger premium". No amount will be
14 reflected in Account 114, Electric Plant Acquisition Adjustments; there will be no amount
15 identified as amortization of the "merger premium" made to Account 406, Amortization of
16 Electric Plant Acquisition Adjustments; nor will any amount for the "merger premium" be
17 recorded in Account 425, Miscellaneous Amortization. The "merger premium" will not
18 appear anywhere on Ameren's, or any of its affiliates', financial statements. This reflects the
19 fact that the "merger premium" will not exist for financial reporting purposes.

20 Q. How has the Commission treated the recovery of acquisition adjustments?

Rebuttal Testimony of
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1 A. The Commission has generally not allowed in rates any direct recovery of
2 acquisition adjustments. Negative acquisition adjustments have also not been reflected in
3 rates.

4 Q. How do negative acquisition adjustments occur?

5 A. If utility property is purchased below book value, i.e., the purchase price is
6 below the "original cost", the acquisition adjustment will be negative. A negative acquisition
7 adjustment will reduce net plant assets, thus reducing rate base. This will result in a negative
8 amortization which will have the effect of increasing net income. Since the Commission has
9 consistently not reflected positive acquisition adjustments in rates, it has also not reflected
10 negative ones.

11 Q. Has the Commission recently issued a decision on the recovery of premiums
12 resulting from mergers and acquisitions?

13 A. Yes. In the recent Missouri-American Water Company (Missouri-American)
14 rate case (Case Nos. WR-95-205 and SR-95-206), the Commission's Report and Order did
15 not allow recovery of a merger/acquisition premium in rates. The Commission's Report and
16 Order states as follows:

17 The Commission finds in this case that the Company has failed
18 to justify an allowance for the acquisition adjustment. . . .
19

20
21

22 . . . Therefore, the Commission finds that the original cost
23 principle is sound for the purposes of this case. The
24 Commission finds it is appropriate that the excess purchase
25 costs over and above the net original cost of the Missouri
26 Cities Water Company properties be booked to USOA

Rebuttal Testimony of
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1 Account 114 (Utility Plant Acquisition Adjustments) and
2 amortized below the line over 40 years to USOA Account 425
3 (Miscellaneous Amortization).
4

5 [Source: Commission Report and Order Case Nos. WR-95-205 and
6 SR-95-206, p. 19.]
7

8 Q. Given that the Commission has never granted rate recovery of an actual
9 acquisition adjustment related to a purchase transaction, is there any justification for allowing
10 recovery of an alleged "merger premium" related to a pooling transaction?

11 A. No. Since the Commission has consistently rejected utility rate recovery of
12 acquisition adjustments which have a real impact on utility earnings, then there would be no
13 logical reason for the Commission to permit recovery of a "merger premium" if no actual
14 premium exists for financial reporting purposes and there is no impact on earnings.

15
16 **RECOVERY OF "MERGER PREMIUM"**

17 Q. Can Union Electric recover its "merger premium" by any means if direct
18 recovery in rates is not authorized by the Commission?

19 A. Yes. Even though Staff is not proposing a direct recovery of the "merger
20 premium", Union Electric (Ameren, after the merger) certainly will have the opportunity to
21 recover what "merger premium" it believes exists. Union Electric expected at the time of the
22 merger announcement on August 14, 1995, that it would be allowed to retain half of the net
23 merger savings (synergies) for its shareholders. Union Electric believed it would have an
24 indirect opportunity to recover any purported "merger premium" by retaining a portion of the
25 net merger savings of \$570 million. As discussed in the rebuttal testimony of Staff witness
26 Oligschlaeger, Staff is proposing in this case to allow shareholders the opportunity to retain

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1 approximately 50 percent of actual gross merger savings. Staff witness Imhoff discusses in
2 his rebuttal testimony recovery of the transaction costs and the "cost to achieve" the merger.

3 Q. Are there other ways Ameren can recover the "merger premium"?

4 A. Yes. In addition to any indirect recovery by retaining a portion of the net
5 merger savings, there will be several additional opportunities for Ameren to recover the
6 "merger premium". Any additional merger savings which will occur above the \$570 million
7 of net merger savings Union Electric identified in August 1995 would provide the company
8 with a greater opportunity to recover any stated "merger premium". Ameren will also benefit
9 to the extent it has any increased sales in the wholesale and interchange markets from
10 increased marketing opportunities. Any potential benefits from this aspect of the merger has
11 not been quantified or considered as a merger synergy. In the Joint Proxy Statement,
12 increased marketing opportunities was identified as one of the reasons for the merger and why
13 the Boards of Directors from the two companies recommended approval. The following
14 statement appears in the Joint Proxy Statement:

15 --INCREASED MARKETING OPPORTUNITIES--The
16 combined companies will have enhanced opportunities for
17 marketing in the wholesale and interchange markets. The
18 combined companies will have electric interconnections with
19 28 other utility systems, enhancing opportunities to make sales
20 transactions with these systems and others.

21
22 [Source: Joint Proxy Statement, p. 29.]

23
24 To the extent that Ameren will be able to increase sales and provide for greater
25 merger savings than it previously contemplated, then both shareholders and customers will

Rebuttal Testimony of
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1 receive the additional benefits through the sharing of savings. This allows an increased
2 opportunity for recovery both directly and indirectly of any purported "merger premium".

3 Q. Are there other ways Ameren benefits from this merger and will have an
4 opportunity to recover the "merger premium"?

5 A. Yes. To the extent that the merger is perceived to be a success and the
6 companies are able to achieve and surpass the overall level of merger savings and increased
7 revenues, the much larger merged entity will be better positioned to meet the expected
8 competition among the electric utility industry. The merged company will have greater
9 financial strength and financial flexibility to keep its existing low cost structure in place and
10 better prepare itself to meet competition than the nonmerged companies. A more competitive
11 lower cost company is expected to be able to maintain lower rates and provide good customer
12 service so as to be able to protect its existing markets.

13 Also, to the extent that the investment community perceives the merger has
14 been an overall success, it is expected that the stock values will increase, thus providing
15 further reward to Ameren's shareholders in the future. Any increase in stock price will
16 provide further opportunity for Ameren's owners to recover any perceived "merger
17 premium".

18 Another factor which would allow any "merger premium" to be indirectly
19 recovered would be any appreciation in the value of Ameren's assets. To the extent that
20 Ameren's assets appreciate in value over time and the company disposes of any of those
21 assets, the shareholders directly benefit. It is unusual for utility customers to share in the
22 gains resulting from the disposition of assets by a utility. Public utility commissions in the

Rebuttal Testimony of
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1 past, the Missouri Commission included, have generally treated gains as shareholder benefits
2 only. The belief has been that utility customers do not have ownership rights in the company
3 assets and should not be given the opportunity to share in any of these gains. Thus, any gains
4 from the selling of the merged entities' assets likely will directly benefit Ameren's
5 shareholders, not its customers. These potential future gains will also offset any "merger
6 premium" not recovered directly by Ameren.

7 Q. Has Union Electric recently sold any of its utility property?

8 A. Yes. On March 12, 1992, Union Electric filed an application with the
9 Commission, docketed as Case No. EM-92-225, to sell its Iowa properties to Iowa Electric
10 Light & Power Company (Iowa Electric). On March 31, 1992, Union Electric also filed an
11 application in Case No. EM-92-253 to sell its northern Illinois properties to CIPSCO. The
12 Commission authorized the sale of these properties in its Report and Order dated
13 December 22, 1992.

14 Q. Please identify the properties sold to Iowa Electric and CIPSCO.

15 A. Union Electric's Iowa properties were located in the southeastern part of the
16 state having a service area of 566 square miles and serving approximately 17,000 customers.
17 The northern Illinois service area was located just east of the Iowa service area and had
18 approximately 4,200 customers. (Source: Gary L. Rainwater, Direct Testimony, pp. 6 and
19 7, Case Nos. EM-92-225 and EM-92-253.)

20 Q. When were these properties sold?

21 A. These properties were sold on December 31, 1992.

22 Q. Did Union Electric sell these properties for a gain?

Rebuttal Testimony of
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1 A. Yes. The gain for both the Iowa and northern Illinois properties totaled
2 \$34 million. Case Nos. EM-92-225 and EM-92-253, 1 MPSC 3d 501, 503 Report and Order
3 (1992).

4 The gain associated with the northern Illinois property was approximately
5 \$4.8 million. The remaining portion of the gain of \$29.2 million relates to the Iowa service
6 area (\$34 million - \$4.8 million).

7 Q. How was the sale of these properties recorded on the books and records of
8 Union Electric?

9 A. Union Electric recorded these transactions by removing the properties from
10 plant in service and accumulated provisions for depreciation. It also recorded the cash
11 received from Iowa Electric and CIPSCO and reflected the gains from the sale.

12 Q. How did CIPSCO record the purchase transaction?

13 A. CIPSCO recorded the purchase of the northern Illinois service area and
14 facilities as an increase to Plant in Service on the "original cost" basis. It recorded the same
15 amount on its books for plant as Union Electric had on its books.

