

Exhibit No.:  
Issues: Merger Premium  
Witness: Charles R. Hyneman  
Sponsoring Party: MoPSC Staff  
Type of Exhibit: Rebuttal Testimony  
Case No.: EM-96-149

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**REBUTTAL TESTIMONY**

**OF**

**CHARLES R. HYNEMAN**

**UNION ELECTRIC COMPANY**

**CASE NO. EM-96-149**

Jefferson City, Missouri  
May 1996

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

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1 **REBUTTAL TESTIMONY**  
2 **OF**  
3 **CHARLES R. HYNEMAN**  
4 **UNION ELECTRIC COMPANY**  
5 **CASE NO. EM-96-149**

7 Q. Please state your name and business address.

8 A. Charles R. Hyneman, State Office Building, 615 East Thirteenth Street,  
9 Kansas City, Missouri 64106.

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

11 A. I am an Assistant Manager of the Accounting Department, Kansas City Office,  
12 with the Missouri Public Service Commission (Commission).

13 Q. Please describe your educational background and work experience.

14 A. I graduated from Indiana State University in May 1985 with a Bachelor of  
15 Science degree in Accounting. I also earned a Masters of Business Administration degree  
16 from the University of Missouri - Columbia in December of 1988. I am a licensed Certified  
17 Public Accountant in the state of Missouri.

18 In May 1985, I was commissioned as an officer in the United States Air Force.  
19 I served from 1985 to 1989 as a Missile Combat Crew Commander at Whiteman Air Force  
20 Base (AFB) near Warrensburg, Missouri. After being promoted to the rank of Captain in  
21 1989, I was selected to be an instructor in strategic missile operations at Vandenberg AFB,  
22 California. I left the Air Force in December 1992 and joined the Commission in April 1993.

23 Q. Describe the nature of your duties since joining this Commission.

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1           A.     I have assisted, conducted and supervised audits and examinations of the  
2 books and records of public utilities operating within the state of Missouri. I have  
3 participated in examinations of electric, industrial steam, natural gas, telecommunications and  
4 water and wastewater companies. I have been involved in cases concerning proposed rate  
5 increases, earnings investigations, acquisitions and certifications cases.

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

7           A.     Yes. I have filed testimony before this Commission in the following utility rate  
8 cases:

|    |           |                                      |
|----|-----------|--------------------------------------|
| 9  | TR-93-181 | United Telephone Company of Missouri |
| 10 | ER-94-163 | St. Joseph Light & Power Company     |
| 11 | HR-94-177 | St. Joseph Light & Power Company     |
| 12 | GR-95-160 | United Cities Gas Company            |

13  
14           Q.     What is the purpose of your rebuttal testimony?

15           A.     The purpose of my rebuttal testimony is to respond to the direct testimony of  
16 Union Electric Company (Union Electric or UE) regarding its proposal to merge with  
17 CIPSCO Incorporated (CIPSCO). Specifically, my testimony will:

- 18           1.     Describe the accounting method that UE and CIPSCO are proposing  
19                 to use to account for the merger (the pooling of interests method);
- 20           2.     Describe the purchase method of accounting for mergers;
- 21           3.     Contrast the pooling of interests method with the purchase method;
- 22           4.     Explain how UE calculated a "merger premium";
- 23           5.     Describe how UE proposes to account for the "merger premium";
- 24           6.     Discuss the impact of the "merger premium" on Ameren  
25                 Corporation's (Ameren) pro forma earnings per share calculation;
- 26
- 27
- 28
- 29
- 30
- 31

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1           7.     State why UE believes the "merger premium" should be included in  
2                     rates; and

3  
4           8.     Summarize why I believe the "merger premium" should not be  
5                     included in rates.  
6

7           Q.     How are companies required to record a business combination (merger) for  
8                     financial accounting purposes?

9           A.     There are two strikingly different sets of accounting procedures which are  
10                    used to record mergers on the books of the combined business entity. These two accounting  
11                    procedures are referred to as the *purchase* method and the *pooling of interests* method  
12                    (pooling method or pooling).

13                    The authoritative generally accepted accounting principle (GAAP) on mergers  
14                    is Accounting Principles Board Opinion No. 16 (APB 16) entitled *Accounting for Business*  
15                    *Combinations*. The pooling method is required when certain criteria regarding the nature of  
16                    the consideration given and the circumstances of the exchange are met. If the pooling method  
17                    criteria are not met, the purchase method of accounting must be used to record the merger.  
18                    Company witness Warner L. Baxter attached as Schedule 1 to his direct testimony the specific  
19                    criteria from APB 16 which must be met to use the pooling method.