16 CIPSCO debited the plant account for \$8,882,092 and credited accumulated
17 depreciation for \$5,168,022. Union Electric credited the plant account and debited the
18 accumulated depreciation account for the exact same amounts. These amounts are identified
19 in Data Request No. 136, attached hereto as Schedule 6.

20 Iowa Electric would have recorded amounts on its books in a similar fashion.

21 Q. Did CIPSCO identify an amount for an acquisition adjustment?

Rebuttal Testimony of
Cary G. Featherstone

1 A. Yes. CIPSCO established an acquisition adjustment of approximately
2 \$4.9 million for the property sold to it by Union Electric. Union Electric recorded a gain to
3 Account 421.1, Gain on Disposition of Property, of approximately the same value (the
4 amounts differ slightly for the recording of salaries and other sales expenses recorded by
5 Union Electric).

6 Q. How did Union Electric treat the gain?

7 A. The gains from the disposition of the Iowa and northern Illinois properties
8 were treated below-the-line for ratemaking purposes, i.e., the profit from the sale of these
9 properties was flowed back exclusively to the shareholders. (Data Request No. 136.)

10 Q. Does CIPSCO still own the property it purchased from Union Electric?

11 A. Yes.

12 Q. How will the merger affect this property?

13 A. The merger will have the effect of bringing the property back to Union Electric
14 shareholders, who will be Ameren shareholders after the merger. The acquisition created
15 from the sale of the northern Illinois property formerly owned by Union Electric will be
16 reflected in the accounts of CIPS as an operating company of Ameren.

17 The property Union Electric sold in 1992 for a gain will be reflected on
18 Ameren's consolidated financial statements as an acquisition adjustment. Union Electric
19 shareholders received the full benefit to earnings for this gain and with the merger, these
20 shareholders will now have the property back.

21 Q. How do gains on sale of property relate to the booking of acquisition
22 adjustments?

Rebuttal Testimony of
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1 A. The amount a selling utility books as a gain on sale will equal the amount a
2 buying utility will book as an acquisition adjustment.

3 Q. How does this merger Application relate to the Union Electric sale dockets,
4 Case Nos. EM-92-225 and EM-92-253?

5 A. In the sale dockets, Union Electric sold certain property to CIPSCO at a gain.
6 This gain was booked below-the-line by Union Electric and was reserved for shareholder
7 benefit. In this merger Application, Union Electric, through Ameren, will in a sense reacquire
8 the property it earlier sold to CIPSCO that was at issue in Case Nos. EM-92-225 and
9 EM-92-253. However, as a result of Union Electric's proposal, it will seek to charge the
10 additional cost of the "merger premium" related, in part, to that specific property to its
11 customers. This is clearly inconsistent with the treatment afforded the earlier gain on sale.

12 Q. How have gains on sale of utility property been treated for ratemaking
13 purposes?

14 A. Historically, the Commission has not flowed back any of the benefits for the
15 gains to ratepayers. The selling party's shareholders have realized the entire benefit of the
16 gains. Shareholders also have not had to share any of the gains with ratepayers.

17 The Commission's decision in KCPL's 1977 general rate case, Case
18 No. ER-77-118, found that none of the gains relating to four transactions should be included
19 "above-the-line" and the Staff's adjustment on this issue should be disallowed. At page 42
20 of that Report And Order, the Commission stated:

21 It is the Commission's position that ratepayers do not acquire
22 any right, title and interest to Company's property simply by
23 paying their electric bills. It should be pointed out that

Rebuttal Testimony of
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1 Company investors finance Company while Company's
2 ratepayers pay the cost of financing and do not thereby
3 acquire an ownership position. Therefore, the Commission
4 finds that the disposal of Company property at a gain does not
5 entitle its ratepayers to benefit from that gain nor does the
6 disposal of Company property at a loss require that
7 Company's ratepayers absorb that loss.

8
9 Further, in decisions reached by the Commission in rate cases involving
10 Missouri Cities Water Company, Case Nos. WM-82-147, WM-82-192, WR-83-14, and
11 SR-83-15, 26 Mo. P.S.C. (N.S.) 1, 5-6, 10-19, Report And Order (1983) and KCPL, Case
12 Nos. EO-85-185 and EO-85-224, 28 Mo. P.S.C. (N.S.) 228, 253-256, Report And Order
13 (1986), the Commission found that gains on utility property sold by those utilities would be
14 treated "below-the-line". The Commission has consistently followed this practice of not
15 flowing any gains resulting from sales of utility property to ratepayers. It would be
16 inequitable for the shareholders of a seller of utility property to receive the benefit of any gain
17 thereon, while at the same time the buyer of utility property is permitted to recover from its
18 ratepayers any "premium" or excess costs above net book value. It would clearly be an unfair
19 approach and disadvantage the ratepayers, if the seller's gain would be taken below-the-line,
20 while the buyer's premium would be treated above-the-line.

21 Q. Has the Missouri Commission been consistent in its treatment of acquisition
22 adjustments and gains on sale of utility property?

23 A. Yes. The Missouri Commission has accorded acquisition adjustments and
24 gains on sale of utility property consistent treatment in the ratemaking process. The
25 Commission has consistently valued utilities' rate base utilizing net "original cost" valuation
26 methods, and has consistently rejected treating above-the-line positive as well as negative

Rebuttal Testimony of
Cary G. Featherstone

1 acquisition adjustments that have resulted from utility mergers under its jurisdiction. The
2 Commission also has consistently rejected the concept of flowing any gains derived from the
3 sale of utility property to ratepayers. It has consistently taken the position, as noted above,
4 that gains from the disposition of utility property belong to the shareholders.

5
6 **SUMMARY AND CONCLUSION**
7

8 Q. Please summarize your testimony.

9 A. The Commission should reject Union Electric's proposal to recover the
10 "merger premium". There is no logical reason for the Commission to permit recovery of a
11 "merger premium" if no actual premium exists for financial reporting purposes. To the extent
12 the Commission has consistently rejected rate recovery of acquisition adjustments which have
13 a real impact on utility earnings, it should reject this "merger premium" on the basis it does
14 not reflect an actual premium which will affect the earnings of Ameren or its operating
15 companies. The following represents a summary of the conclusions Staff has reached relating
16 to the "merger premium":

- 17 ● the "merger premium" is not a real or actual
18 expenditure of Ameren, or any of its affiliates
- 19
- 20 ● the "merger premium" will not be recorded, nor any
21 entry of account be made on the books and records of
22 Ameren, or any of its affiliates
- 23
- 24 ● Union Electric and CIPSCO fully expect recovery of
25 the "merger premium" through their share of any
26 merger savings retained by the Companies
- 27
- 28 ● Staff's proposed sharing of merger savings allows
29 Ameren and its affiliates the opportunity to recover the

Rebuttal Testimony of
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1 "merger premium" through any portion of merger
2 savings retained by the Companies
3

- 4 ● Union Electric will have several opportunities to
5 recover any "merger premium" which may exist
6
- 7 ● Union Electric and CIPSCO expect the net merger
8 savings to be \$570 million, net of approximately \$20
9 million of transition costs
10
- 11 ● based on the net merger savings of \$570 million and
12 assuming the Companies retain a portion of these
13 savings, the Companies do not expect the merger
14 transaction to be dilutive of earnings
15
- 16 ● based on the expected net merger savings, the Board
17 of Directors of Union Electric and CIPSCO approved
18 the merger assuming merger benefits would be shared
19 and there would be no earnings dilution but rather
20 earnings accretion
21
- 22 ● the shareholders of Union Electric and CIPSCO also
23 voted to approve the merger assuming sharing of net
24 merger savings and that it would be beneficial to
25 earnings and their investment
26
- 27 ● the investment community reacted positively to the
28 merger with the assumption that net merger savings of
29 \$570 million would be shared resulting in earnings
30 accretion
31

32 Q. Does this conclude your rebuttal testimony?

33 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

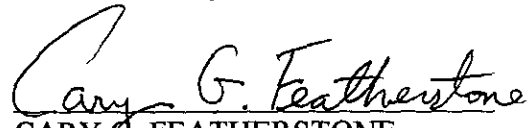
In the matter of the application of Union Electric)
Company for an order authorizing: (1) certain merger)
transactions involving Union Electric Company; (2) the)
transfer of certain assets, real estate, leased property,)
easements and contractual agreements to Central Illinois)
Public Service Company; and (3) in connection therewith,)
certain other related transactions.)

Case No. EM-96-149

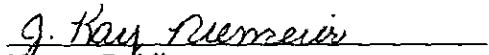
AFFIDAVIT OF CARY G. FEATHERSTONE

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Cary G. Featherstone, 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 51 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.