20           Q.     Does UE have a choice of using either the pooling method or the purchase  
21                     method?

22           A.     Technically, no. However, since the pooling method is more advantageous  
23                    to the shareholders of combining companies (as will be shown later in my testimony), a  
24                    company can structure the terms of a merger to meet the requirements of a pooling and,  
25                    therefore, record the merger as a pooling.

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1 Q. How can a company structure a merger transaction to qualify for pooling  
2 treatment?

3 A. The pooling method requires that the acquiring company issue common stock  
4 to acquire no less than 90 percent of the common stock of the acquired company. This is  
5 referred to as a "stock swap". Assuming a company complies with the other pooling  
6 requirements, it can decide to merge with a company by issuing stock instead of debt and/or  
7 cash and qualify for pooling treatment.

8 Q. Do UE and CIPSCO propose to account for the merger as a pooling of  
9 interests for financial reporting purposes?

10 A. Yes. UE witness Baxter states on page 4 of his direct testimony that the  
11 pooling method will be followed for financial reporting purposes. The receipt by UE and  
12 CIPSCO of a letter from their respective accountants stating that the merger will qualify for  
13 the pooling of interests method is a condition precedent to the consummation of the merger.

14 Q. Describe the pooling of interests method of accounting for mergers.

15 A. The fundamental idea underlying the pooling method is that no actual purchase  
16 and sale of a business takes place. The two companies involved are considered as combining  
17 their ownership interests and managerial abilities to form one economic entity. Net assets  
18 (total assets minus total liabilities) of the combining companies are carried forward at book  
19 (historical cost) values. The separate income statements of the combining companies are  
20 simply combined and shown as income of one economic entity.

21 In a pooling, the net assets of the companies remain intact and are combined.  
22 The stockholder groups also remain intact and are combined. Aggregate income is not

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1 changed since total resources are not changed. Poolings are intended to present as a single  
2 interest two stockholder groups which were previously independent and the combined rights  
3 and risks represented by those groups. Stockholder groups neither withdraw nor invest assets  
4 but, in effect, exchange voting common stock in a ratio that determines their respective  
5 interests in the combined corporation. The current fair value of the common stock issued and  
6 the current fair value of the acquiring firm's net assets are ignored in a pooling of interests.

7 The stockholders' equities of the separate companies are also combined in a  
8 pooling. The combined corporation records as equity, the common stock and paid-in capital  
9 in excess of par value of outstanding stock of the separate companies. Similarly, retained  
10 earnings of the separate companies are combined and recognized as retained earnings of the  
11 combined corporation.

12 Q. Does APB 16 consider a merger accounted for as a pooling to be an  
13 acquisition of one company by another or on acquisition of assets?

14 A. No. APB 16 does not describe pooling mergers as "acquisitions" because the  
15 meaning of the word acquisition is inconsistent with the pooling of interests method of  
16 accounting.

17 Q. Describe the purchase method of accounting for mergers.

18 A. The purchase method accounts for mergers as the acquisition of one company  
19 by another. The acquiring company records as its cost the acquired assets less liabilities  
20 assumed. The difference between the cost (amount paid) of the acquired company and the  
21 sum of the fair values of tangible and identifiable intangible assets less liabilities is recorded  
22 as goodwill.

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1 Accounting for a merger by the purchase method follows the principles of  
2 historical-cost (original cost) accounting to record acquisitions of assets and issuances of  
3 stock and account for assets and liabilities after the acquisition.

4 Q. What is the difference between the pooling method and the purchase method  
5 of accounting?

6 A. The fundamental difference between the two methods used to account for  
7 business combinations is that, under the *purchase* method, the ownership rights in an acquired  
8 company pass to the acquiring company; a sale and a purchase of assets takes place. In  
9 contrast, under the *pooling* method, the owners of the combining companies merge their  
10 ownership interests in the stock of those companies to form a newly combined economic  
11 entity. There is no transfer of ownership rights, and no sale or purchase takes place.

12 I will use the following example to illustrate the conceptual differences  
13 between a purchase and a pooling. A purchase is shown for both a regulated utility and a  
14 non-regulated company to help illustrate the difference. There is no difference in the  
15 recording of a pooling for a regulated utility and a non-regulated company.

16 Purchase--Non-regulated Company

17 Company A acquires Company B by paying \$1,000,000 in  
18 cash. The book value of Company B's net assets is \$700,000.  
19 An independent appraisal of Company B's net assets shows a  
20 fair value of \$900,000. The substance of this transaction is  
21 illustrated in the following journal entry:  
22

23  
24 Net Assets of Company B (fair value) \$900,000  
25 Goodwill 100,000  
26 Cash \$1,000,000  
27 To record merger with Company B as a purchase.  
28

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1 This journal entry shows that in a purchase, when the purchase  
2 price exceeds the book value of net assets, the assets are  
3 "written-up" and recorded at their fair values (\$900,000). The  
4 difference between the purchase price and the recorded fair  
5 value of net assets is recorded as an intangible asset called  
6 goodwill.

7  
8 Goodwill is subsequently amortized as an expense to the  
9 income statement on a straight-line basis over a period of  
10 years, having the effect of decreasing net income. Also, since  
11 certain depreciable assets have been recorded at the higher fair  
12 value (as opposed to book value), depreciation expense in a  
13 purchase will be higher than in a pooling, also having a  
14 negative effect on net income.

15  
16 Purchase--Regulated utility company

17 The journal entry to record this transaction for a regulated  
18 utility company is as follows:

19  
20 Net Assets of Company B (original cost) \$700,000  
21 Acquisition Adjustment \$300,000  
22 Cash \$1,000,000

23  
24 Electric utilities subject to Federal Energy Regulatory  
25 Commission (FERC) jurisdiction must record the difference  
26 between the amount paid to acquire a company and the  
27 historical cost values on the acquired company's books as an  
28 acquisition adjustment. The amount of the acquisition  
29 adjustment is amortized as an expense on the income  
30 statement (either above or below-the-line depending on  
31 Commission treatment) having the effect of reducing net  
32 income.

33  
34 In this example, the acquisition adjustment (\$300,000)  
35 includes the increase in the appraised value of net assets over  
36 the book value (\$900,000 - \$700,000) and the difference  
37 between the purchase price and the appraised fair value of net  
38 assets (\$1,000,000 - \$900,000), referred to as goodwill.

39  
40 If the amortization of the acquisition adjustment to the income  
41 statement is treated above-the-line (included in cost of service)  
42 for ratemaking purposes, the effect on net income of the  
43 purchase method for both regulated and non-regulated



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1 companies would be the same. The net result is that net  
2 income will be reduced by a total of \$300,000 over a period  
3 of years.  
4

5 Pooling

6 Assume the same facts as in the purchase example, except that  
7 instead of paying cash, Company A issues 10,000 shares of its  
8 \$1 par common stock to acquire all of the outstanding  
9 common stock of Company B. A journal entry reflecting the  
10 substance of this transaction is shown below:  
11

|    |  |           |         |
|----|--|-----------|---------|
| 12 | Company B Net Assets (historical cost) | \$700,000 |         |
| 13 | Common Stock (10,000 shares X \$1)     |           | 10,000  |
| 14 | Additional Paid-in Capital             |           | 690,000 |

15 To record merger with Company B as a pooling of interests  
16

17 This journal entry shows that in a pooling, the fair value of  
18 assets acquired (\$900,000) is ignored and the actual price paid  
19 to Company B shareholders is ignored. For example, assume  
20 that the market price of Company A stock was \$100 per  
21 share. The "cost" to Company A to acquire Company B is  
22 10,000 shares times \$100 per share, or \$1,000,000. This  
23 \$1,000,000 cost is not reflected anywhere in Company A's  
24 financial statements. Only one cost is relevant in a pooling,  
25 and that is historical (original) cost.  
26

27 This example also shows that no goodwill is recorded in a  
28 pooling and therefore, there is no negative impact on net  
29 income. Also, since the book value of assets acquired are not  
30 "written-up" to their fair values, a pooling avoids the higher  
31 depreciation expense that would be recognized in a purchase  
32 transaction.

33 Q. What is the most important difference between the purchase accounting  
34 method and the pooling accounting method?

35 A. The most important difference between the two methods is that the pooling  
36 method does not allow for the recording of any merger-created asset to account for the  
37 difference between the amount paid to acquire a company and the value of the acquired

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1 company. No acquisition adjustment or goodwill asset is recorded in a pooling. Since there  
2 is no merger-created asset to amortize to expense on the income statement, there is no  
3 negative impact on net income.