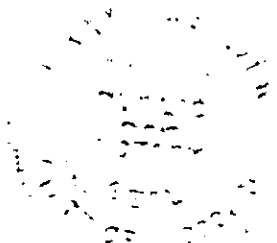

CARY G. FEATHERSTONE

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


Notary Public

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

My Commission Expires: _____



Featherstone

SUMMARY OF RATE CASE INVOLVEMENT

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony</u>	
1980	Case No. ER-80-53	St. Joseph Light & Power Company (electric)	Direct	Stipulated
1980	Case No. OR-80-54	St. Joseph Light & Power Company (transit)	Direct	Stipulated
1980	Case No. HR-80-55	St. Joseph Light & Power Company (industrial steam)	Direct	Stipulated
1980	Case No. GR-80-173	The Gas Service Company (natural gas)	Direct	Stipulated
1980	Case No. GR-80-249	Rich Hill-Hume Gas Company (natural gas)	No Testimony filed	Stipulated
1980	Case No. TR-80-235	United Telephone Company of Missouri (telephone)	Direct Rebuttal	Contested
1981	Case No. ER-81-42	Kansas City Power & Light Company (electric)	Direct Rebuttal	Contested
1981	Case No. TR-81-208	Southwestern Bell Telephone Company (telephone)	Direct Rebuttal Surrebuttal	Contested
1981	Case No. TR-81-302	United Telephone Company of Missouri (telephone)	Direct	Stipulated
1981	Case No. TO-82-3	Investigation of Equal Life Group and Remaining Life Depreciation Rates (telephone)	Direct	Contested
1982	Case Nos. ER-82-66 and HR-82-67	Kansas City Power & Light Company (electric & district steam heating)	Direct Rebuttal Surrebuttal	Contested
1982	Case No. TR-82-199	Southwestern Bell Telephone Company (telephone)	Direct	Contested
1983	Case No. EO-83-9	Investigation and Audit of Forecasted Fuel Expense of Kansas City Power & Light Company (electric)	Direct	Contested
1983	Case No. ER-83-49	Kansas City Power & Light Company (electric)	Direct Rebuttal Surrebuttal	Contested

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony</u>	
1983	Case No. TR-83-253	Southwestern Bell Telephone Company (telephone)	Direct	Contested
1984	Case No. EO-84-4	Investigation and Audit of Forecasted Fuel Expense of Kansas City Power & Light Company (electric)	Direct	Contested
1985	Case Nos. ER-85-128 and EO-85-185	Kansas City Power & Light Company (electric)	Direct	Contested
1987	Case No. HO-86-139	Kansas City Power & Light Company (district steam heating)	Direct Rebuttal Surrebuttal	Contested
1988	Case No. TC-89-14	Southwestern Bell Telephone Company (telephone)	Direct Surrebuttal	Contested
1989	Case No. TR-89-182	GTE North, Incorporated (telephone)	Direct Rebuttal Surrebuttal	Contested
1990	Case No. GR-90-50	Kansas Power & Light - Gas Service Division (natural gas)	Direct	Stipulated
1990	Case No. ER-90-101	UtiliCorp United Inc., Missouri Public Service Division (electric)	Direct Surrebuttal	Contested
1990	Case No. GR-90-198	UtiliCorp United, Inc., Missouri Public Service Division (natural gas)	Direct	Stipulated
1990	Case No. GR-90-152	Associated Natural Gas Company (natural gas)	Rebuttal	Stipulated
1991	Case No. EM-91-213	Kansas Power & Light - Gas Service Division (natural gas)	Rebuttal	Contested
1991	Case Nos. EO-91-358 and EO-91-360	UtiliCorp United Inc., Missouri Public Service Division (electric)	Rebuttal	Contested
1991	Case No. GO-91-359	UtiliCorp United Inc., Missouri Public Service Division (natural gas)	Memorandum Recommendation	Stipulated
1993	Case Nos. TC-93-224 and TO-93-192	Southwestern Bell Telephone Company (telephone)	Direct Rebuttal Surrebuttal	Contested

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony</u>	
1993	Case No. TR-93-181	United Telephone Company of Missouri (telephone)	Direct Surrebuttal	Contested
1993	Case No. GM-94-40	Western Resources, Inc. and Southern Union Company (natural gas)	Rebuttal	Stipulated
1994	Case No. GM-94-252	UtiliCorp United Inc., acquisition of Missouri Gas Company and Missouri Pipeline Company (natural gas)	Rebuttal	Contested
1994	Case No. GA-94-325	UtiliCorp United Inc., expansion of natural gas to City of Rolla, MO (natural gas)	Rebuttal	Contested
1995	Case No. GR-95-160	United Cities Gas Company (natural gas)	Direct	Contested
1995	Case No. ER-95-279	Empire District Electric Company (electric)	Direct	Stipulated
1996	Case No. GA-96-130	UtiliCorp United, Inc./Missouri Pipeline Company (natural gas)	Rebuttal	Contested

AUDITS WHICH WERE SUPERVISED AND ASSISTED:

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>
1986	Case No. TR-86-14 (telephone)	ALLTEL Missouri, Inc.
1986	Case No. TR-86-55 (telephone)	Continental Telephone Company of Missouri
1986	Case No. TR-86-63 (telephone)	Webster County Telephone Company
1986	Case No. GR-86-76 (natural gas)	KPL-Gas Service Company
1986	Case No. TR-86-117 (telephone)	United Telephone Company of Missouri
1988	Case No. GR-88-115 (natural gas)	St. Joseph Light & Power Company
1988	Case No. HR-88-116 (industrial steam)	St. Joseph Light & Power Company

1911 Chouteau Avenue
Post Office Box 149
St. Louis, Missouri 63106
314-621-3222



August 14, 1995

Attached is a news release we wanted you to have as soon as we were allowed to distribute it.

It describes a merger agreement between Union Electric Company and CIPSCO Incorporated -- parent company of Central Illinois Public Service Company.

Senior officers from Union Electric will be in touch with you today, if at all possible.

Thank you for your interest.

Sincerely,

A handwritten signature in cursive script that reads "C.W. Mueller".

C.W. Mueller

President and Chief Executive Officer

MEDIA CONTACTS:

Susan Gallagher--Union Electric
(314) 554-2175

Lynne Galia--CIPSCO
(217) 525-5232

INVESTOR CONTACTS:

Carlin Scanlan--Union Electric
(314) 554-2902

Jim Goff--CIPSCO
(217) 525-5547

**UNION ELECTRIC COMPANY OF MISSOURI AND CIPSCO INCORPORATED
OF ILLINOIS SIGN DEFINITIVE MERGER AGREEMENT**

--\$1.2 Billion Transaction Will Create Premier Midwestern Utility With Assets of More Than \$8 Billion; Market Capitalization of the Two Companies Is \$4.6 Billion

-- *"Merger combines two financially strong, low-cost energy providers with common visions and strategies and highly compatible operations and managements," says Union Electric President and CEO Charles W. Mueller*

-- *"The two companies' contiguous territories and similar customer-focused philosophies make the combination a natural," says CIPSCO President and CEO Clifford L. Greenwalt*

St. Louis, Mo., and Springfield, Ill., Aug. 14, 1995 -- Union Electric Company (NYSE:UEP) and CIPSCO Incorporated (NYSE:CIP) have signed a definitive merger agreement in a transaction valued at approximately \$1.2 billion. The combined market capitalization of the two companies is \$4.6 billion. The merger will create a combined company with assets in excess of \$8 billion. The agreement was approved by the boards of directors of both companies.

As a result of this transaction, a new, registered public utility holding company will be formed as the parent of both Union Electric Company and Central Illinois Public Service Company (CIPS). The combined entity will serve 1.4 million electric customers and 284,000 natural gas customers in a 44,000-square-mile area of Missouri and Illinois. Under terms of the agreement, all of UE's 80,000 Illinois customers will become customers of CIPS.

The agreement calls for holders of Union Electric common stock to receive one share of the new holding company common stock for each Union Electric share they hold and for holders of CIPSCO common stock to receive 1.03 shares of the new holding company common stock for each of their CIPSCO shares. It is expected that the transaction will qualify as a tax-free exchange and will be accounted for as a pooling of interests.

It is anticipated that the new holding company will adopt Union Electric Company's dividend payment level. Union Electric's current indicated annual dividend is \$2.44 per common share, and CIPSCO's is \$2.04. The boards of both companies have historically increased dividends on a consistent basis.

The parties expect the combined entity to realize \$570 million in savings over 10 years from combining certain operations of the two companies. Unlike several recent utility combinations, labor savings will not be the dominant category of savings. Approximately two-thirds of the savings will result from eliminating duplication in corporate and administrative programs, from purchasing economies and reduced electric production and gas costs. About a third of total savings will come through elimination of around 300 positions--essentially through attrition.

The combination joins two of the nation's lowest-cost energy providers. Both are competitively positioned in the interchange market for the sale of electricity. Their interconnections with 28 other systems will provide substantial opportunities for additional interchange energy sales. The combined companies will also achieve significant savings through the joint dispatch of energy.

The parties expect that the transaction will be completed by year-end 1996 and that it will not be dilutive to earnings. The new holding company will be based in St. Louis. The headquarters of Union Electric and CIPS will remain in St. Louis and Springfield, Ill., respectively.