4 Q. Why do companies prefer the pooling method over the purchase method?

5 A. On page 2 of Company witness Douglas W. Kimmelman's direct testimony,  
6 he states that nearly all utility combinations are effected as a stock swap, and use the pooling  
7 of interests accounting method for the transaction. One reason for this is that the pooling  
8 method tends to result in higher net income, and lower depreciation and amortization expense  
9 for the combined company than it would if accounted for as a purchase. Therefore,  
10 management or owners of companies may frequently prefer the pooling method to account  
11 for mergers.

12 On page 3 of his direct testimony, Mr. Kimmelman goes on to describe  
13 advantages of the pooling method as listed below:

- 14 1. Less costly than a cash transaction as it does not leverage the company;
- 15 2. It is tax-free to the shareholders; and
- 16 3. Does not involve the booking of goodwill, that when amortized,  
17 increases expenses.  
18  
19  
20

21 Q. In the example you used to illustrate the difference in accounting for pooling  
22 and purchases, you stated that in a pooling, the actual price paid is ignored. How did UE  
23 determine its cost to acquire all of the outstanding common shares of CIPSCO?

24 A. Through negotiations, UE and CIPSCO agreed to indirectly exchange one  
25 share of CIPSCO common stock for 1.03 shares of UE stock. The valuation date was

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1 August 11, 1995. On that date, CIPSCO had 34,069,542 shares of common stock  
2 outstanding. Since the shareholders of CIPSCO indirectly receive 1.03 shares of UE stock  
3 for each share of CIPSCO stock outstanding, UE will have to issue 35,091,628 (34,069,542  
4 X 1.03) shares to acquire the net assets of CIPSCO.

5 The market price of UE stock on August 11, 1995 closed at \$35.375 per  
6 share. This price per share times the amount of stock to be issued (35,091,628) equals the  
7 total cost of CIPSCO stock of \$1,241,366,350.

8 Q. Will this cost of \$1,241,366,350 appear anywhere on the financial statements  
9 of the new holding company, Ameren Corporation?

10 A. No. As shown in my previous example, this cost is not reflected in the  
11 accounting for the merger under the pooling of interests method. In response to Staff Data  
12 Request No. 94, UE provided the following pro forma journal entry to record the merger on  
13 the books of Ameren Corporation:

|                             |                 |
|-----------------------------|-----------------|
| Investment in UE, CIPS      | \$2,970,729,000 |
| and CIPSCO                  |                 |
| Common Stockholders' Equity | \$2,970,729,000 |

14 This journal entry simply combines the existing stockholders' equity of the two  
15 companies (\$2,319,197,000 for UE and \$651,532,000 for CIPSCO). If the journal entry  
16 were recorded separately for UE and CIPSCO, the journal entry to record the investment in  
17 CIPSCO would be:

|                             |               |
|-----------------------------|---------------|
| Investment in CIPSCO        | \$651,532,000 |
| Common Stockholders' Equity | \$651,532,000 |

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1           This journal entry shows that UE is required to record the investment in  
2 CIPSCO at its book value and the cost of the investment (\$1,241,366,350) is ignored.

3           Q.     Under the pooling method, how did UE determine the value of the CIPSCO's  
4 shares acquired?

5           A.     UE determined this value by multiplying the \$29.625 per share closing market  
6 price of CIPSCO stock on the valuation date (August 11, 1995) times the number of shares  
7 outstanding on that date (34,069,542). This value is \$1,009,310,182.

8           Q.     How does UE propose to recognize the \$232,056,168 difference between the  
9 amount "paid" to acquire the outstanding shares of CIPSCO (\$1,241,366,350) and the market  
10 value of CIPSCO stock on the valuation date (\$1,009,310,182)?

11          A.     UE refers to the \$232,056,158 difference as a "merger premium" and is  
12 proposing to recover this premium in rates for regulatory accounting purposes, and not  
13 recognize this premium for financial accounting purposes.

14          Q.     Will the "merger premium" that UE is proposing to recover for ratemaking  
15 purposes be reflected in any UE or Ameren Corporation balance sheet or income statement  
16 account?

17          A.     No. The only place on the balance sheet where a "merger premium" could be  
18 reflected is in the pro forma adjustment to the combined Common Stock and Other  
19 Stockholders' Equity accounts. This adjustment merely reflects a reclassification between  
20 these two accounts to comply with accounting rules that require the Common Stock account  
21 to be shown at par value. This adjustment has no effect on total stockholders' equity.

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1 Q. How does Ameren propose to account for the "merger premium" for financial  
2 reporting purposes?

3 A. In response to Staff Data Request No. 94, UE stated that the "merger  
4 premium" will not be recorded on the books of UE or CIPSCO. Accounting rules (APB 16)  
5 do not allow for the recording of any premium on the company's books and records. No  
6 intangible asset is allowed to be recognized and no amortization of the "merger premium" to  
7 the income statement is allowed. According to the balance sheet and income statement  
8 accounts of Ameren, the "merger premium" will not exist.

9 Q. How does Ameren propose to account for the "merger premium" for  
10 regulatory accounting purposes?

11 A. For regulatory accounting (and ratemaking) purposes, UE is proposing to  
12 defer and amortize this "merger premium" to cost of service on a straight line basis over ten  
13 years. The amortized amount of the "merger premium" will be added to depreciation and  
14 amortization expense in the annual "Earnings Report" for the twelve months ending June 30  
15 submitted to the Commission under the current Experimental Alternative Regulation Plan  
16 established in Case No. ER-95-411. In effect, UE proposes to charge the "merger premium"  
17 as an expense to ratepayers just like any other operating expense.

18 Q. Why does UE believe Missouri ratepayers should pay for the "merger  
19 premium"?

20 A. In his direct testimony, Mr. Kimmelman stated that Ameren shareholders will  
21 expect a fair return on their investment so as to not dilute the value of their current holdings.

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1 He believes there will be a dilutive effect on the shareholders' investment if they are not  
2 allowed a return on the "merger premium".

3 Q. Explain the concept of "dilution" if the "merger premium" is not recovered in  
4 rates.

5 A. Dilution can be defined as a decrease, loss, or weakening of a financial  
6 statement related item. For example, if more common shares are issued, the equity interest  
7 represented by each common share is reduced. The dilution referred to by Mr. Kimmelman  
8 relates to earnings per share (EPS). EPS is equal to net income divided by the number of  
9 common shares issued and outstanding.

10 Q. Explain UE's position on dilution if the "merger premium" is not recognized  
11 for ratemaking purposes.

12 A. In response to Staff Data Request No. 165, Mr. Kimmelman provided a  
13 calculation that shows how the merger will cause a dilution in EPS to UE shareholders. His  
14 calculation is based on the first year of actual combined operations (1997) as follows:

|    |                                   |    |       |    |
|----|-----------------------------------|----|-------|----|
| 15 | Projected Income to UE            | ** | _____ | ** |
| 16 | UE pre-merger shares outstanding  | ** | _____ | ** |
| 17 | UE EPS without merger (projected) |    | _____ | ** |
| 18 |                                   |    |       |    |
| 19 | Projected Combined Income         | ** | _____ | ** |
| 20 | Combined Shares outstanding       | ** | _____ | ** |
| 21 | Combined EPS (projected)          |    | _____ | ** |
| 22 |                                   |    |       |    |

23 From this calculation on projected future earnings, UE shareholders' earnings  
24 will decrease by \*\* \_\_\_\_ \*\* per share.

25 Q. Does you agree with the calculation of dilution in EPS?

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1           A.     No, I do not. The calculation does not recognize the increase in net income  
2 from merger cost savings. By not including these savings, combined net income, and  
3 therefore combined EPS are understated.

4           Q.     Please provide a calculation of projected EPS that includes the effect of  
5 merger savings.

6           A.     The following calculation of EPS is based on the data provided by  
7 Mr. Kimmelman in his response to Staff Data Request No. 165 and data from Schedule 8 of  
8 UE witness Gary L. Rainwater's direct testimony:

9           Post merger EPS =  $\frac{\text{Combined Earnings} + 1/2 \text{ Merger Savings}}{\text{Common shares outstanding}}$

10  
11  
12           Post merger EPS = (\*\* \_\_\_\_\_ \*\* + \$19,117,500) ÷ 137,254,771 = \*\* \_\_\_\_\_ \*\*

13  
14           Although this calculation ignores any income tax effect, it shows the significant impact of  
15 merger savings on projected earnings per share calculations. It also shows that failure by UE  
16 to directly recover the "merger premium" in rates should not have a dilutive effect on EPS.