UE President and Chief Executive Officer Charles W. Mueller will serve as the new holding company's chairman and chief executive officer. CIPSCO President and Chief Executive Officer Clifford L. Greenwalt will assume the title of vice chairman of the holding company.

The new holding company's 15-member board will include all 10 members from Union Electric's existing board of directors and five members from CIPSCO's board.

"The merger combines two financially strong, low-cost energy providers with common visions and strategies and highly compatible operations and managements," says Mueller. "This transaction allows us to spread the cost of advanced energy delivery systems over a larger base, while keeping our rates low and enhancing our reliability and service quality.

"Moreover, it will enable us to take full advantage of the changing industry landscape to capitalize on our financial strengths, our service-oriented cultures and our lean organizational structures. By doing so, we will be well-positioned to continue to provide superior shareholder returns and customer benefits, both now and into the next century."

Greenwalt adds, "The two companies' contiguous territories and similar customer-focused philosophies make the combination a natural--one that will bring significant benefits to our respective shareholders, individual and business customers, employees and the many communities we serve."

With regard to rates, Greenwalt says: "We expect the effect on rates to be positive for the customer. As synergies occur and certain costs of producing energy are reduced, customers will benefit. The long-term outlook is that rates will be lower than they would have been if this strategic combination had not occurred."

Mueller adds, "Both UE and CIPS will continue to maintain a strong corporate presence in the communities we serve and to demonstrate a strong commitment to economic development and community service. In addition, by employing our much greater combined resources, we can invest more in advanced systems, training and facilities to provide even better service, while remaining a low-cost energy provider."

The agreement is subject to approval by the shareholders of both companies and by regulatory agencies. Shareholder approval will be sought by year-end 1995.

As of Aug. 11, 1995, Union Electric Company had 102,123,834 shares of common stock outstanding, and CIPSCO had 34,069,542 common shares outstanding.

The preferred stock of Union Electric Company and Central Illinois Public Service Company will remain outstanding after the transaction.

Filings will be submitted to the following government and regulatory agencies: Illinois Commerce Commission, Missouri Public Service Commission, Federal Energy Regulatory Commission, Nuclear Regulatory Commission and the Securities and Exchange Commission. In addition, the Federal Trade Commission and the Department of Justice will review the agreement.

Based in St. Louis, Union Electric provides energy services -- electricity and natural gas -- to 1.2 million customers over a 24,500-square-mile area in Missouri and Illinois. Based in Springfield, Ill., CIPSCO through its utility subsidiary, Central Illinois Public Service Company, supplies electricity to 317,000 customers and natural gas to 166,000 customers over a 20,000-square-mile region of central and southern Illinois. A second subsidiary, CIPSCO Investment Company, manages CIPSCO's non-utility investments, including leveraged leases, marketable securities and energy projects.

Transaction At A Glance

Union Electric Company: (NYSE:UEP) CIPSCO Incorporated: (NYSE:CIP)
Current Market Capitalization of the two companies: \$4.6 billion

Terms:

- UE and CIPSCO to exchange shares with the new holding company. Transaction valued at approximately \$1.2 billion. At date of closing, UE common shareholders to own 1 share of new holding company common stock for each share of UE stock; CIPSCO common shareholders to own 1.03 shares of new holding company common stock for each share of CIPSCO common stock.
- Merger to be accounted for as a pooling of interests; to be a tax-free reorganization for Federal income tax purposes.
- The new holding company to adopt UE's dividend payment level. UE's current indicated dividend is \$2.44 per common share; CIPSCO's is \$2.04. The boards of both companies have historically increased dividends on a consistent basis. Preferred stock of UE and CIPS (the principal utility subsidiary of CIPSCO) to remain outstanding after the transaction.
- UE/CIPS to be held under a newly created holding company to be based in St. Louis. The new holding company's chairman and CEO: UE President and Chief Executive Officer Charles W. Mueller; Vice Chairman: CIPSCO President and Chief Executive Officer Clifford L. Greenwalt.
- Anticipated savings: \$570 million over 10 years. Achieved through elimination of duplication in corporate and administrative programs; purchasing economies; reduced production costs; reduced staffing. Labor not the dominant category.

Timing:

- Filing with regulatory authorities: Fall 1995--Missouri Public Service Commission, Illinois Commerce Commission, Federal Energy Regulatory Commission. Then: Nuclear Regulatory Commission, Securities and Exchange Commission.
Department of Justice, Federal Trade Commission to review.
- Anticipated shareholder vote: By year-end 1995.
Anticipated completion of transaction: By year-end 1996.

Approvals: Shareholders of both companies. Regulators (see above).

Company Profiles: (at 6/30/95)

	UE	CIPSCO
Earnings per share:	\$2.80	\$2.23
Assets:	\$6.7 billion	\$1.8 billion
ROE:	12.7%	12.0%
Net Income:	\$299.4 million	\$76.1 million
Total		
Revenues:	\$2.0 billion	\$811 million
Electric Revenues:	\$1,959 million	\$676 million
% industrial	19%	17%
% commercial	36%	26%
% residential	40%	31%
% wholesale/other	5%	26%
Gas Revenues:	\$85 million	\$127 million
Other Revenues:	\$0.4 million	\$8 million
Customers:		
Electric	1.1 million	317,000
Gas	118,000	166,000
Reserve Margin:	18%	24%
Employees:	6,300	2,600
Electric generation:	7,800 MW net capacity	2,800 MW net capacity
Five fossil, one nuclear, three hydro plants		Five fossil plants
Energy Mix:	70% coal; 25% Nuclear 5% Hydro/Other	99% coal; 1% oil
Bond Ratings:		
Moody's	A1	Aa1
Standard & Poor's	AA-	AA+
Common shares:	102,123,834	34,069,542

Transcription of Union Electric/CIPSCO Merger Announcement
August 14, 1995
Conference Call with Investment Analysts

Don Brandt: Good morning and thank you for participating in our conference call about today's announcement. Chuck Mueller, President and CEO of Union Electric and Cliff Greenwalt, President and CEO of CIPSCO are here to answer your questions. But, first I will briefly review the merger agreement. The transaction merges two companies under a new registered holding company headquartered here in St. Louis. U.E. will also be headquartered here and CIPS will be based in Springfield, IL. Chuck Mueller will be Chairman, President, and CEO of the holding company and Cliff Greenwalt will be the Vice-Chairman of the holding company. The exchange ratios are 1 share of stock in the new company per common share of Union Electric and 1.03 shares in the new company per share of CIPSCO. The total transaction is valued at approximately \$1.2 billion. We plan to complete the merger by the end of 1996 after stockholder and regulatory approval. Union Electric will transfer its approximately 80,000 Illinois customers to CIPS creating two subsidiary companies, one in Illinois, one in Missouri. Now Chuck and Cliff have brief prepared remarks, Chuck.

Chuck Mueller: Thanks, Don. Today's agreement between the two companies would create the nineteenth largest utility in the United States based on market caps. The combination is a natural fit. Both companies are financially strong and our generating needs compliment each other. The synergy created by the merger mean we can build a growing business on a lower cost base. All these reasons plus the creation of a formidable Midwest marketing operation says our new company will be a major competitor in the energy industry. Now, I'll turn it over to Cliff.

Cliff Greenwalt: Thanks, Chuck, and good morning everyone. It is my pleasure to be in St. Louis today. As Chuck said, the merger between U.E. and CIPSCO, we think, will create a business that can compete successfully with the changing industry. This process will blend two of the nation's lowest cost utilities with similar customer oriented philosophies. And, we think this merger creates a company that will be a major Midwestern utility competitor in an industry where size can bring efficiencies. Now, I'm sure that some of the people on the other end of the telephone are ready to ask some questions. I'll turn it over to you, Don.

Don Brandt: We're beginning the questions now. Since we only have thirty minutes, I'll ask you to limit your individual questions. Rob, if you want to go ahead with the questions.

Rob: Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session.

If you have a question, you will need to press the 1 followed by the 4 on your push button phone. You will hear a three tone prompting acknowledging your request and your questions will be polled in the order in which they are received. If your question has been answered and you would like to withdraw your formal request, you may do so by pressing the 1 followed by the 3 on your push button phone. If you are using a speaker phone, please pick up your handset before pressing the numbers. One moment please before the first question. Mark Beckwith, please state your company name followed by your question.

Mark Beckwith: Mark Beckwith of Wellington Management. A question to Chuck and Don: "Is there anything in your recently negotiated rate agreement that would allow the intervenors or the Staff to reopen cost savings that may come out of this transaction in the early years of the agreement?"

Chuck Mueller: We see nothing in that agreement that would allow such intervention. In fact, the agreement, basically, provides a cost sharing vehicle already in place for the synergies of the merger.

Mark Beckwith: O.K. Thank you.

Rob: Dan Rudakas, please state your company name followed by your question.

Dan Rudakas: This is Dan Rudakas from Kemper Securities. You said that one of the major parts of the cost savings, in your fax this morning, was from reduced gas costs. I was wondering if that was just better or stronger position in the market to buy gas or do you anticipate lower gas commodity costs or is there something different in the gas operations concerning storage or anything like that? Or, is there a little more depth to that?

Cliff Greenwalt: This is Cliff, Dan. We do expect savings from a decreased reserve margin and we also think there will be additional buying power with the pipelines and there would be less demand and there would be better utilization of storage. From all of those things, we expect to reduce the cost of gas.

Dan Rudakas: O.K. Thanks.

Rob: Darryl Sagel, please state your company name followed by your question.

Darryl Sagel: Yes. Goldman, Sachs. I was wondering. In your press release, you had mentioned \$570 million of savings over 10 years. I was wondering, first of all, what in terms of how the \$570 million was going to be allocated between shareholders and ratepayers? Secondly, if you could give me an indication of whether this savings was going to come early on or later? Could you give me some kind of indication on that? Also, what is the breakup between the two companies?

Don Brandt: O.K. First of all, as Chuck mentioned a few minutes ago relative to our situation in Missouri, we already have a sharing plan in place that provides for sharing of savings between customers and stockholders. With respect to the merger savings, we expect them to begin to occur relatively rapidly after the consummation of the transaction. The \$570 million in total is spread relatively ratably over the 10 year period. The first two years after the closing of the transaction will be incurring some relatively modest costs to implement the changes. We don't expect any dilution in those first two years. Following that, we expect to see some meaningful accretion in earnings as a result of the transaction. Your third question, if you could expand on that a little bit relative to the breakup?

Darryl Sagel: Yes, sure. How are the savings split between the two companies. Specifically, what savings are you going to garner from Union Electric as opposed to CIPSCO's side?

Don Brandt: That will be a regulatory issue that we'll have to work out with our regulators. We really don't have that resolved at this point.

Darryl Sagel: O.K. Thank you.

Chuck Mueller: Yeah on that point, this is Chuck Mueller. I will just add, we at Union Electric have had three rate reductions over the last five years and it has always been very important for us to keep our rates low, but also to reward stockholders. That was part of our plan on putting in this incentive plan although it preceded these negotiations in its entirety, it does provide the vehicle to do that. Although we have not set exactly how we're getting these. We are setting up a transition team to provide for these cost savings on a very thoughtful and well thought out basis. We will do that over time between now and the closing.

Darryl Sagel: O.K. Thank you very much.

Rob: Mark Beckwith. Please go ahead with your follow-up question.

Mark Beckwith: I had a follow-up for Cliff. Kind of follow-up on the gas question, Cliff. I seem to recall, last time we saw you, that you were talking about trying to lower some of your coal cost purchases. Is there anything in those contracts (i.e. - change of control) that's going to give you more flexibility to get out of those? Or, is it going to be more market power that's going to help you re-negotiate some of those contracts?

Cliff Greenwalt: Actually, Mark, we will probably have...well, we already have some things underway to see what we can do about re-negotiating the contracts. I would not see that this particular affiliation would involve too much of what we are

going to be doing there. Obviously, going forward in future years there could certainly be some synergies here and some leverage that we can have, but in the contract that we talked about earlier this year, we'll be proceeding with that as we have under plans, at this point.

Mark Beckwith: Given UEP's success in this area, is it reasonable to expect you might be filing to abolish the fuel clause sometime in the near future?

Cliff Greenwalt: Well, you know, that Illinois just passed some legislation that allows flexibility in the regulation in providing for incentives. We will be looking at all of that opportunity and whether or not we will bring that in has not been decided, at this point. There is a good possibility that we will be looking at some kind of incentive type regulation in Illinois.

Mark Beckwith: Great. Thanks, Cliff.

Rob: Barry Abramson, please state your company name followed by your question.

Barry Abramson: Hi. It's Barry Abramson of Prudential Securities. My question relate to after the two companies are merged and you look at your power needs and your power supply. How much new capacity do you think you might be able to free up to be able to sell to third parties as a result of this combination?

Cliff Greenwalt: We have, as you know Barry, about 500 or so megawatts of capacity that is not in our rate base that we have been selling on the wholesale market. We would fully expect to, as we go forward here, attempt to try to utilize that in the best interest of both companies. We feel that we will be able to open up some new interconnects in where we can expand our marketing efforts, but we are really probably talking in the 500-600 megawatts that we will continue to try to market on the wholesale market.

Chuck Mueller: Barry, this is Chuck Mueller. I would just like to add that with the combination of the two companies, our interconnections will be much more far reaching. We'll be able to transact with a lot more companies, have a lot more opportunities, I think, to market this and, I think, there is a real synergy here. We have been aggressive for many years in marketing interchange power and, I think, this just enables us both to do a lot more of it.

Rob: Ted Payne. Please go ahead and state your company name followed by your question.

Ted Payne: A question concerning your investment in EEI. Will there be any change in the combined ownership?

Chuck Mueller: Presently, Union Electric owns 40% of Electric Energy, Inc. and CIPSCO owns 20%; Kentucky Utilities, 20%; and Illinois Power, 20%. The combined entity, obviously, will own 60%. We presently plan to continue EEI in its present course. We are supplying power to the uranium enrichment facility and we consider them a very good customer and we plan to keep them as such. Now, going down the road, there are possibilities that have been discussed concerning independent power production and things of that nature with EEI. It clearly provides us with an additional synergy, I believe.

Ted Payne: But, right now, it's full intention to hold on to the entire 60% of the investment? There's no plans for disbursing it amongst the other holders?

Chuck Mueller: We very definitely consider it a key asset and have no intention of disbursing it or disposing of it or anything else. We view this as being clearly one of the keys of this transaction is an added ownership share that we can jointly share in EEI Inc.

Ted Payne: Thank you.

Rob: Helen Clammitt. Please state your company name followed by your question.

Helen Clammitt: UBS Securities. I just want to be clear that the debt of in the future will be under the separate names and that you'll continue current debt outstanding.

Don Brandt: Helen, that is correct.

Don Brandt: O.K. Thank you.

Steve Fleishman: Yes. Steve Fleishman from Dean Witter. A couple of questions. First, on the savings of \$570 million. Is that net of the transaction cost and what are those transaction costs? Transition costs? Excuse me.

Don Brandt: That number is net of the transition costs.

Steve Fleishman: O.K. Don, could you give us a feel of what those transition costs are expected to be?

Don Brandt: They're approximately \$20 million of gross savings.

Steve Fleishman: And, those will be gone within the first couple of years?

Don Brandt: Yes, a lot of it would have to do with technology and computer systems and coordinating that between the two companies. Most of it we would expect to incur

within the first year. The transitions costs here are very much in line with deals of comparable size. Matter of fact, they're somewhat on the low side.

Steve Fleishman: And, you said the savings would be ratably over the ten years. In a lot of these deals, we've seen, recently, the savings have assumed an inflation adjustor every year so they're almost automatically back end loaded? Is that the case or not the case with your estimate of savings?

Don Brandt: Well, you are partially correct. There is an inflation adder as we assume the value of these efficiencies will grow with time which, I think, is a reasonable assumption. But, we expect some significant savings to begin in year one following the closing of the transaction and the back end loading is an inflation factor, not the fact that it is going to take us a number of years to generate these savings. We expect to be generating them immediately and in significant amounts.

Steve Fleishman: O.K. One other question. And, I don't want to beat on a dead horse here. In terms of your rate plan, was there something specifically in there that dealt with a potential merger if you did enter a merger?

Chuck Mueller: No, Tom. There is not. A merger was not even contemplated, at that time, and it is not included. It was just on a stand alone basis.

Don Brandt: Obviously, we will have to file for approval with a number of regulators including the Missouri Public Service Commission to consummate this transaction. But, our position, and I think it is very reasonable, is the Commission has put in place this mechanism that sets certain parameters for reasonable return levels that we (UE) can earn, -- that Union Electric can earn before a sharing occurs at a certain point. And, that's 12.61% return on equity on a regulated basis where we begin sharing earnings above that level at a 50-50 between customers and shareholders. So, our position, I think it's very reasonable, is that mechanism is already in place in Missouri and the efficiencies that are gained as a result of this merger should flow right into that vehicle. Again, the Missouri Commission will have to approve the transaction, but the mechanism for passing savings or portions of the savings on to customers has already been developed.

Steve Fleishman: O.K. Thank you very much.

Chuck Mueller: I would just add, you know, that our talks on this merger have been ongoing for less than two months and we've been working on that incentive plan long before that and it was rapped up before this. So, it did have no input. We clearly believe that the incentive regulation is good for both companies either before the merger or after the merger, so, we think that it is a form of sharing that is automatically built in. Obviously, as Cliff mentioned earlier, we are going to look at that seriously in Illinois, too.

Rob: Evan Silverstein. Please state your company name followed by your question.

Evan Silverstein: Don/Chuck, hi. It's Evan Silverstein from SilCap. Again, on this regulatory issue. Is it my understanding that the plan you have in place, I think, is just for a three year duration and that it will probably take at least a year into that to get this merger approved. So, it would really only be in place for two years. What kind of assumptions are you making as far as past that two year period of time for the sharing of savings? What kind of assumptions have you been making to support the deal?

Don Brandt: Well, Evan, as part of the rate sharing plan we have in effect in Missouri, there is provisions in there that six months before a conclusion of that three period that all parties to the transaction or to the agreement are to convene and to discuss how it's worked to that point in time and any modifications that might need to be made to it going forward. It's my belief, based on our discussions with the Staff and other parties and, I think, my general observation of the Commission's reaction to it, that this sharing proposal is very likely to continue into the future. I think it was very well received by the Commission. I presented it to the Commission and their reaction was very favorable and interested in how it's going to work from a long-term prospective. Granted, it's only for three years, but I see no reason to believe that it in some form won't continue beyond three years.

Rob: Robyn Jaffee. Please state your company name followed by your question.

Kara Plesier: It's, actually, Kara Plesier of Angelo, Gordon. When we look at the \$570 million total savings, the two-thirds come out to about \$380 million and you have a number of line items in there that you said would comprise that \$380 million. Could you give us a little bit of color on what those individual lines might be to comprise the \$380 million? And, if you could give us some kind of clue as to what kind of savings you might expect to see from joint dispatch of both systems?

Don Brandt: Let me give you a little bit of breakdown on the total of \$570 million. We're looking at about \$195 million in labor savings, \$84 million in electric production savings, \$37 million in gas savings, and \$272 million in savings in the administrative and general category. And, to give you a little more breakdown on that administrative and general

category, the largest single item is in information services of about \$84 million followed up by we're expecting savings of about \$50 million in professional services and \$20 million in insurance savings cost. And, then a variety of other smaller items make up the balance.

Kara Plesier: And, on the joint dispatch?

Don Brandt: Joint dispatch is \$83 million.

Kara Plesier: Thank you.

Rob: Ladies and gentleman. If there are any additional questions at this time, please press the 1 followed by the 4. Kathleen Lalley. Please state your company name followed by your question.

Kathleen Lalley: Hi. This is Kathleen Lalley with Solomon Brothers. Two questions. It was mentioned early on in the conference call that Union Electric's Illinois based customers would be passed onto CIPSCO as part of this merger. Should we assume that there's no change in cost structure or anything in that merger and might that be something that the Missouri Commission looks at in terms of revenue and cost basis for Union? My second question has to do with Union's dividends. Coming up to the time of year when Union would normally look at raising the dividend, as it has in the past, should we assume any changes in that policy as a result of this merger?

Don Brandt: First, Kathleen, on the transfer of Illinois properties. We will be transferring those properties at book value and they are, principally, our distribution facilities in Illinois. It excludes our Venice power plant and our transmission facilities. So, from the Missouri Public Service Commission's perspective, that should not be an issue. That has not been an allocation issue in any of our past dealings with either Missouri or Illinois. I'll let Chuck respond to your question relative to dividend.

Chuck Mueller: Of course, concerning Union Electric's dividend, our board of directors declares our dividends and we can't prejudge what they are going to do. But, I would say that we have concentrated very much on the importance of paying our dividends and on adding increases in dividends. We have shown a historic basis of doing that and I wouldn't see the merger, essentially, as changing our short-term outlook on dividend payments. Obviously, what we are looking at down the road is the synergies; some sharing of the savings with shareholders which should have a positive impact, I think, on dividend growth overall.

Rob: Steve Fleishman. Please go ahead with your follow-up question.

Steve Fleishman: Yeah, just one quick question on interconnection between the two companies. Do you have any work you need to do to support some transmission lines or anything like that? Would the flow of power between the two be going through any particular companies who might have some problems with it?

Chuck Mueller: We have adequate transmission interconnections, I believe, to handle any transactions that we would handle under this agreement. We are transacting, now, to a substantial degree, and we have numerous high voltage interconnections. So, I don't see any questions being raised on that.

Steve Fleishman: Thank you.

Rob: ... Miller. Please state your company name followed by your question.

... Miller: Yes. I was wondering if you could tell us what the book value of those Illinois properties that would be transferred are and whether or not you contemplate that being a release of property under the indenture?

Don Brandt: Could you give me your company name?

... Miller: Donaldson, Lufkin, and Jenrette.

Don Brandt: O.K. I didn't get all the question, but the first one. The net book value of those properties is approximately \$70 million. If you could repeat the rest of your question?

... Miller: Yes. I was wondering if you would anticipate that being a release of property under the Union Electric indenture allowing you to call bonds at par?

Don Brandt: We would release it underneath the Union Electric indenture, but we would not expect to be calling any bonds at par.

... Miller: Thank you.

Rob: Helen Clammitt. Please go ahead with your follow-up question.

Helen Clammitt: Sorry. It was just answered.

Rob: Mr. Brandt. At this time, there are no further questions. Please continue.

Don Brandt: O.K. Thank you to everyone who called in. The definitive merger agreement announced today will create an outstanding mid-western utility built from two the country's finest utilities. If you need copies of the press release or fact sheets, please feel free to call Karlin Scanlon at Union Electric or Jim Goff at CIPS. Thank you and have a good day.

Rob: Ladies and gentleman, that does conclude our conference for today. You may all disconnect, and thank you for participating.

12:48pm EDT 15-Aug-95 Goldman Sachs (LIU, PARRELLA) CIP UEP
 CIP,UEP : Companies Announce Friendly Merger; Hightlts of Conf. Call
 GS

Goldman, Sachs & Co. Investment Research

Union Electric Company, CIPSCO Inc.

Companies Announce Friendly Merger; Hightlts of Conf. Call

Ernest S. Liu, Partner (212) 902-6759 - New York Equity Research
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===== Note 12:39pm 8/15/95 =====

	Stock Rating	Latest Close	52 week Range	YTD Pr Chg	Div Rate	Gross Yield
Union Electric Company	MP	34.75	39-32	-2	2.44	7.0
CIPSCO Inc.	MU	32.50	34-26	20	2.04	6.3

	FY/IP	EPS94	Est. EPS95	PE95	- Interim EPS - --Next- -YrAgo-	-EBITDA 94- per/sh p/e
UEP	12/03Q	3.01R	2.95	11.8	1.66 1.60	n/a n/a
CIP	12/03Q	2.46R	2.45	13.3	n/a n/a	n/a n/a

- * On August 14, UEP and CIP announced a friendly agreement to merge the two companies, a transaction valued at about \$1.2 billion. The merger is subject to shareholder and regulatory approval.
- * The proposed combination is expected to create cost savings of approximately \$570 million in the 10 years following the merger.
- * We view the merger as a good strategic fit and a constructive development for both companies.
- * Highlights of an August 14th conference call for analysts and investors.

On August 14, UEP and CIP signed a definitive agreement to merge, pending approval of regulators and the companies' respective shareholders. The \$1.2-billion transaction will make the merged utility the 19th-largest utility in the United States, with a market capitalization of \$4.6 billion and assets of \$8.5 billion. Under the merger proposal, a registered public utility holding company will be established to serve as the parent company of both UEP and Central Illinois Public Service Company (CIPS), CIP's utility subsidiary. UEP's 80,000 Illinois customers will then become customers of CIPS.

Also on August 14, UEP and CIP held a joint conference call for analysts and investors to discuss the merger. Highlights of the conference call are as follows:

- o UEP shareholders would receive one share of the new holding company for each UEP share, while CIP shareholders would receive 1.03 shares of the

-- FIRST CALL - ON CALL --

holding company for each CIP share. The companies anticipate that the transaction, to be completed by yearend 1996, will qualify as a tax-free exchange and will be accounted for as a pooling of interests.

o The merged company expects to adopt UEP's dividend rate at that time. UEP's current annual dividend is \$2.44 per share versus \$2.04 for CIP. This pro forma dividend represents a significant windfall for CIP shareholders as they essentially will garner a 23% dividend increase. (This calculation assumes no increase in the UEP dividend. However, we are currently forecasting a \$0.06-per-share annual dividend hike for UEP in the fourth quarter of 1995 and a similar hike in the fourth quarter of 1996.) UEP management indicated that the merger should have no impact on its current dividend policy or its ability to increase its dividend in the future.

o The companies anticipate savings of approximately \$570 million (\$588 million before merger costs) over the 10 years following the proposed merger. About two-thirds of the savings will come from eliminating duplication of administrative and corporate programs, purchasing economies, and lower electric production and gas costs. The remaining one-third will result from the elimination of approximately 300 employees. The breakout o. merger savings is as follows:

Labor cost savings	\$195 million
Electric production savings	84 (a)
Gas savings	37
Administrative and general costs	
Information services savings	84
Professional services savings	50
Insurance savings	20
Other	118
Total savings	\$588 million

(a) Includes \$83 million of savings from the joint dispatch of both utility systems.

The companies indicated that the savings would be spread relatively evenly over the 10 years, although the \$20 million of merger costs would reduce t savings in the first two years. At this point, it is unclear what portion of the savings UEP would be allowed to keep (especially in 1996 and 1997) following the utility's recent electric rate agreement, approved by the Missouri Public Service Commission (MPSC) and implemented on August 1. Under the rate agreement, UEP is allowed to retain 100% of earnings up to a 12.61% regulatory (as opposed to book) return on equity (ROE). Earnings between 12.61% and 14.0% are split 50%/50% between shareholders and customers. Any earnings above the 14.0% ROE are credited entirely to ratepayers. We anticipate that the merger savings would allow UEP to earn an ROE safely in the 12.61%-14.0% range, although we would not expect the utility to exceed the 14.0% ROE ceiling in 1996 and 1997. UEP indicated that it is unlikely that this rate agreement would be reopened following news of the proposed merger and even indicated that its incentive-based ratemaking provisions could likely be extended beyond its current three-year experimental timeframe. UEP management indicated that the merger would be at least earnings-neutral in the first two years and accretive in the third year.

o The merger agreement is subject to the approval of both companies' shareholders, which will be sought by yearend 1995. In addition, the companies will request approval from the MPSC, the Illinois Commerce Commission, the Nuclear Regulatory Commission, and the Securities and Exchange Commission. We do not anticipate any regulatory opposition to the merger.

o The merger appears to be a very beneficial strategic fit for both companies. It combines two low-cost energy providers with historically sound operations and stable service territories. The benefits for CIP and its shareholders are evident. They include:

- (1) A significant dividend increase, as indicated above.
- (2) A valuation for CIP of 1.85 times book value versus the industry average of 1.40.
- (3) An improved ability to compete as part of a larger utility in a deregulated environment.

The combination provides strategic benefits for UEP and its shareholders as well. These include:

- (1) CIP's bond ratings of Aa1 from Moody's and AA+ from Standard & Poor's (among the highest in the industry), which should improve UEP's cost of capital following the merger.
- (2) CIP's strong balance sheet, with a common equity ratio close to 54%.
- (3) Absence of nuclear (high cost) generating assets.
- (4) CIP's excess cash flow, which could provide stock repurchase opportunities in the future.
- (5) Revenue diversity from CIP's local gas distribution business.

However, UEP would experience some relatively negative issues involving CIP, including:

- (1) The recent loss of a 115-megawatt (Mw) wholesale contract, which hurts earnings by \$5.5 million (\$0.16 per CIP share).
- (2) Illinois' legislative and regulatory initiatives to initiate retail wheeling.
- (3) A lower consolidated ROE at CIP (12.0% for the 12 months ended June 30 versus 12.7% for UEP).
- (4) Diversified holdings that have added little to CIP's bottom line.
- (5) Relatively high fuel (coal) costs at CIP, although the utility will continue to seek opportunities to improve its flexibility with regard to high-cost coal contracts.

Important Disclosures (code definitions attached or available upon request)

UEP : M
CIP : No disclosures

===== Further Information =====

This investment commentary was made available on the Goldman, Sachs & Co. Research Portable Lite at 12:39 New York time on 8/15/95. Please contact your Goldman Sachs representative for additional details.

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-> End of Note <-

-- FIRST CALL - ON CALL --

10:46am EDT 15-Aug-95 PaineWebber (BERT S. KRAMER (212) 713-2422) UEP CIP
ELECTRIC UTILITIES: UNION ELECTRIC & CIPSCO TO MERGE
PW PW PW PW PW PAINWEBBER PW PW PW PW PW

Rating=
Closing Price=
Current FY EPS EST=
Next FY EPS EST=

Union Electric (UEP \$34 7/8) and CIPSCO* (CIP \$32 5/8) have signed a definite merger agreement. Each UEP shareholders will receive one (1) share of the new company; each CIP shares will be exchanged for 1.03 shares of the new company. It will be a tax-free exchange--a pooling of interests. It is anticipated that the new company will adopt UEP's dividend payment level (\$2.44 per share). The companies expect to save \$570 million over 10 years--eliminating duplicate operations, economies of scale, etc. The transaction should be completed by year-end 1996 and is not expected to be delusive of earnings. CIP shareholders should note that the combined company will have a nuclear commitment; Callaway is 's nuke (one of the nation's best). We have no problem with this combination of two solid companies. We rate UEP a solid hold and CIP attractive.

RISKS: Regulatory approval is still required.

*PaineWebber Incorporated has acted in an investment banking capacity for this company.

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08:30am EDT 15-Aug-95 Lehman Brothers (Deborah Grosser (212)526-3551) UEP CIP
Utilities: Electric - Merger Activity Fueled by Increased Competition

Ticker	:			Current	Prior
Price	:	\$	52wk Range:	Rank:	
Today's Date	:	08/15/95			
Fiscal Year	:				

* Yesterday, two separate utility mergers were announced - PECO Energy (PE,2,\$27 3/4) launched a hostile takeover of PPL Resources (PPL,3,\$21 1/2) for \$24 a share, while Union Electric (UEP,2,\$34 3/4) and CIPSCO (CIP,NR,\$32 1/2) announced that they signed a definitive merger agreement.

* While differing in their respective takeover strategies, both are intended to accomplish the same objectives in the face of increasing competition in the electric utility industry: (1) drive down costs, (2) reduce rates, (3) increase in size to achieve economies of scale, and (4) improve prospects for long-term profitability.

* We believe that the friendly takeover approach offers better prospects for an expedited merger approvals process but note that a 25% higher book value premium was offered in the UEP/CIP merger.

* Each proposed merger will face significant regulatory scrutiny in what is still a highly regulated industry. Historically, the protracted regulatory approvals process necessary in the electric utility industry has thwarted significant M&A activity but the rules may be changing.

The following summarizes our initial views of each transaction.

UNION ELECTRIC AND CIPSCO -- THE FRIENDLY APPROACH

- WE VIEW THE PROPOSED MERGER BETWEEN UEP AND CIPSCO FAVORABLY
- THE COMBINED ENTITY WILL JOIN TWO HIGH-QUALITY LOW-COST PRODUCERS WITH MORE CRITICAL MASS THAN EACH COMPANY ON A STAND-ALONE BASIS.
- INITIAL CALCULATIONS INDICATE THAT THE PROPOSED TRANSACTION IS NON-DILUTIVE AND IN THE LONGER TERM, WILL PROVIDE FOR ENHANCED EARNINGS POWER.
- WE BELIEVE THAT THE FRIENDLY APPROACH HAS A HIGHER LIKELIHOOD OF BEING ACCOMPLISHED IN THE PROJECTED TIMETABLE.

Offer Details. UEP and CIPSCO announced that both its boards of directors had approved a definitive merger agreement in a transaction which values CIPSCO at roughly \$1.2 billion (34.1 million CIPSCO shares at \$35). The transaction price values CIP at a 1.84 multiple of book value and at an 18% premium to its recent market price. The proposed merger will create a combined company with assets in excess of \$8 billion and market capitalization of \$4.6 billion. Pending the receipt of necessary regulatory approvals, the companies anticipate a yearend 1996 closing.

Projected Savings. The companies project merger savings of \$570 million over ten years to be accomplished largely through the elimination of duplication in corporate and administrative programs, from purchasing economies and reduced electric production and gas costs. Unlike many other utility mergers, labor savings will not be the dominant category of savings. UEP and CIP project that roughly one-third - or \$195 million -- of the total savings will come through the elimination of 300 positions through attrition.

Transition costs associated with the merger are projected to total \$21 million in the first two years. Net savings over the ten year period are projected as follows: 1997 - \$23 mm, 1998 - \$36 mm, 1999 - \$47 mm, 2000 - \$53 mm, 2001 - \$60 mm, 2002 - \$61 mm, 2003 - \$63 mm, 2004 - \$70 mm, 2005 - \$76 mm and 2006 - \$81 mm.

Dividend Policy. The new holding company will assume UEP's annual dividend rate of \$2.44 per share. Based on our proforma calculations for 1995 EPS, the corresponding dividend payout ratio would approximate 85%. Management stated that the proposed merger would not alter its long-standing dividend policy of moderate dividend growth.

Approvals Needed. The companies need regulatory approvals from the following: shareholders, the Missouri PSC, the Illinois Commerce Commission, the Federal Energy Regulatory Commission, the Nuclear Regulatory Commission and the SEC. In addition, the Federal Trade Commission and the Department of Justice will review the agreement.

PECO ENERGY AND PP&L RESOURCES - THE HOSTILE APPROACH

- SUCCESSFUL HOSTILE TAKEOVER AMONG ELECTRIC UTILITIES IS UNPRECEDENTED
- HOSTILE APPROACH DELAYS FURTHER THE PROTRACTED REGULATORY APPROVALS PROCESS
- PP&L'S CURRENT REGULATORY UNCERTAINTY ADDS PRESSURE TO CONSIDER MERGER
- PECO WOULD BENEFIT FROM REDUCED STRANDED ASSET EXPOSURE

Offer Details. PECO Energy announced that it had proposed an unsolicited stock swap transaction which values PP&L Resources at \$24 per share. This represents a 50% premium to PP&L's book value and a 27% premium to its recent market price.

Projected Savings. PE projects that the combination of the two companies could yield more than \$2 billion in cost savings over ten years and rate reductions to customers of \$860 million over the same period. The PECO proposal envisions first year rate decreases of \$40 mm for each company. In addition, PECO proposes that roughly \$270 mm of the merger savings would be used to accelerate depreciation of its nuclear generating assets, thereby reducing rate base and mitigating potential stranded asset exposure. Another area of fairly significant cost savings would be accomplished through the elimination of duplicate functions across the two companies, resulting in a reduction of 1,100 positions. PECO projects first year cost savings of \$125 mm.

PP&L Initial Response. In a letter of response, PP&L Resources Chairman and CEO William Hecht expressed disappointment with PECO Energy's unsolicited offer after several rejections to previous offers and a specific request to defer action until late September, when PP&L's pending rate case had concluded.

In the letter, PP&L noted its areas of substantial concern such as PECO's comparatively high cost structure and stranded asset exposure in a deregulated environment. PP&L specifically cited that PECO's rates were as much as 55% higher than PP&L's. PP&L questioned the ability to achieve PECO's projected \$2 billion of cost savings and whether these savings would come largely at the expense of PP&L employees.

-- FIRST CALL - ON CALL --

PP&L Regulatory Uncertainty. While PP&L's initial response is pointed and negative, its current regulatory and long term financial outlook is uncertain. The company has pending a request with the Pennsylvania PUC for a \$261 mm (11.7%) rate increase. While it is the company's first rate increase request in ten years, the responses from the Office of Consumer Advocate, the PUC Trial Staff and most recently, the Administrative Law Judge have been negative -- ranging from a \$73 mm rate reduction to the ALJ's proposed \$62 mm increase. A final PUC decision is expected by September 30. Prospects for a negative decision by the Pa PUC has raised speculation recently on PP&L's long term earnings outlook and the relative safety of its common dividend, which explains PPL shares recent dividend yield of nearly 9% (prior to the PECO bid).

Approvals Needed. The proposed transaction would require regulatory approvals from the Pennsylvania PUC, the FERC, the NRC, and the SEC. The regulatory approvals process would not commence however, until an offer has been accepted and board approval has been secured. Thus, PECO's twelve-to-eighteen month timetable may be too aggressive.

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-- FIRST CALL - ON CALL --

Acquisition Adjustment Accounts

Account 114 -- Electric Plant Acquisition Adjustments

A. This account shall include the difference between (1) the cost to the accounting utility of electric plant acquired as an operating unit or system by purchase, merger, consolidation, liquidation, or otherwise, and (2) the original cost, estimated, if not known, of such property, less the amount or amounts credited by the accounting utility at the time of acquisition to accumulated provisions for depreciation and amortization and contributions in aid of construction with respect to such property.

. . . .

C. Debit amounts recorded in this account related to plant and land acquisition may be amortized to account 425, Miscellaneous Amortization, over a period not longer than the estimated remaining life of the properties to which such amounts relate. Amounts related to the acquisition of land only may be amortized to account 425 over a period of not more than 15 years. Should a utility wish to account for debit amounts in this account in any other manner, it shall petition the Commission for authority to do so. Credit amounts recorded in this account shall be accounted for as directed by the Commission.

Account 406 -- Amortization Of Electric Plant Acquisition Adjustments

This account shall be debited or credited, as the case may be, with amounts includible in operating expenses, pursuant to approval or order of the Commission, for the purpose of providing for the extinguishment of the amount in account 114, Electric Plant Acquisition Adjustments.

Account 425 -- Miscellaneous Amortization

This account shall include amortization charges not includible in other accounts which are properly deductible in determining the income of the utility before interest charges. Charges includible herein, if significant in amount, must be in accordance with an orderly and systematic amortization program.

ITEMS

1. Amortization of utility plant acquisition adjustments, or of intangibles included in utility plant in service when not authorized to be included in utility operating expenses by the Commission.
2. Other miscellaneous amortization charges allowed to be included in this account by the Commission.

Data Information Request
Union Electric
Case No. EM-96-149

Information Requested:

With respect to Union Electric's Illinois property sold to CIPS, please provide the following:

- 1) dates of sale and transfer of assets,
- 2) original cost,
- 3) selling price,
- 4) identify the UE assets sold to CIPS,
- 5) identify any gain or loss,
- 6) how was the gain or loss treated for ratemaking purposes (i.e., above-the-line or below-the-line),
- 7) accounting entries for both a) UE and b) CIPSCO/CIPS to record this transaction, and
- 8) the current status of the property, e.g., does CIPS still own the property, and how was UE's gain or loss treated for ratemaking purposes, above or below-the-line and why was this treatment made?

Information Provided:

- 1) December 31, 1992
- 2) At December 31, 1992:

Plant	\$8,882,092
Reserve/Depr.	<u>5,168,022</u>
Net Plant	\$3,714,070
- 3) \$8,500,000
- 4) See attached.
- 5) UE recorded a gain of \$4,754,475.
- 6) The gain was treated below-the-line for ratemaking purposes.
- 7) See attached.
- 8) CIPS still owns the property. As stated previously, UE's gain was recorded below-the-line. This treatment is in accordance with the Uniform System of Accounts and was approved by FERC and the Missouri Public Service Commission.

Prepared by Warner L. Baxter

EXHIBIT A

ASSETS

UNION ELECTRIC COMPANY FACILITIES
TO BE PURCHASED BY CIPS

The Assets of the Seller to be conveyed to the Buyer at closing shall include Seller's transmission, subtransmission, distribution and substation facilities in Northern Illinois (except for those excluded on Exhibit B), and any Construction Work In Progress (CWIP) related to the above listed assets at the time of closing. Specifically, the following facilities are to be included as a part of the Sale:

TRANSMISSION & SUBTRANSMISSION LINES

Hamilton-Lee-1: 69kV line extending north from Hamilton Substation to the Mississippi River bridge at Ft. Madison IA, crossing the river to Lee Substation. CIPS to purchase the section of the line from the Hamilton Substation, north to, and including, the tap point for the Appanoose distribution substation (see Exhibit B).

Hamilton-Lee-2: 69kV line extending north from Hamilton Substation to the Mississippi River bridge at Ft. Madison IA, crossing the river to Lee Substation, with an intermediate tap to the UE Appanoose distribution substation and Amoco Pipe Line Substation. CIPS to purchase the section of the line from the Hamilton Substation, north to, and including the tap point for the Appanoose distribution substation (see Exhibit B).

Hamilton-Tennessee Junction: 69kV line extending radially north and east from Hamilton Substation, and terminating in CIPS service territory (see Exhibit B). NOTE: Due to phasing differences, the line cannot be operated in parallel with the CIPS system.

SUBSTATIONS (Distribution)

Appanoose 69/12.47kV
Hamilton 69/12.47kV
Hamilton 13.8/12.47/4.16kV
J.M. Huber Corp. (Calcium Carbonate Div.) 34.5/12.47kV

DISTRIBUTION

All electric distribution assets that have not been identified separately are included in this section. Specific exclusions are noted on Exhibit B.

GENERAL PLANT

Communication Equipment

Union Electric Company
Sale of Northern Illinois Service Areas
To Central Illinois Public Service Co.
Entries To Be Filed With
Federal Energy Regulatory Commission

To record The Sale of Northern Illinois Retail Operations and Facilities

<u>Account</u>		
Dr. 131 Cash	\$8,500,000	
Cr. 102 Electric Plant Sold		\$8,468,545
Cr. 421.1 Salaries and Other Sales Expenses		31,455

To Record The Sale Of Property and Plant

<u>Account</u>		
Dr. 102 Electric Plant Sold	\$3,714,070	
Dr. 108 Accumulated Provision For Depreciation	5,168,022	
Dr. 111 Accumulated Provision For Amorization	0	
Cr. 101 Electric Plant in Service		8,882,092
Cr. 107 Construction Work In Progress		0

To Record The Gain On Disposition Of Property

<u>Account</u>		
Dr. 102 Electric Plant Sold	\$4,754,475	
Cr. 421.1 Gain On Disposition Of Property		\$4,754,475

RJK
05/05/93

CIPS
Purchase of Northern Illinois Service Areas
From Union Electric
Accounting Entries

To Record the Purchase of the Assets

<u>Account</u>		
Dr. 102 Utility Plant Purchased	\$8,500,000	
Cr. 131 Cash		\$8,500,000

To Record the Acquired Property

<u>Account</u>		
Dr. 101 Utility Plant in Service	\$8,882,092	
Cr. 102 Utility Plant Purchased		\$3,714,070
Cr. 108 Accumulated Depreciation		5,168,022

To Transfer the Excess of the Purchase Price Over the Net Original Cost of the
Acquired Property

<u>Account</u>		
Dr. 114 Plant Acquisition Adjustment	\$4,785,930	
Cr. 102 Utility Plant Purchased		\$4,785,930