17           Q.     Is it your opinion, Mr. Hyneman, that including one half of the merger savings  
18 in EPS is the proper way to calculate EPS?

19           A.     Yes, it is. The Staff's position in this case is to allow UE the opportunity to  
20 retain approximately one-half of gross merger savings.

21           Q.     Do you have any evidence to indicate that UE management believes there will  
22 be no dilution in projected EPS?

23           A.     Yes. In an Investment Analyst Report prepared by Smith Barney, UE  
24 management is quoted as having indicated that it expected merger savings to offset any near

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1 term dilution and to be accretive (result in an increase) in EPS. Staff Accounting witness  
2 Cary G. Featherstone also discusses the concept of dilution in his rebuttal testimony filed in  
3 this case.

4 Q. Does UE provide any other rationale for proposing to include the "merger  
5 premium" in its utility rates?

6 A. Yes. On page 18 of his direct testimony, UE witness Rainwater states that the  
7 investment ("merger premium") should be recovered in rates for the same reasons that an  
8 investment in any aspect of UE's business would be allowed--because it was prudent.

9 Q. Do you agree with Mr. Rainwater's assertion?

10 A. I agree that prudent, reasonable, and beneficial investments should be  
11 recovered. However, I do not agree that the "merger premium" is an investment by UE.  
12 Utility investments that provide service to ratepayers are recorded as assets. A "merger  
13 premium" is not an asset. In fact, it is prohibited from being recorded as an asset for both  
14 financial reporting (GAAP) and regulatory accounting (Uniform System of Accounts)  
15 purposes.

16 Q. If you wouldn't classify the "merger premium" as an investment, how would  
17 you classify the "merger premium"?

18 A. The "merger premium" is simply a result of an exchange of ownership interests  
19 between UE stockholders and CIPSCO stockholders. An exchange between stockholder  
20 groups is a separate and distinct transaction from the business transactions of a company.

21 Q. Would including recovery of the "merger premium" in rates violate a basic  
22 assumption of accounting?



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1           A.     Yes. A basic assumption of accounting is that economic activities can be  
2 identified with a particular unit of accountability. In other words, the activity of a business  
3 enterprise can be kept separate and distinct from its owners. This is referred to as the  
4 economic entity assumption. Since the "merger premium" resulted from a transaction  
5 between stockholders (owners), it should not be included in the financial operations of a  
6 company.

7           Q.     Mr. Hyneman, do you believe that UE should be allowed to recover the  
8 "merger premium" in rates?

9           A.     No, I do not.

10          Q.     Please summarize the reasons why you believe the "merger premium" should  
11 not be included in rates.

12          A.     UE chose to account for the proposed merger with CIPSCO as a pooling of  
13 interest primarily because of the financial benefits this method provides to Ameren  
14 shareholders (tax-free to shareholders, no negative impact on earnings). However, UE's  
15 proposal to seek recovery of the "merger premium" is not consistent with the basic concepts  
16 of the pooling of interests method.

17                 The "merger premium" will not be reflected in any income statement or  
18 balance sheet account of UE, CIPSCO or Ameren. The "merger premium" is not an  
19 investment by either UE, CIPSCO or Ameren because it will not be recorded as an asset. All  
20 investments in a company are recorded as assets. The "merger premium" will not be an  
21 expense of UE, CIPSCO or Ameren because all expenses are recorded on the income

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1 statement. Because the "merger premium" is not an asset or an expense, it should not be  
2 reflected in rates.

3 The "merger premium" is a result of a transaction between shareholders of UE  
4 and shareholders of CIPSCO. It is not a result of a business transaction between UE and  
5 CIPSCO. If it were a business transaction, it would (as all business transactions are) be  
6 reflected in the financial records.

7 It is therefore my recommendation that UE not be allowed to recover the  
8 "merger premium".

9 Q. Does this conclude your rebuttal testimony?

10 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 ) Case No. EM-96-149  
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. )

**AFFIDAVIT OF CHARLES R. HYNEMAN**

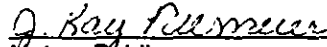
STATE OF MISSOURI            )  
  )  
COUNTY OF COLE            )            ss.

Charles R. Hyneman, 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 17 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.

  
\_\_\_\_\_  
CHARLES R. HYNEMAN

Subscribed and sworn to before me this 7 day of May, 1996.

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

  
\_\_\_\_\_  
Notary Public

My Commission Expires: