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Witness: Jay W. Moore, CMA, CRRA
Sponsoring Party: MoPSC Staff
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Case No.: EM-96-149

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

JAY W. MOORE, CMA, CRRA

UNION ELECTRIC COMPANY

CASE NO. EM-96-149

Jefferson City, Missouri
May 1996

** Denotes Proprietary Information **

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REBUTTAL TESTIMONY

OF

JAY W. MOORE, CMA, CRRA

UNION ELECTRIC COMPANY

CASE NO. EM-96-149

Q. Please state your name.

A. My name is Jay W. Moore.

Q. Please state your business address.

A. My business address is P.O. Box 360, Jefferson City, Missouri, 65102.

Q. What is your present occupation?

A. I am employed as Manager of the Financial Analysis Department for the Missouri Public Service Commission. I accepted this position in November 1990. From November 1987 to October 1990, I was employed as a Financial Analyst with the Missouri Public Service Commission (Commission).

Q. Were you previously employed before you joined the Commission's staff (Staff)?

A. Yes, I was employed by Summit Bank of Marion, Indiana from August 1985 to October 1987, in a Management Trainee position. I trained and assisted in the overall operation of the entire bank. I received training in the following departments: the operations department, commercial and mortgage loan departments, investment department and the trust department.

Q. What is your educational background?

A. In 1985, I earned a Bachelor of Science degree in Mathematics with a minor in Business from Central Missouri State University. In 1987, I earned a Master of Business Administration degree with a concentration in Finance from Ball State University, Muncie, Indiana.

Q. Are you a member of any professional associations?

A. Yes. I am the Vice Chair of the National Association of Regulatory Utility Commissioners' (NARUC's) Staff Subcommittee on Economics and Finance. I am a Board of Directors member and President-Elect of the National Society of Rate of Return Analysts and a member of the Institute of Management Accountants.

Q. Do you hold any professional designations?

A. Yes. On May 20, 1992, I was awarded the professional designation of "Certified Rate of Return Analyst" (CRRA) by the National Society of Rate of Return Analysts. This designation is based upon education, experience and the successful completion of a comprehensive examination. In addition, on June 1, 1992, I was awarded the professional designation of "Certified Management Accountant" (CMA) by the Institute of Certified Management Accountants. This designation is a result of completing the CMA Examination and the fulfillment of the experience requirement.

Q. What is the purpose of your testimony in this case?

A. My testimony is presented to provide my findings regarding the evaluation of certain financial aspects of the proposed merger of Union Electric Company (UE or Union Electric) and CIPSCO Incorporated (CIPSCO). Specifically, I will address the following issues as they relate to UE and CIPSCO on a pre-merger basis and Ameren Corporation (Ameren) and Union Electric on a post-merger basis:

- Business Operations of Union Electric and CIPSCO;
- Proposed Corporate Structure of Ameren Corporation;
- Public Utility Holding Company Act (PUHCA);
- Credit Ratings;
- Capital Structures and Costs of Capital;
- Dividend Policies;
- Nuclear Decommissioning Trust Funding Levels;
- Acquisition Premium;
- Stock Market Reaction;
- Sharing of Merger Savings under Experimental Alternative Regulation Plan; and
- Not Detrimental to the Public Interest Standard.

Q. Have you prepared any schedules regarding your evaluation of financial analysis with regards to the proposed merger of UE and CIPSCO?

A. Yes. I am sponsoring 19 schedules entitled "Financial Analysis of the Proposed Merger of Union Electric Company and CIPSCO Incorporated, Case No. EM-96-149" attached to this rebuttal testimony (see Schedule 1).

Q. Please briefly describe the proposed merger of UE and CIPSCO (Merger).

A. In Union Electric Company's 1995 Stockholders Annual Report, pages 29-30, UE states:

> On August 11, 1995, the Company [UE] entered into an Agreement and Plan of Merger (the Merger Agreement) with CIPSCO Incorporated (CIPSCO) and Ameren Corporation (Ameren), a newly formed entity, 50% owned by the Company and 50% owned by CIPSCO, pursuant to which, among other things, the Company and CIPSCO will be merged with Ameren (the Merger). Subsequent to the Merger, the Company and Central Illinois Public Service Company and CIPSCO Investment Company (wholly owned subsidiaries of CIPSCO), will continue as wholly owned operating subsidiaries of Ameren. As a result of the Merger, each outstanding share of the Company's common stock will be converted into the right to receive one share of common stock of Ameren (Ameren Common Stock), each outstanding share of the Company's preferred stock will remain outstanding and unchanged and each outstanding share of CIPSCO's common stock will be converted into the right to receive 1.03 shares of Ameren Common Stock (or cash in lieu of fractional shares). The Merger is expected to be tax-free for income tax purposes and will be accounted for under the "pooling of interests" method of accounting . . .
>
> After the Merger, Ameren will become a registered public utility holding company under the Public Utility Holding Company Act of 1935, as amended. In December 1995, the Merger was approved by the shareholders of Union Electric and CIPSCO. However, the Merger is still conditioned upon, among other things, receipt of certain regulatory and governmental approvals . . .

Business Operations of Union Electric and CIPSCO

Q. Please describe UE's business operations.

A. Standard & Poor's Corporation's Utilities Rating Service, dated April 1995, describes UE's corporate structure and service territory as follows:

> Union Electric Co. (UE), incorporated in Missouri in 1922 and headquartered in St. Louis, is the successor to a number of utilities, the oldest of which was organized in 1881. The company is the largest electric utility in the state . . . . The utility is not involved in diversified activities.
>
> Union Electric is engaged principally in the sale of electricity (95.8% of operating revenues) in Missouri and to a small degree in Illinois. The service territory encompasses approximately 24,500 square miles, including the metropolitan St. Louis area, with an estimated population of 2.6 million. Natural gas is distributed (4.2% of operating revenues) in 90 Missouri communities and in and around the city of Alton, Ill. Business risk is tempered by a diverse economy that is centered around transportation equipment, primary metals, foods and kindred products, chemicals, petroleum refining, fabricated metals and machinery, and glass and concrete products. UE's 50 largest customers account for less than 12% of total revenues and its largest customer, Shell Oil Co., less than 1.5%. Sales and revenues are derived largely from residential and commercial customers, providing some insulation from the effects of cyclical volatility.
>
> The St. Louis economy remains quite healthy . . . . The strong economy is further exemplified by a nominal amount of uncollectible accounts, a relatively high median household income of $43,700, a boom in home building, continued commercial and industrial expansion, and a December 1994 unemployment rate of 4.1% . . . . Increased production by the three auto manufacturers is expected to generate $10 million additional revenue . . .

Q. Does Standard & Poor's Corporation describe CIPSCO's business operations?

A. Yes. Standard & Poor's Corporation's Utilities Rating Service, dated December 1995, describes CIPSCO's corporate structure and service territory as follows:

> CIPSCO was incorporated in Illinois in 1986. It has two first-tier subsidiaries: CIPS [Central Illinois Public Service Company], a combination electric and gas utility, and CIPSCO Investment, an investment subsidiary. CIPS was organized

in 1902 and is the primary cash-generating subsidiary (94% of total consolidated assets and 95% of net income) of CIPSCO. CIPS provides electric and gas service in portions of central and southern Illinois. CIPSCO Investment, incorporated in 1990, was formed for the purpose of managing nonutility investments . . .

CIPS provides electric (83% of operating revenues, 93% of pretax operating income, and 89% of assets) and gas service (17%, 7%, and 11%, respectively) in a 20,000 square-mile region of central and southern Illinois. Located across 66 counties, the service area has an estimated population of 820,000, and contains about 7% of the state's population and 35% of its surface area. Electricity is supplied to 317,000 retail customers in 557 incorporated and unincorporated communities, and adjacent suburban and rural areas. Wholesale power is furnished through capacity participation agreements, firm contracts, full-requirement contracts, and limited-term agreements. The company [Central Illinois Public Service Company] also provides gas service to almost 166,000 retail customers in 267 communities and gas transportation service to about 320 end users. CIPS furnishes both electric and gas service in 235 of the communities served.

Economic support centers on agriculture and diversified industrial operations. Key industries include petroleum refining and petrochemicals; food processing; stone, clay, glass and concrete products; printing and publishing; metal fabrication; and coal mining. Electricity sales to petroleum, related petrochemical, and coal mining industries accounted for about 6% of total electric revenues and 37% of industrial kilowatt hour (kWh) revenues in 1994. Prospectively, sales of power to the coal mining segment may contract as a result of declining consumption of Illinois coal . . .

CIPS does not rely heavily on the industrial sector, with industrial customers comprising less than 23% of retail electric revenues . . .

The economy of the company's service territory is gradually improving as evidenced by a 5% increase in industrial sales in 1994. The state unemployment rate was 5.2% at June 30, 1995, which compares favorably to the national average of 5.6%. The area's median household income is slightly above the national average, uncollectible accounts remain at nominal levels, housing starts are up considerably, and commercial construction continues to strengthen . . .

Q. Please provide some historical financial information for UE and CIPSCO.

A. Schedules 2 and 3 present historical capital structures and selected financial ratios from 1992 to 1995 for UE. UE's common equity ratio has increased steadily from 49.69 to 52.82 percent for the period of 1992 through 1995. In my opinion this ratio is reasonable even though it is somewhat higher than the average common equity ratio of 44.6 percent at year-end 1994 for the electric utility companies as reported by The Value Line's Investment Survey, April 12, 1996. Value Line projects the common equity ratio for the electric utility industry to increase on average to 49.0 percent for the period of 1999 through 2001.

Union Electric's return on year-end common equity has remained rather steady ranging from 12.83 to 13.55 percent for the period of 1992 to 1995 with UE's year-end 1995 return on common equity being calculated at 12.97 percent. The Value Line's Investment Survey, April 12, 1996, reports that on average the electric utility industry earned 11.1 percent return on common equity for 1994. Value Line projects the average return on common equity to increase to 11.8 percent for the electric utility industry during the period of 1999 through 2001.

Schedules 4 and 5 present historical capital structures and selected financial ratios from 1992 to 1995 on a consolidated basis for CIPSCO Incorporated. CIPSCO's common equity ratio increased from 51.10 to 53.21 percent for the period of 1992 to 1994 and decreased to 51.77 percent for year-end 1995. CIPSCO's return on year-end common equity has decreased from 13.48 percent for 1993 to 11.05 percent for 1995.

Q. Please provide some additional corporate operating profiles for UE and CIPSCO.

A. Following is a chart taken from information provided in UE's 1995 Stockholders Annual Report which provides a side-by-side comparison of key operating statistics for UE and CIPSCO.

Item (at 12/31/95)	UE	CIPSCO	Percent UE of Combined
Assets	$6.8 billion	$1.8 billion	79.1%
Total Operating Revenues	$2.1 billion	$842 million	71.4%
Electric Revenues: Residential Commercial Industrial Wholesale/other	$2.0 billion 41% 36% 19% 4%	$703 million 33% 26% 16% 25%	74.0%
Electric Customers	1.13 million	321,000	77.9%
Kilowatthour Sales	33.3 billion	13.7 billion	70.9%
Electric Generation: Net Generation Capacity* Energy Mix Reserve Margin * includes owned portion of EEI (see page 11 for description)	 8,307 MW 71% coal, 24% nuclear, 5% hydro 14.2%	 3,047 MW 99% coal, 1% oil 22.1%	 73.2%
Gas Revenues: Dekatherm Sales (000) Gas Customers	$88 million 16,441 121,000	$130 million 37,156 167,000	40.4% 30.7% 42.0%
Employees	6,190	2,428	71.8%
Service Territory (Sq. miles)	24,500	20,000	55.1%

This information suggests that UE will dominate the overall combined operations. UE will comprise over 70 percent of the combined operations except for the much smaller natural gas distribution operations in which UE will comprise only about 40 percent of the combined operations.

Proposed Corporate Structure of Ameren Corporation

Q. Please briefly describe the proposed "holding company" corporate structure.

A. Page 11 of the Joint Proxy Statement of Union Electric Company and CIPSCO Incorporated / Prospectus of Ameren Corporation (Joint Proxy), dated November 13, 1995, states:

> Following the Mergers, Holdings [the proposed corporate name is Ameren Corporation] will be a registered public utility holding company under the 1935 Act, and Union Electric and CIPS [Central Illinois Public Service Company] will operate as its principal subsidiaries. The headquarters of Holdings will be in St. Louis, Missouri. The headquarters of the two utility subsidiaries will remain in their current locations, Union Electric's in St. Louis and CIPS' in Springfield, Illinois . . . . The business of Holdings will be to operate as a holding company for its utility subsidiaries and various non-utility subsidiaries. Pursuant to the Merger Agreement, Union Electric will transfer certain utility assets located in Illinois to CIPS. Union Electric and CIPSCO recognize that a divestiture mandated by the SEC [Security and Exchange Commission] of their existing gas operations and certain non-utility operations is a possibility under the registered holding company structure, but intend to seek approval from the SEC to maintain such businesses . . .

Schedule 6 presents the proposed organizational chart for Ameren Corporation. Ameren Corporation will consist of the following first tier wholly-owned subsidiaries: Union Electric Company, Central Illinois Public Service Company (CIPS), CIPSCO

Investment Company and Ameren Services Company. Ameren Services Company is a new company being formed to deliver support services to the operating utility companies.

Q. Please briefly describe the second tier subsidiaries of Ameren Corporation.

A. Union Electric Development Corporation is a wholly-owned subsidiary of UE which was created to own civic related projects within UE's service area. CIPSCO Investment Company (CIC) is currently a subsidiary of CIPSCO which engages in non-utility investment activities. Pages 17 and 18 of CIPSCO's 1995 Stockholders Annual Report addresses these non-utility investment activities as follows:

> At year-end 1995 there were $111 million of non-utility investments managed by CIC and its subsidiaries.
>
> One of those subsidiaries, CIPSCO Securities Company, manages marketable securities. At year end it had invested approximately $47 million in hedged portfolios of preferred and common stocks and other marketable securities.
>
> Another subsidiary, CIPSCO Leasing Company, invests in long-term leveraged lease transactions. At year end, $34 million was invested in leased assets consisting of a commercial jet aircraft, an interest in a natural gas liquids plant, natural gas processing equipment and retail department store properties.
>
> A third subsidiary, CIPSCO Energy Company (CEC), seeks energy-related investment opportunities. Through 1995, it had purchased existing leases, or interests in such leases, for nine combustion turbine generating units leased to five investor-owned utilities in the United States. In 1995 CEC purchased a 24.75 percent interest in Appomattox Cogeneration Limited Partnership, which owns a power sales agreement for electricity produced at a 40-megawatt cogeneration plant at Hopewell, Virginia. At year-end 1995 CEC had a total of $25 million invested.
>
> A fourth subsidiary, CIPSCO Venture Company (CVC), was established primarily to invest within the CIPS service territory. CVC's initial investment in 1994

> consisted of $.6 million for the construction of a building which is leased to a manufacturing firm. CVC made no additional investments in 1995.
>
> The long-term goal of CIC's investment policy is to earn returns that exceed the allowed return in the regulated utility business. CIC may become involved in additional non-utility activities directly, through a subsidiary or through the formation of one or more additional subsidiaries. The sources of capital to finance these activities will depend on the nature of the investment and market conditions.
>
> At year-end 1995, CIC had $4 million of temporary investments and no short-term borrowings.

It should also be noted as a result of the proposed Merger, Ameren will directly own 60 percent (currently 40 percent UE and 20 percent CIPS owned) of Electric Energy, Inc. (EEI). As addressed on page 4 of Mr. Gary L. Rainwater's direct testimony, he states: "EEI owns the Joppa Plant, a 1,015 MW coal-fired power plant located near Joppa, Illinois, and six 161 kV transmission lines which transmit power from the Joppa Plant ..."

Q. Why did UE propose to organize Ameren as a registered utility holding company?

A. On page 28 of Mr. Rainwater's direct testimony, he states:

> Our primary reasons for adopting a registered company structure are . . . separation of operating companies clarifies state commission authority and prevents mixing of generation rate bases which might have caused an adverse effect in one state or the other. Our only other reason for choosing a registered structure was CIPS' strong desire to maintain its corporate identity in Illinois, which we agreed was a sound business strategy in Illinois. Focusing UE's identity in Missouri is also sound business strategy.

Public Utility Holding Company Act (PUHCA)

Q. It was mentioned in your testimony that two new companies, Ameren Corporation and Ameren Services Company, will be formed as a result of the proposed Merger. Will the Commission regulate these corporations?

A. According to UE's responses to Staff's Data Information Requests Nos. 113, 114, 185 and 214, Ameren and Ameren Services Company will not be regulated by the Commission, but will be regulated by the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935 (PUHCA).

Q. What is PUHCA?

A. PUHCA was enacted by Congress in 1935 to respond to the problems associated with the growth of public utility holding company systems. PUHCA is administered principally by the SEC and provides for the simplification of electric and natural gas public utility holding company systems. Among other things, PUHCA gives the SEC the authority to regulate the issuance and sales of securities by registered public utility holding companies and their affiliates. The SEC also regulates the contracts between affiliated companies in a registered holding company system.

Q. Will the SEC regulate UE if the proposed Merger is completed?

A. Yes. The SEC regulates the sale or issuance of securities of holding company affiliates under Section 6 of PUHCA. The Commission would have concurrent jurisdiction with the SEC regarding UE's issuance of securities. Additionally, under

Section 13 of PUHCA, service, sales or construction contracts among affiliated companies are unlawful unless they are approved by the SEC.

Q. Does SEC regulation of Ameren Services Company have any effect on this Commission's regulation of UE?

A. Yes. The Staff understands that Ameren Services Company will perform certain services that are now performed by UE such as the purchase of fuel and the dispatch of power, among other things. The Ameren Services Company service agreements with UE and CIPS have not been finalized, but Ameren Services could perform many functions previously performed by UE for UE. The SEC will regulate these affiliated transactions under Section 13 of PUHCA. However, the Staff maintains, based on advice of Staff counsel, that the Commission also has jurisdiction over these affiliated transactions under its statutory authority to set UE's rates based on just, reasonable and prudent costs. Thus, there appears to be some overlap in jurisdiction between the Commission and the SEC.

Q. What is the effect of the overlap in jurisdiction?

A. To some observers, the potential jurisdictional effects appear to be uncertain. This matter is discussed by Staff counsel in its comments filed concurrent with this testimony. In order to address the question of preemption of the Commission's authority by PUHCA, the proposed Merger should be conditioned upon UE's commitment not to base a challenge to the jurisdiction of this Commission on SEC approval of an affiliated transaction or arrangement. Staff counsel will also address the question of maintaining state jurisdiction by this Commission approving or rejecting affiliated transactions before the particular transactions are brought to the SEC for approval. This second approach is not preferred by the Staff in that over the years neither the Staff has recommended nor the Commission has engaged what might be referred to as pre-approval. The Staff's preferred approach requires UE agreeing to or the Commission directing acceptance by UE of the following language:

> All contracts, agreements or arrangements of any kind, required to be filed with and/or approved by the Securities and Exchange Commission (SEC) pursuant to the Public Utility Holding Company Act of 1935 as subsequently amended, between the Union Electric Company (UE), and any affiliate, associate, holding, mutual service, or subsidiary company, within the same holding company system, as these terms are defined in 15 U.S.C. Section 79b as subsequently amended, shall contain and be conditioned upon the following without modification or alteration: UE and Ameren will not seek to overturn, reverse, set aside, change or enjoin, whether through appeal or the initiation of any action in any forum, a decision or order of the Missouri Public Service Commission (MoPSC) which pertains to recovery, disallowance, allowance, deferral, or ratemaking treatment of any expense, charge, cost, or allocation incurred or accrued by UE in or as a result of a contract, agreement, arrangement, or transaction with any affiliate, associate, holding, mutual service or subsidiary company on the basis that such expense, charge, cost, or allocation has itself been filed with or approved by the SEC, or was incurred pursuant to a contract, arrangement, agreement, or allocation method which was filed with or approved by the SEC. Failure to include the above language in any such contract, agreement, or arrangement shall render the same voidable at the sole discretion of the MoPSC. Should the above language be altered or invalidated by any Court or governmental agency, such contract, agreement, or arrangement shall be voidable at the sole discretion of the MoPSC.

Q. Are there other effects of the holding company structure on the Commission's regulation of UE?

A. Yes. Because Ameren Services Company, CIPS, CIPSCO Investment Company and any other subsidiaries or affiliates of Ameren could potentially engage in activities with UE, such as the selling of goods and services to UE, the Commission will need access to the books, records, officers and employees of Ameren and its subsidiaries and affiliates in order to obtain the information needed to carry out its statutory mandate to protect ratepayers. None of these aforementioned entities, except for UE, appears to meet the definition of a public utility under Missouri law. In order to clear up any future uncertainty over the Commission's access to information and persons related to Ameren's subsidiaries and affiliates, the proposed Merger should be conditioned upon UE and Ameren agreeing to provide access to their books, records, officers and employees and Ameren agreeing to provide access to the books, records, officers and employees of any subsidiary or affiliate of Ameren whether engaged in regulated activities or not. Specifically, these conditions should be as follows:

> Acknowledgment and agreement that the Commission may access and require without subpoena the production of all accounts, books, contracts, records, documents, memoranda, papers and employees of Ameren Corporation and any affiliate or subsidiary of Ameren Corporation.
>
> Acknowledgment and agreement that the Commission may require answers, and/or the appearance of officers and employees without subpoena to provide answers, to questions upon which the Commission may need information respecting Ameren Corporation and any affiliate or subsidiary of Ameren Corporation.

It should be noted that the legal principles discussed in my testimony are based upon advice of Staff counsel.

Credit Ratings

Q. Please describe UE's and CIPS' credit ratings prior to the proposed Merger announcement.

A. Prior to the Merger announcement, Standard & Poor's Corporation rated UE's senior secured debt as "AA-", its senior unsecured debt as "A+", its preferred stock as "A+" and its commercial paper as "A-1+". Standard & Poor's Corporation rated CIPS' senior secured debt as "AA+", its senior unsecured debt as "AA", its preferred stock as "AA" and its commercial paper as "A-1+". It should be noted that all of these ratings are considered "investment grade".

Q. Has Standard & Poor's Corporation commented on the proposed Merger from a credit rating perspective?

A. Yes. Standard & Poor's Corporation's Utilities Rating Service, December 1995, states the following:

> Central Illinois Public Service Co.'s (CIPS) ratings are on CreditWatch with negative implications, reflecting the friendly merger agreement between CIPS' parent, CIPSCO Inc., and Union Electric Co., under a new registered holding company. Upon completion of the transaction, the likely ratings for the senior secured debt of the two utilities are expected to be 'AA' or 'AA-'. . . . The merger combines two relatively low-cost producers, strengthens transmission capabilities, and diversifies the fuel mix and customer base. The combined entity is expected to be a major force in an increasingly competitive environment.

Q. Would a credit rating of "AA" or "AA-" be detrimental to UE's or Ameren's ability to issue debt in the future on reasonable terms?

A. No. In fact, a credit rating of "AA" or "AA-" would be the same or slightly higher than the current credit rating of UE. These credit ratings are at the high end of the credit ratings spectrum for the ratings that are assigned to electric utility companies by Standard & Poor's Corporation. In my opinion, if the proposed Merger is completed, UE should be able to at least maintain, if not somewhat lower, its already current low embedded cost of debt.

Capital Structures and Costs of Capital

Q. Would the proposed Merger have any major effects on UE's capital structure?

A. No. As a result of the proposed corporate structure of Ameren, Union Electric will remain in existence as a specific corporation. UE will still maintain the ability to issue secured or unsecured debt and preferred or preference stock, but will no longer issue market-traded common stock. UE's common stock will be wholly-owned and privately held by Ameren.

In response to Staff's Data Information Request No. 161, Mr. Jerre E. Birdsong, Treasurer of UE, states **

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Q. From a ratemaking perspective, what would be Union Electric's capital structure as of December 31, 1995?

A. Based upon the adjustments that the Staff utilizes for ratemaking procedures, UE's capital structure as of December 31, 1995 would consist of 54.22 percent common stock equity, 5.12 percent preferred stock, 40.66 percent long-term debt and 0.00 percent short-term debt (see Schedule 7).

Q. How does this compare with the capital structure of CIPSCO?

A. Based upon the same type of ratemaking adjustments, CIPSCO's capital structure on a consolidated basis as of December 31, 1995 would consist of 54.57 percent common stock equity, 6.70 percent preferred stock, 38.73 percent long-term debt and 0.00 percent short-term debt (see Schedule 8). This capital structure is very comparable to the capital structure for UE.

Q. How would UE's capital structure compare to a pro forma consolidated capital structure for Ameren?

A. Based upon the "pooling of interest" accounting methodology, the assets, liabilities and capitalization of UE and CIPSCO would be combined at the amounts reported in their respective consolidated balance sheets immediately preceding the Merger. As a result, Ameren's pro forma consolidated capital structure would not greatly differ from UE's and CIPSCO's very similar stand-alone capital structures. Ameren's pro forma consolidated capital structure as of December 31, 1995 would consist of 53.07

percent common stock equity, 5.34 percent preferred stock, 41.59 percent long-term debt and 0.00 percent short-term debt (see Schedule 9).

It should be noted that all three of these capital structures fall within Standard & Poor's Corporation's financial ratio benchmark for total debt to total capital level of 42 percent for a "AA" rated electric utility company that has an average business position.

Q. Do you have any concerns regarding the "pooling of interest" accounting methodology as it relates to Ameren's pro forma consolidated capital structure?

A. No. In fact, as a result of the "pooling of interest" treatment, no "merger premium" or acquisition adjustment would appear on Ameren's balance sheet. This in turn results in no potential write-off or write-down of an acquisition adjustment to Ameren's retained earnings and therefore, cannot potentially reduce Ameren's common equity to total capital ratio in the future.

Q. Please compare an estimated cost of capital for UE against an estimated consolidated cost of capital for both CIPSCO and Ameren.

A. Based upon the previous discussions herein relating to CIPSCO's and UE's business operations, credit ratings and capital structure, I am of the opinion that UE's current required return on common equity (ROE) would be very similar to CIPSCO's required ROE. As a result, for illustrative purposes, I have assumed the required ROE for both UE and CIPSCO would be 11.70 percent.

Schedule 10 shows the estimated weighted cost of capital for Union Electric at December 31, 1995 to be 9.55 percent. This cost was calculated by applying an embedded cost of long-term debt of ** ** percent, an embedded cost of preferred stock of ** ** percent, an assumed return on common stock equity of 11.70 percent to a capital structure consisting of 40.66 percent long-term debt, 5.12 percent preferred stock and 54.22 percent common stock equity.

Schedule 11 shows the estimated consolidated weighted cost of capital for CIPSCO at December 31, 1995 to be 9.48 percent. This cost was calculated by applying an embedded cost of long-term debt of ** ** percent, an embedded cost of preferred stock of ** ** percent, an assumed return on common stock equity of 11.70 percent to a capital structure consisting of 38.73 percent long-term debt, 6.70 percent preferred stock and 54.57 percent common stock equity.

Schedule 12 shows the estimated consolidated pro forma weighted cost of capital for Ameren at December 31, 1995 to be 9.50 percent. This cost was calculated by applying an embedded cost of long-term debt of ** ** percent, an embedded cost of preferred stock of ** ** percent, an assumed return on common stock equity of 11.70 percent to a capital structure consisting of 41.59 percent long-term debt, 5.34 percent preferred stock and 53.07 percent common stock equity.

Based upon the above mentioned assumptions, Ameren's consolidated weighted cost of capital is estimated to be slightly below UE's stand-alone estimated weighted cost of capital and slightly above CIPSCO's consolidated estimated weighted cost of capital.

Q. Do have any reason to believe, upon completion of the proposed Merger, that UE's or Ameren's cost of capital would substantially change?

A. No. Based upon the assumptions that: (1) the credit ratings for Ameren on a post-merger basis would remain basically the same as UE on a pre-merger basis; (2) the risk profiles of UE and CIPSCO on a pre-merger basis are very comparable; and (3) the pro forma consolidated capital structure for Ameren would not substantially change from UE's and CIPSCO's current capital structures, I believe that upon completion of the proposed Merger, UE's or Ameren's cost of capital should not substantially change.

Q. Would there be any difficulties in determining the required ROE for UE on a stand-alone basis in the future under Ameren's proposed corporate structure?

A. Yes. The financial models, such as the discounted cash flow (DCF) model, the risk premium model, and the capital asset pricing model (CAPM), that the Staff of the Financial Analysis Department uses in estimating the required ROE for a company's stockholders **requires** that the company's common stock be publicly traded.

In past cases before the Commission, parties have utilized these types of financial models on parent companies and then applied the results to the stand-alone regulated utility subsidiaries. If the regulated subsidiary accounts for a large portion of the consolidated operations and the risks of the regulated subsidiary are very similar to the risks of the consolidated operations, then the concept of applying the calculated required ROE of the consolidated operations as the required ROE for the regulated utility operations is reasonable. However, when the regulated utility operations do not account for a large portion of the consolidated operations and/or the perceived risks of other subsidiaries or operations greatly differ from the perceived risks of the regulated utility subsidiary, then I believe it would be appropriate to try to differentiate the perceived risk differences and estimate the required ROEs for the different operations by making positive and negative adjustments to the overall consolidated required ROE. It would also be appropriate to select a comparable market-traded group for the regulated utility and utilize the above mentioned financial models to determine the required ROE for the comparable market-traded regulated utility group and then apply that required ROE as the appropriate ROE to the non-market traded regulated utility operations.

It should be noted that both of these techniques have been utilized in the past by the Staff in cases before the Commission involving Missouri regulated utility operations that fall under holding company structures. In addition, it should be noted that all of the large water companies (i.e., Missouri-American Water Company; St. Louis County Water Company; and United Water Missouri Inc.) and all of the large telecommunication companies (i.e., ALLTEL Missouri, Inc.; GTE Midwest Incorporated; Southwestern Bell

Telephone Company; and United Telephone Company of Missouri) that operate in Missouri are subsidiary companies of a larger holding company.

As a result of the proposal to organize UE as a wholly-owned subsidiary of Ameren, it will be more difficult and probably more controversial to determine the required return on common equity for UE's regulated utility operations. However, I believe that this required ROE can still be determined in a fair and reasonable manner under the condition from Ameren that:

> Acknowledgment and agreement that the Commission has access to all financial information on all subsidiaries, regulated or non-regulated, and any future utility or non-utility subsidiary or division of Ameren Corporation or an Ameren Corporation's subsidiary, necessary to calculate an estimate of the stockholders' required return on equity (ROE) for Ameren Corporation on a consolidated basis and then a differentiated ROE for each subsidiary or division, including Union Electric Company, on a stand-alone basis.

Dividend Policies

Q. Please discuss the issue of dividend policies for UE and CIPSCO.

A. Union Electric's current indicated annual dividend rate is $2.50 per share of common stock as reported in The Wall Street Journal, May 3, 1996. Standard & Poor's Corporation's Security Owner's Stock Guide, April 1996, reports that UE has paid a cash dividend on its common shares each year since 1906. In response to Staff's Data Information Request No. 157, Mr. Birdsong stated "UE's past dividends have not resulted from adherence to a strict policy." Mr. Birdsong also stated that "[n]o policy has been established [concerning UE's dividend policy with regards to the payment of dividends to Ameren]."

In CIPSCO's 1995 Stockholders Annual Report, page 40, CIPSCO states:

> Cash dividends on CIPS [Central Illinois Public Service Company] common stock have been paid quarterly since CIPS became an independent operating entity in February 1948, and cash dividends have been paid quarterly on CIPSCO common stock since October 1990 when CIPSCO became the parent corporation. CIPSCO expects to continue to pay cash dividends quarterly on common stock, although future dividends are dependent on future earnings, capital requirements, cash flows and financial condition.

CIPSCO's current indicated annual dividend rate is $2.08 per share of common stock as reported in The Wall Street Journal, May 3, 1996. In response to Staff's Data Information Request No. 158, Mr. Craig D. Nelson, Treasurer of CIPSCO, stated "[p]ast dividends [of CIPSCO] have not resulted from adherence to any strict dividend policy." Mr. Nelson also stated that "[n]o plans or policies have been formulated [concerning CIPS' dividend policy with regards to the payment of dividends to Ameren]."

Q. Does the Joint Proxy address dividends?

A. Yes. Page 13 of the Joint Proxy states:

> Pursuant to the Merger Agreement, each of Union Electric and CIPSCO shall not, and shall not permit any of its direct subsidiaries to, declare or pay any dividends on, or make other distributions in respect of, any of its capital stock, other than to such party or its wholly-owned subsidiaries and other than dividends required to be paid on any series of Union Electric Preferred Stock in accordance with the terms thereof, dividends required to be paid on any shares of preferred stock of CIPS . . . in accordance with the terms thereof, and regular quarterly dividends to be paid on Union Electric Common Stock and CIPSCO Common Stock, respectively, not to exceed 104% of the dividends for the prior fiscal year . . .

> It is anticipated that Holdings [Ameren Corporation] will adopt Union Electric's common share dividend payment level as of the Effective Time. Union Electric's annual dividend rate is currently $2.50 per share, and CIPSCO's annual dividend rate is currently $2.04 per share [just recently increased to $2.08]. The dividend policy of Holdings is subject to evaluation from time to time by the Holdings Board based on Holdings' results of operations, financial condition, capital requirements and other relevant considerations, including regulatory considerations . . .

I believe it is reasonable for an utility company to review its dividend policy based upon the items addressed in the Joint Proxy.

Q. Will Ameren be able to payout common dividends at a level of $2.50 per share?

A. Due to the increase in the pro forma number of shares outstanding for Ameren, when compared to the combined shares outstanding for UE and CIPSCO, along with the increase of $0.495 [($2.50 * 1.03) - $2.08] per share in dividends for each share of CIPSCO, Ameren will pay out greater dollars in dividends than the combined dividends paid-out by UE and CIPSCO. Based upon net income levels for UE and CIPSCO for fiscal year 1995, Ameren would have more than enough earnings to pay out a common dividend rate of $2.50 per share. Schedule 13 indicates that Ameren would payout $343,038,656 in common dividends from its pro forma total net income. This would result in a dividend payout ratio of 88.84 percent.

Even though CIPSCO's stockholders will receive a dividend increase of 23.80 percent {[($2.50 * 1.03) / $2.08] - 1} from the proposed Merger, a dividend payout ratio of approximately 90 percent for Ameren should not be detrimental given UE's projections for greater earning levels for Ameren. As previously addressed, I believe it is appropriate for Ameren to review its dividend policy based upon the items stated in the Joint Proxy.

Nuclear Decommissioning Trust Funding Levels

Q. Does the System Support Agreement address nuclear decommissioning trust funding?

A. Yes. As part of the System Support Agreement and UE's proposal to transfer its Illinois jurisdictional electric distribution properties to CIPS, the nuclear decommissioning funding requirement would also be transferred from the Illinois jurisdiction to the Federal Energy Regulatory Commission (FERC) jurisdiction. UE is proposing to transfer the balance from its Tax-Qualified Nuclear Decommissioning Trust - Illinois subaccount to its Tax-Qualified Nuclear Decommissioning Trust - FERC subaccount upon completion of the proposed Merger. UE's Tax-Qualified Nuclear Decommissioning Trust Fund Report on file with the Commission reports the market value of the Illinois subaccount was $6,589,426.93 at December 31, 1995, while the market value of the FERC subaccount was $2,155,035.66 at December 31, 1995.

In addition, the System Support Agreement would establish a rate containing a component in the cost of service of $425,000 annually for decommissioning funding at UE's FERC jurisdiction.

Q. Did Mr. Birdsong file prepared direct testimony at FERC on the issue of nuclear decommissioning in a case regarding UE's proposed Merger?

A. Yes. On page 11 of Mr. Birdsong's prepared direct testimony at FERC, Docket Nos. EC96-7-000 and ER96-679-000 , regarding the proposed Merger, Mr. Birdsong states:

> . . . the System Support Agreement allows all of its components to be updated annually. At this time, our intention is to update the nuclear decommissioning expense every three years beginning in the year 2000. This cycle would be consistent with the requirement that we update nuclear decommissioning costs every three years in our Missouri jurisdiction. With each update, FERC staff would have the opportunity to agree or disagree with the expense determination.

Mr. Birdsong continues on page 13 by stating:

> . . . [this action] will help ensure that there are adequate funds available for the decommissioning of the Callaway nuclear plant at the end of its operating license in 2024 and also insure that the amounts paid by customers over time are equitable among jurisdictions.

In response to Staff's Data Information Request No. 153, Mr. Birdsong states:

> Responsibility for nuclear decommissioning expense should be tied to the dedication of the load. This may or may not be the Missouri jurisdiction. Amounts previously collected in the Illinois and FERC jurisdictions would remain in the trust and would be dedicated to nuclear decommissioning costs.

At this time, UE's proposal regarding its nuclear decommissioning trust fund , along with the concept of assigning the responsibility for nuclear decommissioning expense to the dedication of the load, appear to be reasonable. Concurrently, the Staff would encourage UE to continue monitoring and updating its nuclear decommissioning trust funding levels for all jurisdictions on a regular basis to insure that there are adequate funds available for the decommissioning of the Callaway nuclear plant at the end of its useful life.

Acquisition Premium

Q. Does a stock exchange ratio above 1.0 to 1 always indicate a premium?

A. No. The exchange ratio in a stock exchange transaction is only one component of the equation in determining the existence of a premium. The comparable market values between the two stocks at the time of the announcement are the other components in determining if a premium exists in a stock swap transaction. The following equation would be used to calculate the premium or discount on a percentage basis for each share in a stock swap transaction:

$$\text{Premium or Discount Per Share (\%)} = \frac{\text{Exchange Ratio x Market Value Per Share of Stock Received}}{\text{Market Value Per Share of Stock Given Up}} - 1$$

For example, if Company A was purchasing the stock of Company B and was going to swap 1.05 shares of Company A stock for each share of Company B stock, and Company A had a pre-announcement market value of $20.00 per share and Company B had a pre-announcement market value of $19.00 per share, the premium received by Company B stockholders would be calculated as follows:

$$\frac{1.05 \text{ x } \$20.00}{\$19.00} - 1$$

$$= \frac{\$21.00}{\$19.00} - 1$$

$$= 1.1053 - 1$$

$$= 0.1053 \quad \text{or} \quad 10.53\%$$

This represents a premium of 10.53 percent to Company B stockholders.

However, even though this next example is not likely to happen, if Company C were to purchase the stock of Company D and were to swap 1.05 shares of Company C stock for each share of Company D stock, and Company C had a pre-announcement market value of $20.00 per share and Company D had a pre-announcement market value of $21.25 per share, this stock swap would result in a discount being received by Company D. The discount would be calculated as follows:

$$\frac{1.05 \times \$20.00}{\$21.25} - 1$$

$$= \frac{\$21.00}{\$21.25} - 1$$

$$= 0.9882 - 1$$

$$= -0.0118 \quad \text{or} \quad -1.18\%$$

If this transaction were to be completed, this would result in Company C receiving Company D stock for 1.18 percent discount below the market value per share of Company D stock.

As a result, the stock exchange ratio in a stock swap transaction does not in itself provide enough information to determine the presence of a merger premium. A merger permium can even exist if the stock exchange ratio is below 1.0 to 1. In that case the market value of the stock that is being received has to be larger than the market value of the stock given up.

Q. Based upon this equation, what premium is CIPSCO's stockholders receiving from the proposed Merger?

A. Using the stock exchange ratio of 1.03 shares of Ameren stock for each share of CIPSCO stock and the stock exchange ratio of 1.0 shares of Ameren stock for each share of UE stock, this indirectly results in a stock exchange ratio of 1.03 share of UE stock for each share of CIPSCO stock. The market value per share (stock price per share) at the close of August 11, 1995, the last trading day prior to the Merger announcement, for CIPSCO was \$29.625 and was \$35.375 for UE. The premium received by CIPSCO stockholders would be calculated as follows:

$$\frac{1.03 \times \$35.375}{\$29.625} - 1$$

$$= \frac{\$36.436}{\$29.625} - 1$$

$$= 1.2299 - 1$$

$$= 0.2299 \quad \text{or} \quad 22.99\%$$

Q. Based upon the market values per share at the close of August 11, 1995, for both CIPSCO and UE, at what level of exchange ratio would produce a premium to CIPSCO's stockholders?

A. Based upon the closing market values per share at August 11, 1995, for CIPSCO at $29.625 and $35.375 for UE, an exchange ratio greater than 0.8375 ($29.625 / $35.375) shares of UE or Ameren for each share of CIPSCO's stock would produce a premium above the market price of $29.625 for CIPSCO's stock.

Q. How does this approximately 23 percent premium compare with other recently completed or announced merger proposals?

A. Schedule 14 presents premium information regarding "major electric utility combinations" that have been completed since 1985 or announced and still pending since June 1994 (electric combinations). These electric combinations were taken from Duff & Phelps Equity Research, <u>Industry Focus - Electric Utilities: Mergers & Acquisitions: Superior or Inferior Performance?</u>, February 1996. Schedule 14 indicates that the premiums or discounts (reported as a negative premium) have ranged from -1.93 percent to 62.00 percent. These electric combinations included purchases (which generally require higher premiums due to the acquired stockholders' personal income tax liabilities), deals involving financially troubled or bankrupt companies (which generally lowers the need for, or magnitude of, a premium), merger of equals (which generally are completed with no or very little premium such as the Kansas City Power & Light Company and

UtiliCorp United Inc.'s proposal that is pending before this Commission) and pooling of interests in which one company is much larger than the other company (which is the case of this specific proposed Merger). When you exclude the transactions that involved financially troubled or bankrupt companies, purchases and mergers of equals, that leaves pooling of interest combinations in which one company is much larger than the other company or companies, such as is the case with UE and CIPSCO. When you analyze this group, the premiums range from 11.10 to 29.36 percent with an average of 20.14 percent. Therefore, I would conclude that the indirect exchange ratio of 1.03 shares of UE's stock for each share of CIPSCO's stock is within line of combinations or proposed combinations within the electric utility industry.

Stock Market Reaction

Q. Please summarize your thoughts on the stock market reaction to the announcement of the proposed Merger.

A. My analysis includes monthly, weekly and daily stock price movement for UE (ticker symbol "UEP"), CIPSCO (ticker symbol "CIP") and Standard & Poor's Electric Utility Index (S&P electric index) from January 1, 1995 to April 25, 1996. As of April 1, 1996, the S&P electric index consisted of 26 electric utilities, one of which was UE. Ideally, for comparative purposes, UE should not be included in the comparative index. However, it is my opinion that UE has very little impact on the S&P electric index as a whole, and the S&P electric index is a good overall representation of stock price movement of the electric utility industry.

Schedule 15-1 presents month-ending stock price movements for the period of January 1995 through April 25, 1996. This graph shows the convergence of CIPSCO's stock price to UE's stock price that occurred in August 1995 as a result of the announcement of the proposed Merger. This graph also shows that UE's and CIPSCO's month-ending stock prices moved in the same general pattern to that of the S&P electric index, but with somewhat less volatility.

Schedule 15-2 represents monthly percentage changes from February 1995 to April 25, 1996. This graph shows CIPSCO's large percentage increase of 11.44 percent for the month of August 1995 which accounts for the premium associated with the proposed Merger. During the month of August 1995, UE's stock price increased 0.35 percent while the S&P electric index decreased 0.96 percent.

Schedules 15-3 and 15-4 shows that CIPSCO's and UE's percentage change has out performed (greater increases or smaller decreases in price or index changes when compared to the other) the electric utility industry for the periods of August 9, 1995 (the Wednesday prior to the Merger announcement) to current and August 16, 1995 (the Wednesday after the Merger announcement) to current. CIPSCO'S's stock price increased 23.21 percent, UE's stock price increased 8.80 percent and the S&P electric index only increased 2.10 percent for the period of August 9, 1995 to April 25, 1996.

CIPSCO'S's stock price increased 13.62 percent, UE's stock price increased 9.57 percent and the S&P electric index only increased 1.55 percent for the period of August 16, 1995 to April 25, 1996. In addition, Salomon Brothers Inc's Electric Utilities - 1995: The Year in Review, January 10, 1996, reports that CIPSCO's total return (stock price change plus dividend yield) for 1995 was 52.0 percent and ranked third out the of 65 electric utility companies that they monitor. Union Electric only achieved a total return 24.9 percent for 1995 while the average of the 65 electric utilities was 32.6 percent. Salomon Brothers Inc's Electric Utilities - First-Quarter 1996 Performance, April 8, 1996, reports that for the first quarter of 1996 CIPSCO's total return was 0.3 percent, UE's total return was -0.3 percent and the average total return for the 65 electric utility companies was -1.7 percent.

Schedule 16 represents weekly stock price movements for the period of July 1, 1995 through April 25, 1996. This graph shows the price appreciation in CIPSCO's stock price resulting from the announcement of the proposed Merger and the related tracking of CIPSCO's and UE's stock prices to each other after that announcement. In addition, this graph shows that UE's and CIPSCO's weekly stock prices have moved in a similar pattern to the S&P electric index with UE's and CIPSCO's stock price movements being somewhat more stable than the movement of the S&P electric index.

Schedule 17 represents daily stock price movements for the period of August 1, 1995 through August 31, 1995. This graph shows in a more detailed manner the price appreciation gained by CIPSCO's stockholders that resulted from the announcement of the proposed Merger. CIPSCO's closing stock price increased from $29.625 on August 11, 1995 to $32.500 on August 14, 1995 or 9.7 percent. UE's closing stock price decreased from $35.375 on August 11, 1995 to $34.750 on August 14, 1995 or 1.8 percent. However, UE's stock price increased the next few days to recover this loss.

Finally, Schedule 18 shows the ratio of CIPSCO's stock price over UE's stock price for months-ended January 1995 to April 25, 1996. This graph shows that the ratio (CIPSCO to UE) gradually increased from January 1995 through July 1995 (indicating an increase in CIPSCO's market value compared to that of UE's market value) and greatly increased during the month of August 1995. Over time, if it is thought that this Merger transaction eventually will take place, this ratio should gradually increase to the Merger stock exchange ratio of 1.03 times. Even though this ratio should increase, it is not known whether CIPSCO's stock price will appreciate more than that of UE, if CIPSCO's stock price will not decrease in value as much as UE's stock price, or if CIPSCO's stock price will increase somewhat while UE's stock price decreases somewhat.

I also believe that CIPSCO's stock price will fall back several points if this proposed Merger does not actually close. As of this date, I believe that the market has somewhat placed a positive value on UE's stock price associated with the proposed Merger. If that is the case, and this proposed Merger does not actually close, I believe that UE's stock price will also decrease somewhat, but not near the magnitude when compared to CIPSCO.

Q. Do UE's stockholders seemed to concerned about the premium?

A. In my opinion UE's stockholders are not overly concerned about the premium or their willingness to transfer market value from UE to CIPSCO's stockholders in the form of more shares (1.03 exchange ratio rather than 0.8375 exchange ratio) for an even lowered market valued stock ($35.375 vs. $29.625). UE's stockholders are willing to transfer a portion of their market value for the projected benefits that may flow to them as a result of the proposed Merger. As long as the proposed Merger creates value for the stockholder, they are not overly concerned about this transfer of market value. To date, I would conclude that UE's stockholders have projected that the proposed Merger will create value for them and I believe this is indicated by the out performance of UE's stock price when compared to electric utility industry since the Merger announcement.

Q. Are there other items besides accretive earnings per share that may create value as a result of the proposed Merger?

A. Yes. I believe the items included in the Joint Proxy, pages 6 and 7, as "Reasons for the Mergers" are being evaluated by the stock market as potential value-added components. Specifically, the Joint Proxy states:

> Union Electric and CIPSCO believe that the Mergers offer significant strategic, operational and financial benefits to each company and to their respective shareholders, as well as to their employees and customers and the communities in which they do business. These benefits include, among others:

- Cost efficiencies that will help to maintain competitive rates, thereby improving the combined companies' ability to meet the challenges of the increasingly competitive environment in the utility industry.

- Integration of corporate and administrative functions, including the elimination of duplicate positions, limiting expenditures for administrative programs and information systems, and savings in areas such as legal, audit, and consulting fees.

- Greater purchasing power for items such as materials, supplies and contract services.

- Electric production savings through joint dispatch and natural gas supply savings through combined purchasing.

- Increased geographic diversity of service territories, reducing exposure to local changes in economic or competitive conditions.

- Increased marketing opportunities through interconnections with 28 other systems.

- Expanded management resources and ability to select leadership from a larger and more diverse management pool.

- Continued ability to play a leadership role in the economic development efforts of the communities Union Electric and CIPS now serve.

In the future, I believe these items could add some market value to Ameren's common stock.

Sharing of Merger Savings under Experimental Alternative Regulation Plan

Q. Please describe the current experimental alternative regulation plan under which UE is operating in Missouri.

A. On July 21, 1995 the Commission issued a Report And Order in Case No. ER-95-411 approving an experimental alternative regulation plan for UE's Missouri retail electric operations (alternative regulation plan). The alternative regulation plan will be in effect for three full years with the sharing periods running from July 1, 1995 to June 30, 1996; July 1, 1996 to June 30, 1997; and July 1, 1997 to June 30, 1998. Under the alternative regulation plan, UE will share earnings with its customers in the form of credits based upon the sharing grid set out below:

Earnings Level (Union Electric's MO Retail Electric Operations)	**Sharing Level** UE	Customer
Up to and including 12.61% return on equity (ROE)	100%	0%
That portion of earnings greater than 12.61% up to and including 14.00% ROE	50%	50%
That portion of earnings greater than 14.00% ROE	0%	100%

Q. Please comment on the appropriateness of the alternative regulation plan as a regulatory tool as it relates to the concept of sharing merger savings between a company's stockholders and its rate paying customers.

A. In general, I believe in the concept of sharing merger savings equally between a regulated utility company's stockholders and its rate paying customers. Return on common equity (ROE) sharing grids allow for sharing to occur between customers and stockholders without tracking of actual merger savings or the process of setting rates based upon a projected savings level. In addition, an amortization process can be used to allow for the recovery of merger related costs through the ROE sharing grid.

However, there are some disadvantages to the rate paying customers that may arise from merger savings and costs flowing through a ROE sharing grid. For example, if the company's ROE falls within or below the level where no sharing occurs, this allows the company's stockholders to retain all of merger savings. Another potential disadvantage takes place when the inclusion of the amortization of merger costs drives the company's ROE out of a sharing level where sharing occurs down to a level where no sharing occurs. In this scenario, the ratepayers' portion of sharing (excluding the amortization for merger costs) would go to the utility company for recovery of merger costs. This may result in ratepayers paying for merger related costs, but receiving no benefits or sharing of merger savings.

There is also a potential disadvantage to the company's stockholders that may arise from merger savings and costs flowing through a ROE sharing grid. If the company's ROE falls above the level where sharing occurs prior to the inclusion of merger savings, this would result in the rate paying customers receiving credits for all of the merger related savings. However, if the sharing grid levels are set properly, a company's stockholders should be relatively satisfied when the company's return on equity reaches the highest level.

I believe the advantages of passing through actual merger related savings to customers without tracking, along with placing the risk of actually achieving merger related savings on the company's stockholders and providing an incentive to them to retain a portion of merger related savings actually achieved far outweighs the disadvantages addressed above.

Q. Did the Staff design UE's alternative regulation plan with the thought of passing merger related saving and costs through the sharing grids?

A. No. The Staff was not aware of the potential Merger when it designed the alternative regulation plan for UE. However, the Staff believes that if an amortization for merger related costs (transaction costs and "costs to achieve" in the manner recommended by Staff witness Thomas M. Imhoff) is added above-the-line to UE's regulated expenses, that UE's alternative regulation plan would allow for merger savings net of costs to be shared between UE's stockholders and UE's rate paying customers, that is assuming the UE's ROE level fell within the range of greater than 12.61 percent and up to and including 14.00 percent.

For additional discussions regarding UE's alternative regulation plan and sharing of merger related savings, please reference Staff witness Mark L. Oligschlaeger's rebuttal testimony.

Q. At this time is the Staff proposing any changes to UE's alternative regulation plan to account for the proposed Merger?

A. As previously addressed, other than adding an amortization for merger related costs above-the-line (after the Merger is completed), the Staff is not proposing any additional changes at this time. One condition, page 11, of the Stipulation And Agreement filed June 12, 1995 in Case No. ER-95-411 calls for the parties of that case to ". . . file their recommendations [by February 1, 1998] with the Commission as to whether the Plan [alternative regulation plan] should be continued as is, continued with changes (including new rates, if recommended) or discontinued."

Given that the first year and review of the alternative regulation plan have not been completed, the Staff believes it would be premature at this time to recommend an extension without obtaining an exact practical working knowledge of the alternative regulation plan. Nonetheless, if the current alternative regulation plan does prove to encourage efficiencies on the part of UE and these efficiencies lead to sharing of benefits to customers, the Staff would certainly consider an extension of the regulatory concept of an alternative regulation plan.

Q. Does UE's current alternative regulation plan include UE's natural gas operations?

A. No, it only applies to UE's Missouri retail electric operations. Merger savings resulting from UE's natural gas operations that are **not** passed through the purchase gas adjustment (PGA) clause / actual cost adjustment (ACA) mechanism will be retained by UE until the Commission would take action in approving: (1) a filing by UE designed to return a portion of these savings to its customers; or (2) a filing by another party proving over-earnings. However, based upon my review of monthly surveillance reports from UE, it is my opinion that UE's Missouri jurisdictional natural gas operations are not currently in an over-earnings position. Also, any natural gas savings not treated in the PGA / ACA will be minor in amount, if UE's estimates are accurate. However, I believe that it is reasonable to require UE to continue to provide monthly surveillance reports to the Staff in the same format that is currently being submitted to the Staff, so that, if or when this proposed Merger is completed, the Staff can continue to monitor UE's Missouri jurisdictional electric and natural gas earning levels.

For additional discussions of UE's natural gas operations please refer to Staff witness Mr. Michael J. Wallis' rebuttal testimony.

Not Detrimental to the Public Interest Standard

Q. What standard has the Staff utilized in determining its recommendation in the case regarding the proposed Merger?

A. The Staff has utilized the standard of whether the merger is "detrimental to the public interest" as the Staff has made that determination in other merger cases. Union

Electric Company must show that the proposed Merger is not detrimental to the public interest in Missouri, otherwise the Commission is charged with disapproving the application and the proposed Merger. For additional comments on the standard of not detrimental to the public interest, please refer to Staff witness Cary G. Featherstone's rebuttal testimony.

Q. In the Staff's opinion has its review uncovered any potential public detriment from the Merger as proposed by Union Electric Company?

A. Yes. The Staff believes that Union Electric Company's ratemaking proposal is inequitable in that it assigns the vast majority of the merger benefits to stockholders through guaranteed recovery of well over half the total savings benefits related to the proposed Merger. Union Electric Company's ratemaking proposal would charge its customers for the full cost of the proposed Merger up-front while transferring to its ratepayers the risks of sharing merger benefits. In the Staff's opinion, Union Electric Company's ratemaking proposal is unjustly and unreasonably skewed to its stockholders' advantage. For additional information concerning Union Electric Company's inequitable ratemaking plan, please refer to Mr. Oligschlaeger's rebuttal testimony.

Q. Does the Staff have an equitable ratemaking plan which it deems to be the appropriate approach to the proposed Merger?

A. Yes. The Staff proposes that gross merger savings, adjusted for an amortization for transaction costs and "costs to achieve", should be flowed through the existing alternative regulation plan. This would provide the potential for merger savings to be shared equally between the ratepayers and stockholders within the return on equity range of 12.61 to 14.00 percent. The Staff's proposal also allows Union Electric Company an opportunity for the indirect recovery of the alleged " merger premium" for the stockholders. More specific details of the Staff's ratemaking proposal can be found in Mr. Oligschlaeger's rebuttal testimony.

In conclusion, the Staff is of the opinion that if the Commission were to reject Union Electric Company's merger savings ratemaking proposal, continue the present alternative regulation plan in place through the previously negotiated ending date of June 30, 1998, and if Union Electric Company were to accept, or the Commission were to impose, the conditions identified in the Staff's rebuttal testimony and legal memorandum, then the merger of Union Electric Company and CIPSCO Incorporated would not be detrimental to the public interest and should be approved. This is based upon the assumption that Union Electric Company files revised and finalized copies of the System Support Agreement and the General Services Agreement that are acceptable to the Staff. The Staff's recommended conditions are listed in Schedule 19 to my testimony and in the testimony of the Staff witnesses sponsoring the particular condition.

Q. Does this conclude your prepared rebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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

AFFIDAVIT OF JAY W. MOORE, CMA, CRRA

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

Jay W. Moore, CMA, CRRA, 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 forty-four pages and nineteen schedules 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.

Jay W. Moore

Jay W. Moore, CMA, CRRA

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

J. Kay Niemeier

Notary Public

J KAY NIEMEIER
NOTARY PUBLIC STATE OF MISSOURI
COLE COUNTY

My Commission Expires: MY COMMISSION EXP. FEB. 26,2000

FINANCIAL ANALYSIS OF THE PROPOSED MERGER

OF

UNION ELECTRIC COMPANY

AND

CIPSCO INCORPORATED

CASE NO. EM-96-149

BY

JAY W. MOORE, CMA, CRRA

UTILITY SERVICES DIVISION

MISSOURI PUBLIC SERVICE COMMISSION

MAY 1996

UNION ELECTRIC COMPANY
CASE NO. EM-96-149

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3	Selected Financial Ratios for Union Electric Company
4	Historical Capital Structures for CIPSCO Incorporated (Consolidated Basis)
5	Selected Financial Ratios for CIPSCO Incorporated (Consolidated Basis)
6	Proposed Corporate Structure of Ameren Corporation
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Historical Capital Structures for Union Electric Company

(Thousands of Dollars)

Capital Components	1992	1993	1994	1995
Common Equity	$2,164,020	$2,206,168	$2,269,054	$2,319,197
Preferred Stock	$218,512	$219,199	$219,173	$219,147
Long-Term Debt	$1,950,722	$1,797,194	$1,891,807	$1,833,075
Short-Term Debt	$22,000	$59,600	$0	$19,600
Total	$4,355,254	$4,282,161	$4,380,034	$4,391,019

Capital Structure	1992	1993	1994	1995
Common Equity	49.69%	51.52%	51.81%	52.82%
Preferred Stock	5.02%	5.12%	5.00%	4.99%
Long-Term Debt	44.79%	41.97%	43.19%	41.74%
Short-Term Debt	0.50%	1.39%	0.00%	0.45%
Total	100.00%	100.00%	100.00%	100.00%

Notes: The amount of Long-Term Debt includes Current Maturities.

The amount of Preferred Stock includes the amount redeemable witin one year.

Source: Union Electric Company's Stockholders Annual Reports.

Selected Financial Ratios for Union Electric Company

Financial Ratios	1992	1993	1994	1995
Return on Year-End Common Equity	13.34%	12.83%	13.55%	12.97%
Earnings Per Common Share	$2.83	$2.77	$3.01	$2.95
Cash Dividends Per Common Share	$2.260	$2.335	$2.395	$2.455
Common Dividend Payout Ratio	79.86%	84.30%	79.57%	83.22%
Year-End Market Price Per Common Share	$37.375	$39.250	$35.375	$41.750
Year-End Book Value Per Common Share	$21.19	$21.60	$22.22	$22.71
Year-End Market to Book Ratio	1.76 x	1.82 x	1.59 x	1.84 x
Senior Debt Rating (Standard & Poor's Corporation)	A+	AA -	AA -	AA -

Notes: Return on Year-End Common Equity = Earnings on Common Stock / Year-End Total Common Stockholders' Equity.

Common Dividend Payout Ratio = Cash Dividends Per Common Share / Earnings Per Common Share.

Year-End Market to Book Ratio = Year-End Market Price Per Common Share / Year-End Book Value Per Common Share.

Sources: Union Electric Company's Stockholders Annual Reports and Standard & Poor's Corporation's Utilities Ratings Service, April 1995.

SCHEDULE 3

UNION ELECTTRIC COMPANY
CASE NO. EM-96-149

Historical Capital Structures for CIPSCO Incorporated (Consolidated Basis)

(Thousands of Dollars)

Capital Components	1992	1993	1994	1995
Common Equity	$616,550	$634,252	$647,613	$651,532
Preferred Stock	$65,000	$80,000	$80,000	$80,000
Long-Term Debt	$503,700	$494,323	$474,619	$478,926
Short-Term Debt	$21,393	$0	$14,985	$47,921
Total	$1,206,643	$1,208,575	$1,217,217	$1,258,379

Capital Structure	1992	1993	1994	1995
Common Equity	51.10%	52.48%	53.21%	51.77%
Preferred Stock	5.39%	6.62%	6.57%	6.36%
Long-Term Debt	41.74%	40.90%	38.99%	38.06%
Short-Term Debt	1.77%	0.00%	1.23%	3.81%
Total	100.00%	100.00%	100.00%	100.00%

Notes: The amount of Long-Term Debt includes Current Maturities.

The amount of Preferred Stock includes the amount redeemable witin one year.

Source: CIPSCO Incorporated's Stockholders Annual Reports.

SCHEDULE 4

UNION ELECTRIC COMPANY
CASE NO. EM-96-149

Selected Financial Ratios for CIPSCO Incorporated (Consolidated Basis)

Financial Ratios	1992	1993	1994	1995
Return on Year-End Common Equity	11.76%	13.48%	12.96%	11.05%
Earnings Per Common Share	$2.13	$2.51	$2.46	$2.11
Cash Dividends Per Common Share	$1.91	$1.95	$1.99	$2.03
Common Dividend Payout Ratio	89.67%	77.69%	80.89%	96.21%
Year-End Market Price Per Common Share	$30.250	$30.750	$27.000	$39.000
Year-End Book Value Per Common Share	$18.08	$18.60	$19.01	$19.12
Year-End Market to Book Ratio	1.67 x	1.65 x	1.42 x	2.04 x
Senior Debt Rating (Standard & Poor's Corporation)	AA +	AA +	AA +	AA +

Notes: Return on Year-End Common Equity = Net Income / Year-End Total Common Shareholders' Equity.

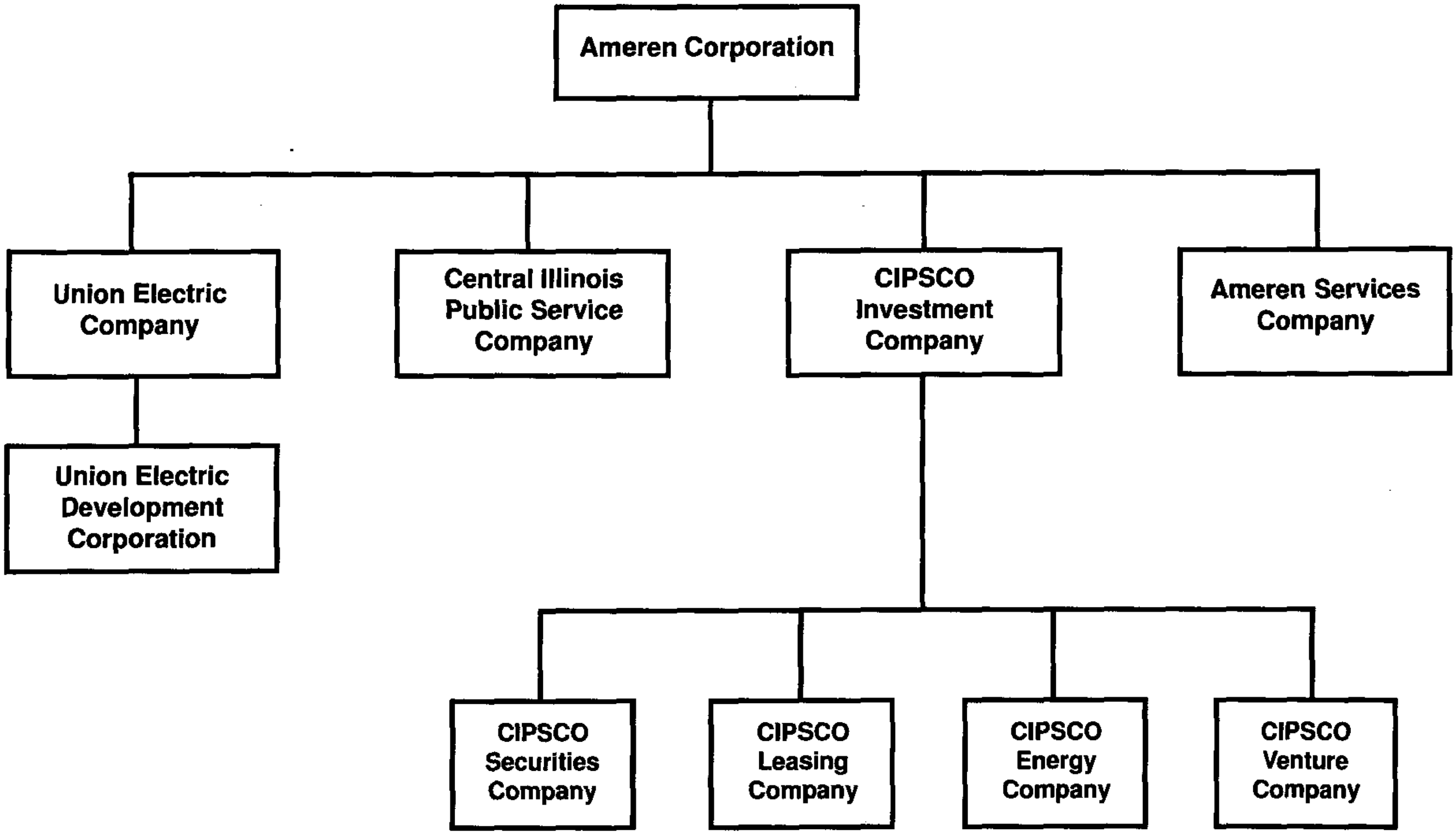
Common Dividend Payout Ratio = Cash Dividends Per Common Share / Earnings Per Common Share.

Year-End Market to Book Ratio = Year-End Market Price Per Common Share / Year-End Book Value Per Common Share.

Sources: CIPSCO Incorporated's Stockholders Annual Reports and Standard & Poor's Corporation's Utilities Ratings Service, December 1995.

UNION ELECTRIC COMPANY
CASE NO. EM-96-149

Proposed Corporate Structure of Ameren Corporation



SCHEDULE 6

UNION ELECTRIC COMPANY
CASE NO. EM-96-149

Capital Structure as of December 31, 1995
for Union Electric Company

Capital Component	Amount in Thousands of Dollars	Percentage of Capital
Common Stock Equity	$2,319,197	54.22%
Preferred Stock	$219,147	5.12%
Long-Term Debt	$1,739,018	40.66%
Short-Term Debt	$0	0.00%
Total Capitalization	$4,277,362	100.00%

Electric Utilities Financial Ratio Benchmarks

Total Debt / Total Capital (%)

Standard & Poor's Corporation's Utilities Rating Service, September 30, 1995	AA	A
Electric Utilities (Average Business Position)	42%	47%

Notes: The amount of Long-Term Debt outstanding at December 31, 1995 includes Current Maturities and was reduced by the amounts of Unamortized Premium & Debt Discount ($9,579,051), Unamortized Debt Issuance Expense ($11,293,144) and Unamortized Losses on Reacquired Debt ($33,203,029) at December 31, 1995.

The amount of Short-Term Debt was determined to be zero. This results from the amount of Short-Term Debt outstanding at December 31, 1995 being less than the amount of Construction Work In Progress at December 31, 1995 ($19,600,000 - $125,934,000).

Sources: Union Electric Company's 1995 Stockholders Annual Report and Union Electric Company's response to Staff's Data Information Request No. 196.

UNION ELECTRIC COMPANY
CASE NO. EM-96-149

Capital Structure as of December 31, 1995 for CIPSCO Incorporated (Consolidated Basis)

Capital Component	Amount in Thousands of Dollars	Percentage of Capital
Common Stock Equity	$651,532	54.57%
Preferred Stock	$80,000	6.70%
Long-Term Debt	$462,452	38.73%
Short-Term Debt	$0	0.00%
Total Capitalization	$1,193,984	100.00%

Electric Utilities Financial Ratio Benchmarks

Total Debt / Total Capital (%)

	AA	A
Standard & Poor's Corporation's Utilities Rating Service, September 30, 1995 Electric Utilities (High Average Business Position)	44%	49%

Notes: The amount of Long-Term Debt outstanding at December 31, 1995 includes Current Maturities and was reduced by the amounts of Unamortized Premium & Debt Discount ($2,074,048) and Unamortized Debt Issuance Expense ($16,473,580) at December 31, 1995.

The amount of Short-Term Debt was determined to be zero. This results from the amount of Short-Term Debt outstanding at December 31, 1995 being less than the amount of Construction Work In Progress at December 31, 1995 ($47,921,000 - $72,490,000).

Sources: CIPSCO Incorporated's 1995 Stockholders Annual Report and Union Electric Company's response to Staff's Data Information Request No. 196.

UNION ELECTRIC COMPANY
CASE NO. EM-96-149

Pro Forma Capital Structure as of December 31, 1995 for Ameren Corporation (Consolidated Basis)

Capital Component	Amount in Thousands of Dollars	Percentage of Capital
Common Stock Equity	$2,974,263	53.07%
Preferred Stock	$299,147	5.34%
Long-Term Debt	$2,330,813	41.59%
Short-Term Debt	$0	0.00%
Total Capitalization	$5,604,223	100.00%

Electric Utilities Financial Ratio Benchmarks

Total Debt / Total Capital (%)

	AA	A
Standard & Poor's Corporation's Utilities Rating Service, September 30, 1995 Electric Utilities (Average Business Position)	42%	47%

Notes: The amount of Common Stock Equity outstanding at December 31, 1995 includes $3,534,000 in Minority Interest in Consolidated Subsidiary.

The amount of Long-Term Debt outstanding at December 31, 1995 includes Current Maturities and was reduced by the amounts of Unamortized Premium & Debt Discount ($11,653,099), Unamortized Debt Issuance Expense ($28,423,710) and Unamortized Losses on Reacquired Debt ($33,203,029) at December 31, 1995.

The amount of Short-Term Debt was determined to be zero. This results from the amount of Short-Term Debt outstanding at December 31, 1995 being less than the amount of Construction Work In Progress at December 31, 1995 ($77,521,000 - $199,600,000).

Sources: Union Electric Company's responses to Staff's Data Information Request Nos. 163 and 196.

UNION ELECTRIC COMPANY
CASE NO. EM-96-149

Estimated Weighted Cost of Capital as of December 31, 1995 for Union Electric Company

Capital Component	Percentage of Capital	Embedded Cost	Weighted Cost of Capital based upon assumed Common Equity Return of 11.70%
Common Stock Equity	54.22%	-----	6.34%
Preferred Stock	5.12%	** % **	** % **
Long-Term Debt	40.66%	** % **	** % **
Short-Term Debt	0.00%	0.00%	0.00%
Total	100.00%		9.55%

NP

Notes: See Schedule 7 for the Capital Structure Ratios.

The Embedded Cost of Preferred Stock at December 31, 1995 was determined from information provided in Union Electric Company's response to Staff's Data Information Request No. 196.

The Embedded Cost of Long-Term Debt at December 31, 1995 was determined from information provided in Union Electric Company's response to Staff's Data Information Request No. 196.

For illustrative purposes the required return on Common Stock Equity was assumed to be 11.70 percent.

UNION ELECTRIC COMPANY
CASE NO. EM-96-149

Estimated Weighted Cost of Capital as of December 31, 1995
for CIPSCO Incorporated (Consolidated Basis)

Capital Component	Percentage of Capital	Embedded Cost	Weighted Cost of Capital based upon assumed Common Equity Return of 11.70%
Common Stock Equity	54.57%	—	6.38%
Preferred Stock	6.70%	** % **	** % **
Long-Term Debt	38.73%	** % **	** % **
Short-Term Debt	0.00%	0.00%	0.00%
Total	100.00%		9.48%

NP

Notes: See Schedule 8 for the Capital Structure Ratios.

The Embedded Cost of Preferred Stock at December 31, 1995 was determined from information provided in Union Electric Company's response to Staff's Data Information Request No. 196.

The Embedded Cost of Long-Term Debt at December 31, 1995 was determined from information provided in Union Electric Company's response to Staff's Data Information Request No. 196.

For illustrative purposes the required return on Common Stock Equity was assumed to be 11.70 percent.

UNION ELECTRIC COMPANY
CASE NO. EM-96-149

Estimated Pro Forma Weighted Cost of Capital as of December 31, 1995 for Ameren Corporation (Consolidated Basis)

Capital Component	Percentage of Capital	Embedded Cost	Weighted Cost of Capital based upon assumed Common Equity Return of 11.70%
Common Stock Equity	53.07%	—	6.21%
Preferred Stock	5.34%	** % **	** % **
Long-Term Debt	41.59%	** % **	** % **
Short-Term Debt	0.00%	0.00%	0.00%
Total	100.00%		9.50%

NP

Notes: See Schedule 9 for the Capital Structure Ratios.

The Embedded Cost of Preferred Stock at December 31, 1995 was determined from information provided in Union Electric Company's response to Staff's Data Information Request No. 196.

The Embedded Cost of Long-Term Debt at December 31, 1995 was determined from information provided in Union Electric Company's response to Staff's Data Information Request No. 196.

For illustrative purposes the required return on Common Stock Equity was assumed to be 11.70 percent.

UNION ELECTRIC COMPANY
CASE NO. EM-96-149

Pro Forma Common Dividend Payout Ratio for Ameren Corporation (Consolidated Basis)

Company or Item	Common Shares Outstanding (12/31/95)	Stock Exchange Ratio	Ameren's Pro Forma Common Shares Outstanding (12/31/95)	Net Income (12/31/95)
Union Electric Company	102,123,834	*****	102,123,834	$314,107,000
CIPSCO Incorporated	34,069,542	*****	35,091,628	$72,015,000
Ameren Corporation's Pro Forma Balance			**137,215,462**	**$386,122,000**

Ameren Corporation's Pro Forma Common Shares Outstanding		137,215,462	
Common Dividends Per Share Rate	X	$2.50	
Ameren Corporation's Pro Forma Common Dividends			**$343,038,656**

Ameren Corporation's Pro Forma Common Dividends	**$343,038,656**
Ameren Corporation's Pro Forma Net Income	**$386,122,000**

Ameren Corporation's Pro Forma Common Dividend Payout Ratio: 88.84%

Sources: Union Electric Company's and CIPSCO Incorporated's 1995 Stockholders Annual Reports.

SCHEDULE 13

UNION ELECTRIC COMPANY
CASE NO. EM-96-149

Merger Premiums Associated with the Major Electric Utility Combinations
(Completed or Pending since 1985)

Surviving Company		Announcement Date	Acquiring Company	Prior Day Stock Price	Exchange Ratio	Acquired Company	Prior Day Stock Price	Exchange Ratio	Merger Premium
Centerior Energy Corporation		06/25/85	Cleveland Electric Illuminating Co.	$22.500	1.110	The Toledo Edison Company	$19.125	1.000	5.99%
PacificCorp	(1)	08/13/87	PacificCorp	$17.938	1.000	Utah Power & Light Company	$26.500		21.00%
Northeast Utilities	(2)	01/02/90	Northeast Utilities	$27.500		Public Service of New Hampshire	$2.750		N.A.
Midwest Resources, Inc.		03/16/90	Midwest Resources, Inc.	$20.875	1.080	Iowa Resources	$20.250	1.235	17.88%
Western Resources, Inc.	(3)	10/29/90	Kansas Power & Light Company	$21.875	1.000	Kansas Gas and Electric Company	$25.000	1.347	62.00%
IES Industries, Inc.		02/28/91	IE Industries, Inc.	$28.500	1.000	Iowa Southern Utilities Company	$35.250	1.600	29.36%
Entergy Corporation	(1)	06/01/92	Entergy Corporation	$27.375	1.000	Gulf StatesUtilities Company	$14.750	0.558	38.00%
CINergy Corporation	(4)	12/14/92	Cincinnati Gas & Electric Company	$24.250	1.000	PSI Resources Inc.	$18.500	1.023	28.00%
Altus Corporation		06/28/94	*Washington Water Power Company*	$14.875	1.000	Sierra Pacific Resources	$18.250	1.440	17.37%
MidAmerican Energy Company		07/27/94	Midwest Resources, Inc.	$14.750	1.000	Iowa-Illinois Gas & Electric Company	$21.625	1.470	0.27%
Primergy Corporation		05/01/95	Northern States Power Company	$44.250	1.626	Wisconsin Energy Corporation	$27.750	1.000	-1.93%
New Century Energies		08/23/95	Public Service Company of Colorado	$31.500	1.000	Southwestern Public Service Company	$29.375	0.950	1.87%
Constellation Energy		09/25/95	Baltimore Gas & Electric Company	$26.125	1.000	Potomac Electric Power Company	$21.500	0.997	21.15%
Interstate Energy Corporation	(5)	11/13/95	WPL Holdings, Inc.	$30.750	1.000	IES Industries, Inc.	$27.125	0.980	11.10%
						Interstate Power Company	$29.625	1.110	15.22%
KC United Corporation		01/22/96	Kansas City Power & Light Company	$26.250	1.000	UtiliCorp United Inc.	$28.500	1.096	0.95%
								Average	17.88%
Ameren Corporation		**08/14/95**	**Union Electric Company**	**$35.375**	**1.000**	**CIPSCO Incorporated**	**$29.625**	**1.030**	**22.99%**

Notes: The premium was calculated as follows (except were noted) : [(Exchange Ratio of Acquired Company X Prior Day Stock Price of Acquiring Company) / (Exchange Ratio of Acquiring Company X Prior Day Stock of Acquired Company)].

(1) The premium on PacifiCorp - Utah Power & Light Company and Entergy Corporation - Gulf States Utilities Company mergers were determined based on the published premium in Duff & Phelps Equity Research, Industry Focus - Electric Utilities: Mergers & Acquisitions: Superior or Inferior Performance?, February 1996.

(2) Northeast Utilities purchased Public Service Company of New Hampshire (PSCNH) as part of a restructuring plan developed in Bankruptcy Court. There was no stated premium as common shareholders received between $2.50 and $3.90 per share depending on the final amount owed to creduitors. Northeast Utilities first expressed interest in purchasing PSCNH in late 1988.

(3) The premium on the Kansas Power & Light Company - Kansas Gas and Electric Company merger was determined based on the published premium in The Value Line Investment Survey: Ratings & Reports, April 19, 1991.

(4) The premium on the Cincinnati Gas & Electric Company (CGE) - PSI Resources Inc. merger represents an original offer premium of 14% based on CGE's original bid. After a bidding war with IPALCO Enterprises, CGE's final bid represented a premium of 28% based on the pre-announcement price.

(5) The Interstate Energy Corporation transaction represents a three-way deal between WPL Holdings, Inc., IES Industries, Inc. and Interstate Power Company.

Sources: Duff& Phelps Equity Research, Industry Focus - Electric Utilities: Mergers & Acquisitions: Superior or Inferior Performance?, February 1996, The Value Line Investment Survey: Ratings & Reports, CompuServe's 10K PLUS Database System and The Wall Street Journal.

UNION ELECTRIC COMPANY
CASE NO. EM-96-149

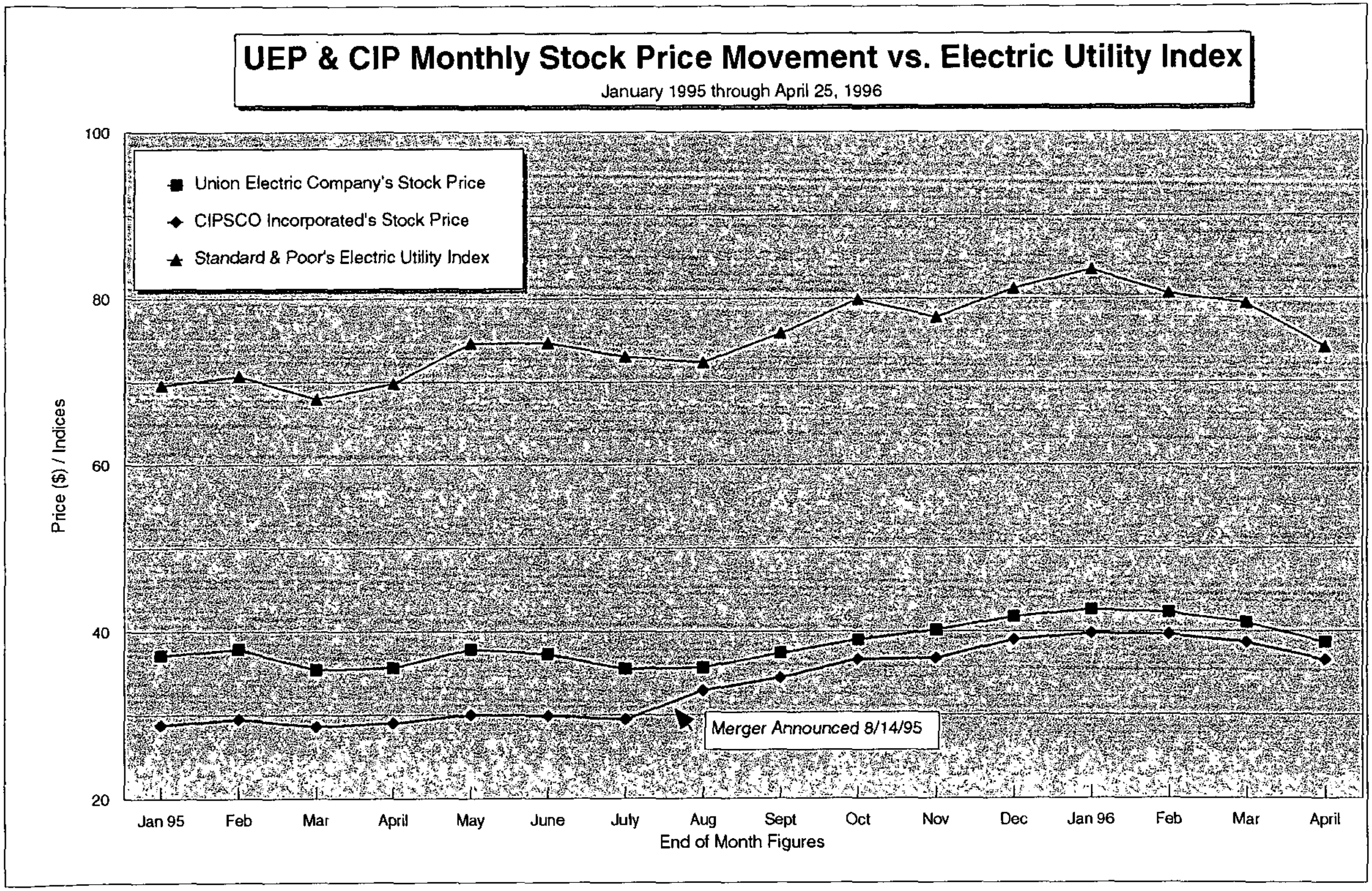
Merger Premiums Associated with Pooling of Interest Transactions where the Acquiring Electric Company was Larger than the Acquired Electric Company

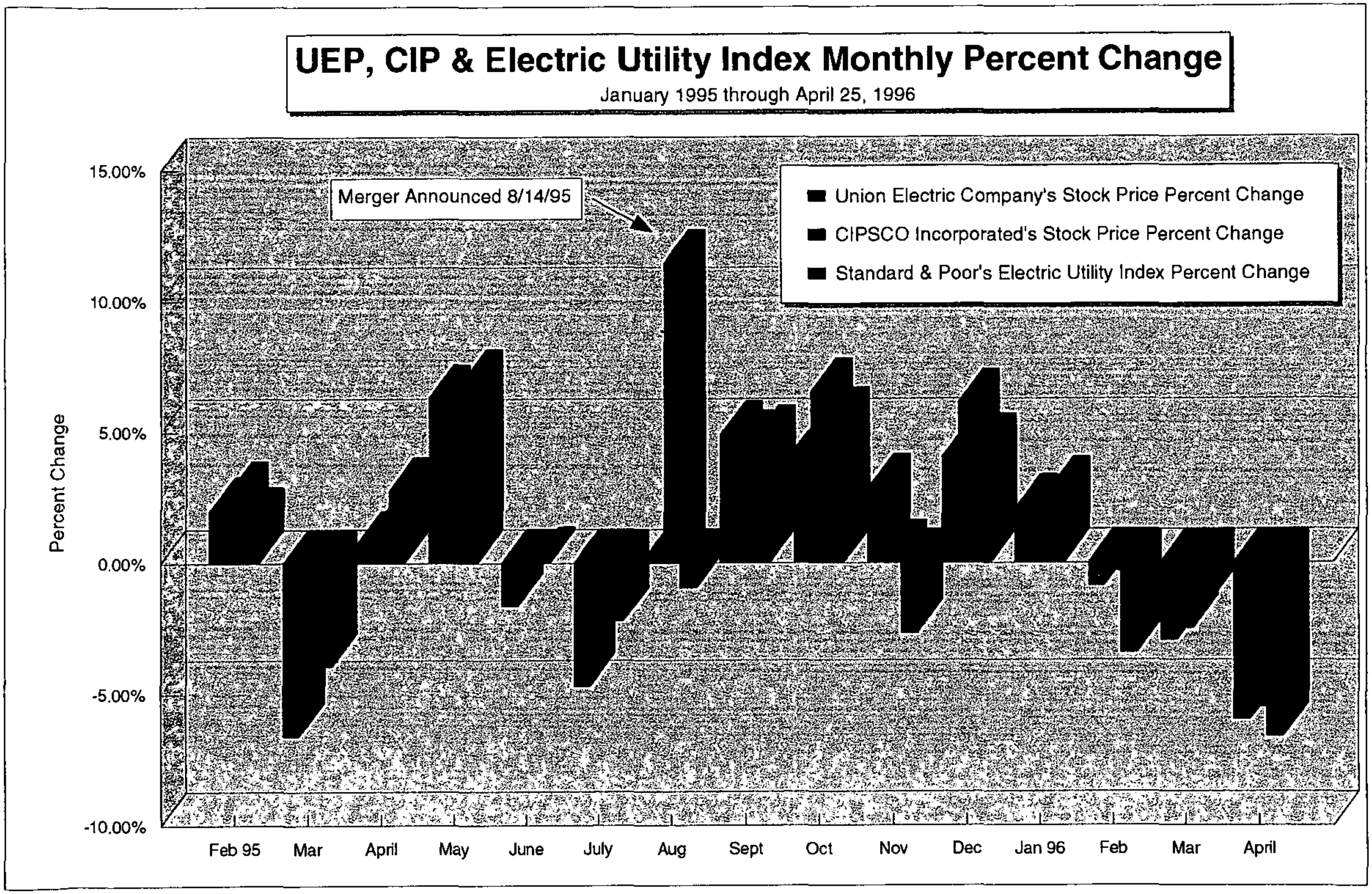
(Completed or Pending since 1985)

Acquired Company	Announcement Date	Type of Transaction	Merger Premium
The Toledo Edison Company	06/25/85	Financially Troubled	
Utah Power & Light Company	08/13/87	Pooling of Interest with Larger Company	21.00%
Public Service of New Hampshire	01/02/90	Financially Troubled	
Iowa Resources	03/16/90	Pooling of Interest with Larger Company	17.88%
Kansas Gas and Electric Company	10/29/90	Purchase	
Iowa Southern Utilities Company	02/28/91	Pooling of Interest with Larger Company	29.36%
Gulf StatesUtilities Company	06/01/92	Purchase	
PSI Resources Inc.	12/14/92	Pooling of Interest with Larger Company	28.00%
Sierra Pacific Resources	06/28/94	Pooling of Interest with Larger Company	17.37%
Iowa-Illinois Gas & Electric Company	07/27/94	Merger of Equals	
Wisconsin Energy Corporation	05/01/95	Merger of Equals	
Southwestern Public Service Company	08/23/95	Merger of Equals	
Potomac Electric Power Company	09/25/95	Pooling of Interest with Larger Company	21.15%
IES Industries, Inc.	11/13/95	Pooling of Interest with Larger Company	11.10%
Interstate Power Company		Pooling of Interest with Larger Company	15.22%
UtiliCorp United Inc.	01/22/96	Merger of Equals	
Average Merger Premium for Pooling of Interest with Larger Company Transactions			**20.14%**
CIPSCO Incorporated	**08/14/95**	Pooling of Interest with Larger Company	**22.99%**

Note: See Schedule 14 - 1 for the Merger Premium.

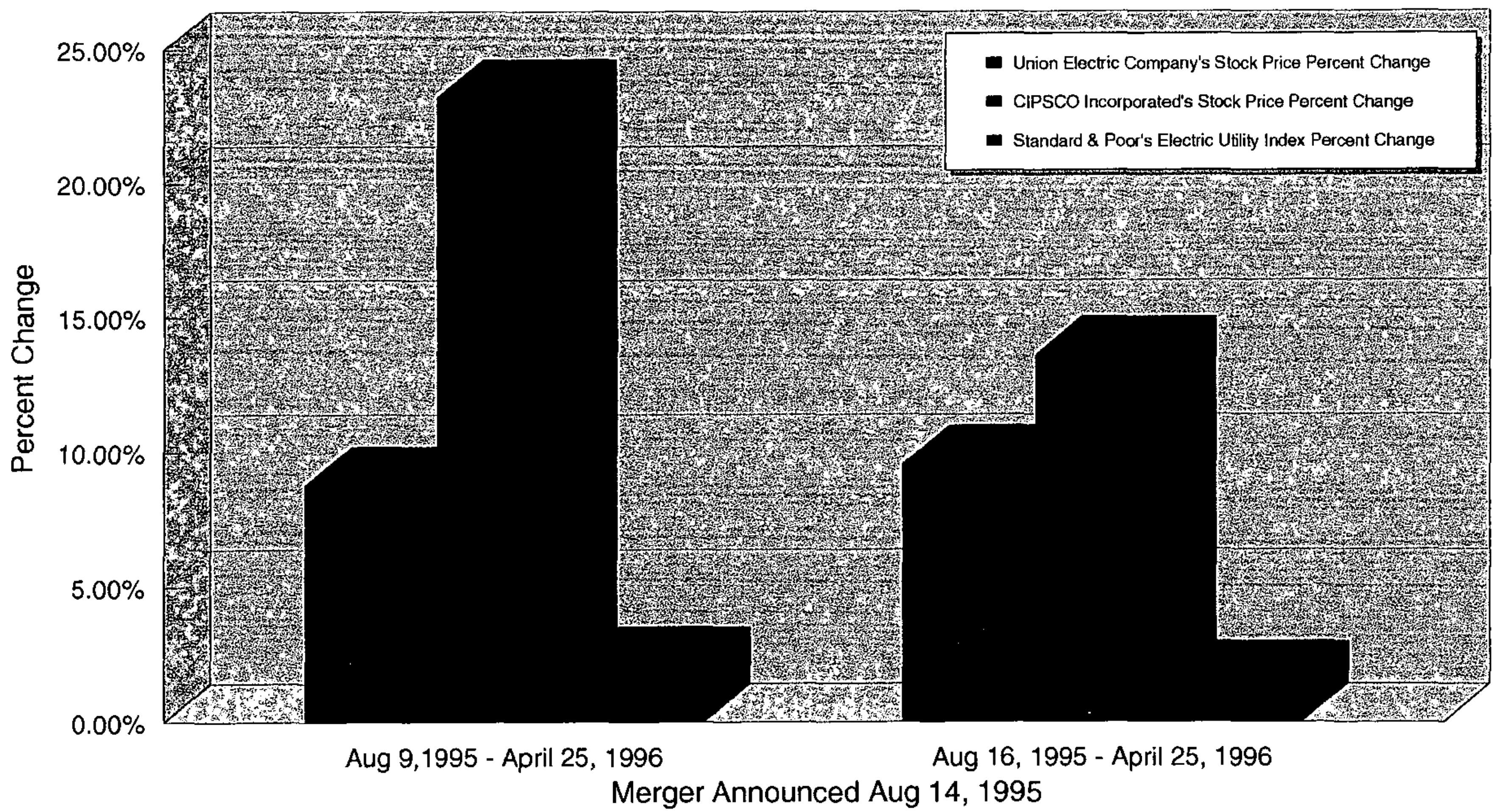
Source: Duff& Phelps Equity Research, Industry Focus - Electric Utilities: Mergers & Acquisitions: Superior or Inferior Performance?, February 1996.


UEP & CIP Monthly Stock Price Movement vs. Electric Utility Index
January 1995 through April 25, 1996
Union Electric Company's Stock Price
CIPSCO Incorporated's Stock Price
Standard & Poor's Electric Utility Index
Merger Announced 8/14/95
Price ($) / Indices
100
80
60
40
20
Jan 95
Feb
Mar
April
May
June
July
Aug
Sept
Oct
Nov
Dec
Jan 96
Feb
Mar
April
End of Month Figures


UEP, CIP & Electric Utility Index Monthly Percent Change
January 1995 through April 25, 1996
Merger Announced 8/14/95
Union Electric Company's Stock Price Percent Change
CIPSCO Incorporated's Stock Price Percent Change
Standard & Poor's Electric Utility Index Percent Change
Percent Change
15.00%
10.00%
5.00%
0.00%
-5.00%
-10.00%
Feb 95
Mar
April
May
June
July
Aug
Sept
Oct
Nov
Dec
Jan 96
Feb
Mar
April

UEP, CIP & Electric Utility Index Total Percent Change

August 9, 1995 through April 25, 1996 and August 16, 1995 through April 25, 1996



UNION ELECTRIC COMPANY
CASE NO. EM-96-149

Union Electric Company's Monthly Stock Prices, CIPSCO Incorporated's Monthly Stock Prices and Standard & Poor's Electric Utility Index

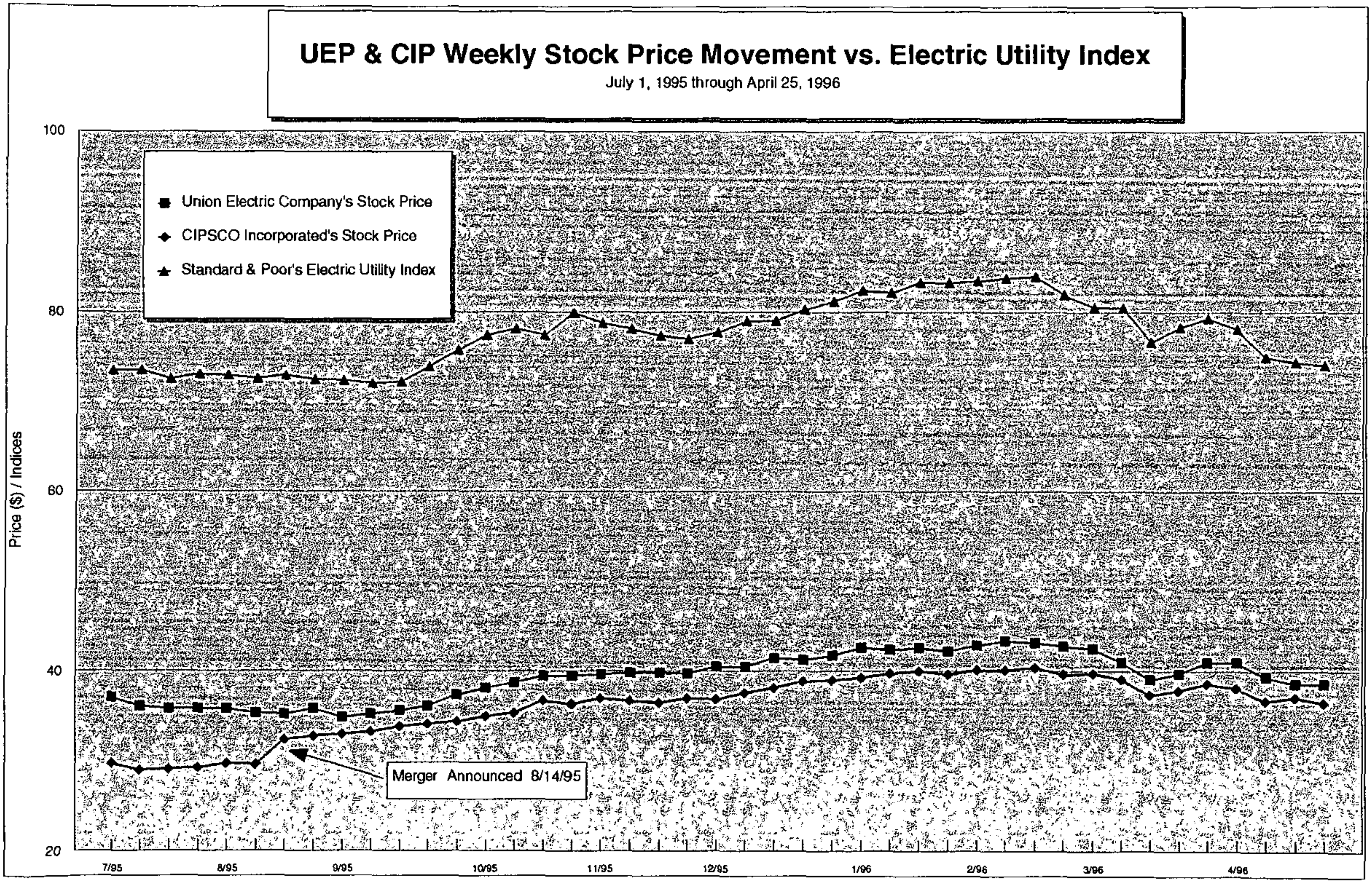
January 1995 through April 25, 1996

Date	UEP's Month-Ending Stock Price	UEP's Percent Change From Previous Month	CIP's Month-Ending Stock Price	CIP's Percent Change From Previous Month	S&P's Electric Utility Month-Ending Index	S&P's Percent Change From Previous Month
01/31/95	$37.125		$28.750		69.570	
02/28/95	$37.875	2.02%	$29.500	2.61%	70.710	1.64%
03/31/95	$35.375	-6.60%	$28.625	-2.97%	67.920	-3.95%
04/28/95	$35.625	0.71%	$29.000	1.31%	69.780	2.74%
05/31/95	$37.875	6.32%	$30.000	3.45%	74.590	6.89%
06/30/95	$37.250	-1.65%	$29.875	-0.42%	74.670	0.11%
07/31/95	$35.500	-4.70%	$29.500	-1.26%	73.030	-2.20%
08/31/95	$35.625	0.35%	$32.875	11.44%	72.330	-0.96%
09/29/95	$37.375	4.91%	$34.375	4.56%	75.760	4.74%
10/31/95	$39.000	4.35%	$36.625	6.55%	79.880	5.44%
11/30/95	$40.125	2.88%	$36.750	0.34%	77.740	-2.68%
12/29/95	$41.750	4.05%	$39.000	6.12%	81.190	4.44%
01/31/96	$42.625	2.10%	$39.750	1.92%	83.440	2.77%
02/29/96	$42.250	-0.88%	$39.625	-0.31%	80.570	-3.44%
03/29/96	$41.000	-2.96%	$38.625	-2.52%	79.330	-1.54%
04/25/96	$38.625	-5.79%	$36.500	-5.50%	74.070	-6.63%
08/09/95	$35.500		$29.625		72.550	
04/25/96	$38.625	8.80%	$36.500	23.21%	74.070	2.10%
08/16/95	$35.250		$32.125		72.940	
04/25/96	$38.625	9.57%	$36.500	13.62%	74.070	1.55%

Note: The Standard & Poor's Electric Utility Index is only calculated for Wednesday of each week.

Source: CompuServe's 10K PLUS Financial Database System.

UNION ELECTTRIC COMPANY
CASE NO. EM-96-149



UNION ELECTRIC COMPANY
CASE NO. EM-96-149

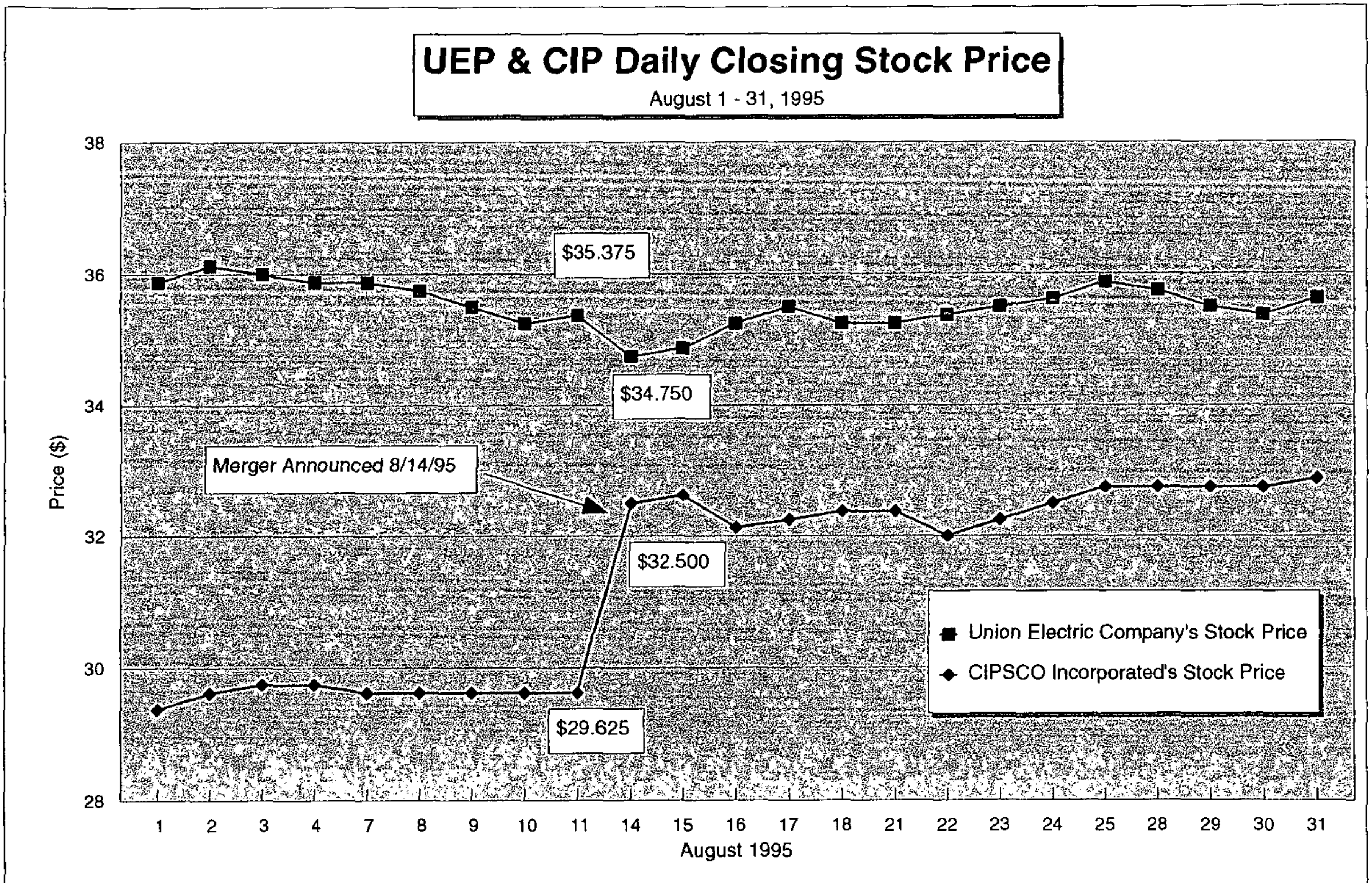
Union Electric Company's Weekly Stock Prices, CIPSCO Incorporated's Weekly Stock Prices and Standard & Poor's Electric Utility Index

July 1, 1995 through April 25, 1996

Date	UEP's Week-Ending Stock Price	CIP's Week-Ending Stock Price	S&P's Electric Utility Week-Ending Index	Date	UEP's Week-Ending Stock Price	CIP's Week-Ending Stock Price	S&P's Electric Utility Week-Ending Index
07/07/95	$37.125	$29.750	73.480	01/05/96	$42.625	$39.250	82.410
07/14/95	$36.125	$29.000	73.490	01/12/96	$42.375	$39.750	82.200
07/21/95	$35.875	$29.125	72.500	01/19/96	$42.625	$40.000	83.290
07/28/95	$35.875	$29.250	73.030	01/26/96	$42.250	$39.625	83.260
08/04/95	$35.875	$29.750	72.970	02/02/96	$42.875	$40.125	83.440
08/11/95	$35.375	$29.625	72.550	02/09/96	$43.375	$40.125	83.810
08/18/95	$35.250	$32.375	72.940	02/16/96	$43.125	$40.375	83.980
08/25/95	$35.875	$32.750	72.430	02/23/96	$42.750	$39.625	81.950
09/01/95	$34.875	$33.000	72.330	03/01/96	$42.500	$39.750	80.570
09/08/95	$35.250	$33.250	71.990	03/08/96	$41.000	$39.125	80.470
09/15/95	$35.625	$33.875	72.170	03/15/96	$39.125	$37.375	76.680
09/22/95	$36.125	$34.125	73.860	03/22/96	$39.750	$37.875	78.370
09/29/95	$37.375	$34.375	75.760	03/29/96	$41.000	$38.625	79.330
10/06/95	$38.125	$35.000	77.420	04/05/96	$41.000	$38.125	78.130
10/13/95	$38.750	$35.375	78.090	04/12/96	$39.375	$36.750	74.970
10/20/95	$39.500	$36.750	77.450	04/19/96	$38.625	$37.125	74.390
10/27/95	$39.500	$36.375	79.880	04/25/96	$38.625	$36.500	74.070
11/03/95	$39.625	$37.000	78.790				
11/10/95	$39.875	$36.750	78.100				
11/17/95	$39.875	$36.500	77.380				
11/24/95	$39.750	$37.000	76.980				
12/01/95	$40.500	$36.875	77.740				
12/08/95	$40.500	$37.625	79.000				
12/15/95	$41.500	$38.125	79.040				
12/22/95	$41.250	$38.875	80.280				
12/29/95	$41.750	$39.000	81.190				

Note: The Standard & Poor's Electric Utility Index is only calculated for Wednesday of each week.

Source: CompuServe's 10K PLUS Financial Database System.


UEP & CIP Daily Closing Stock Price
August 1 - 31, 1995
Price ($)
38
36
34
32
30
28
1
2
3
4
7
8
9
10
11
14
15
16
17
18
21
22
23
24
25
28
29
30
31
August 1995
$35.375
$34.750
Merger Announced 8/14/95
$32.500
$29.625
Union Electric Company's Stock Price
CIPSCO Incorporated's Stock Price

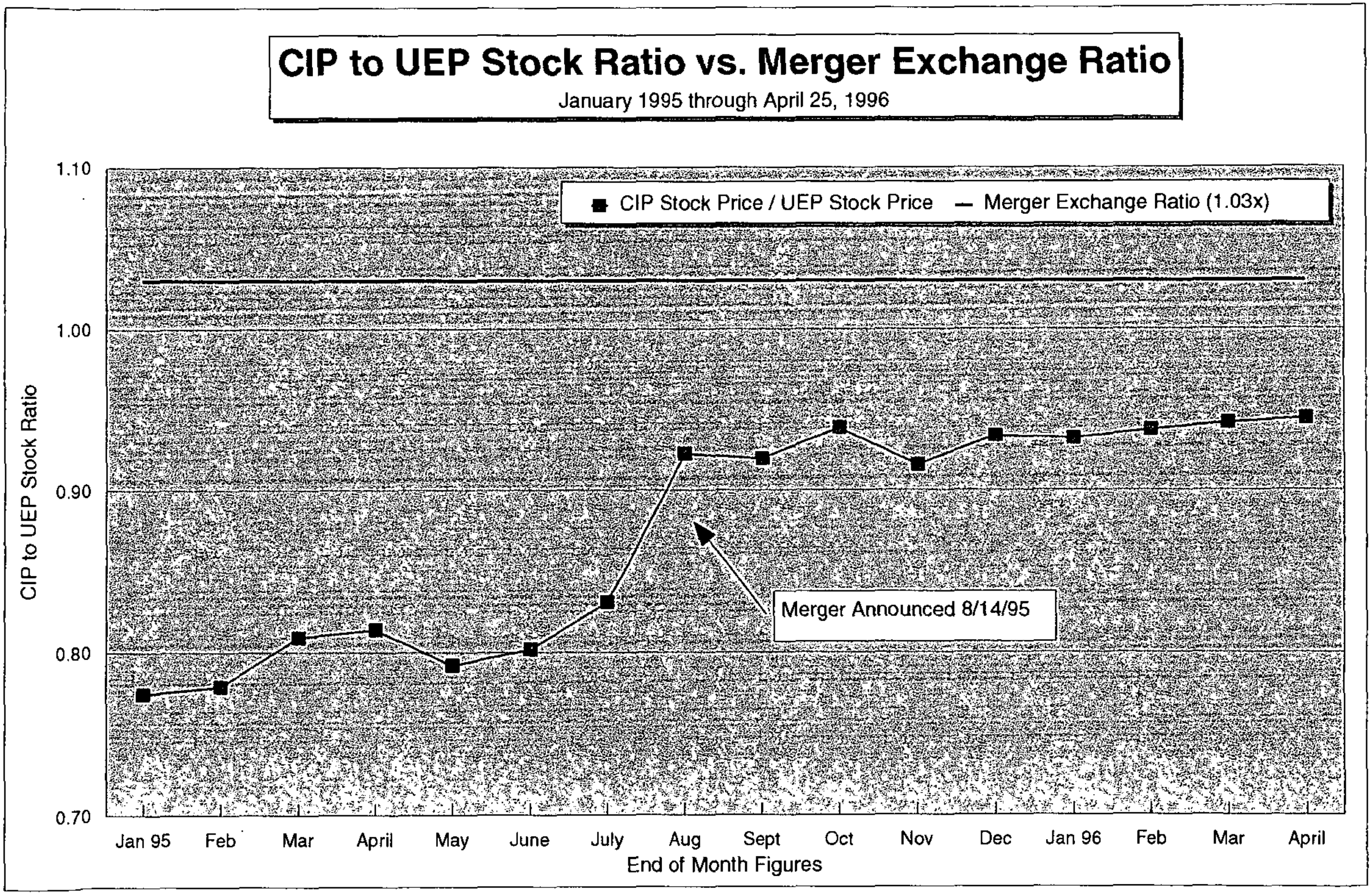
UNION ELECTRIC COMPANY
CASE NO. EM-96-149

Union Electric Company's Daily Closing Stock Prices and CIPSCO Incorporated's Daily Closing Stock Prices

August 1, 1995 through August 31, 1995

Date	UEP's Daily Closing Stock Price	CIP's Daily Closing Stock Price
08/01/95	$35.875	$29.375
08/02/95	$36.125	$29.625
08/03/95	$36.000	$29.750
08/04/95	$35.875	$29.750
08/07/95	$35.875	$29.625
08/08/95	$35.750	$29.625
08/09/95	$35.500	$29.625
08/10/95	$35.250	$29.625
08/11/95	$35.375	$29.625
08/14/95	$34.750	$32.500
08/15/95	$34.875	$32.625
08/16/95	$35.250	$32.125
08/17/95	$35.500	$32.250
08/18/95	$35.250	$32.375
08/21/95	$35.250	$32.375
08/22/95	$35.375	$32.000
08/23/95	$35.500	$32.250
08/24/95	$35.625	$32.500
08/25/95	$35.875	$32.750
08/28/95	$35.750	$32.750
08/29/95	$35.500	$32.750
08/30/95	$35.375	$32.750
08/31/95	$35.625	$32.875

Source: CompuServe's 10K PLUS Financial Database System.


CIP to UEP Stock Ratio vs. Merger Exchange Ratio
January 1995 through April 25, 1996
CIP Stock Price / UEP Stock Price
Merger Exchange Ratio (1.03x)
Merger Announced 8/14/95
1.10
1.00
0.90
0.80
0.70
CIP to UEP Stock Ratio
Jan 95
Feb
Mar
April
May
June
July
Aug
Sept
Oct
Nov
Dec
Jan 96
Feb
Mar
April
End of Month Figures

UNION ELECTRIC COMPANY
CASE NO. EM-96-149

CIPSCO Incorporated's Month-Ending Stock Prices to Union Electric Company's Month-Ending Stock Prices

January 1995 through April 25, 1996

Date	CIP's Month-Ending Stock Price	UEP's Month-Ending Stock Price	CIP's to UEP's Month-Ending Stock Price Ratio
01/31/95	$28.750	$37.125	0.774
02/28/95	$29.500	$37.875	0.779
03/31/95	$28.625	$35.375	0.809
04/28/95	$29.000	$35.625	0.814
05/31/95	$30.000	$37.875	0.792
06/30/95	$29.875	$37.250	0.802
07/31/95	$29.500	$35.500	0.831
08/31/95	$32.875	$35.625	0.923
09/29/95	$34.375	$37.375	0.920
10/31/95	$36.625	$39.000	0.939
11/30/95	$36.750	$40.125	0.916
12/29/95	$39.000	$41.750	0.934
01/31/96	$39.750	$42.625	0.933
02/29/96	$39.625	$42.250	0.938
03/29/95	$38.625	$41.000	0.942
04/25/96	$36.500	$38.625	0.945

Note: Based upon the Merger Agreement each outstanding share of Union Electric Company's Common Stock will be exchanged for 1.0 shares of Ameren Corporation's Common Stock and each outstanding share of CIPSCO Incorporated's Common Stock will be exchanged for 1.3 shares of Ameren Corporation's Common Stock. Therefore, at the close of the proposed Merger, each outstanding share of CIPSCO Incorporated's Common Stock should be valued at approximately 1.3 times the value of a share of Union Electric Company's Common Stock.

Source: CompuServe's 10K PLUS Financial Database System.

UNION ELECTRIC COMPANY
CASE NO. EM-96-149

Necessary Conditions in Order for the Staff to Recommend Approval of the Merger of Union Electric Company and CIPSCO Incorporated

Brief Description of Staff's Necessary Condition	Sponsoring Staff Witness	Page No.(s)
Replace UE's Ratemaking Proposal with Staff's	Mark L. Oligschlaeger	34
No Direct Recovery of "Merger Premium"	Charles R. Hyneman	16 & 17
20 Year Amortization of Actual Transaction Costs and Actual "Costs to Achieve"	Thomas M. Imhoff	5 - 6, & 14
Filing of Updated General Services Agreement with Opportunity for Staff Review	James D. Schwieterman	5
UE Acceptance of Changes to Joint Dispatch Agreement	Daniel I. Beck	Schedule 1
Ameren or UE Will Not Seek to Overturn this Commission's Orders and Decisions on Affiliated Transactions	Legal Memorandum Jay W. Moore James D. Schwieterman Michael J. Wallis	Attachment 1 14 6 13 - 14
Ameren or UE Will Not Seek to Overturn this Commission's Orders and Decisions Regarding Electric Production	Legal Memorandum Daniel I. Beck	Attachment 1 Schedule 1
Ameren or UE Will Not Seek to Overturn this Commission's Orders and Decisions Regarding Gas Supply, Storage and/or Transportation Service	Legal Memorandum Michael J. Wallis	Attachment 1 12
Pre-Approval of Affilated Transactions (Optional and Not Endorsed by Staff)	Legal Memorandum	Attachment 1
Access to Ameren's and Ameren Affiliates' and Subsidiaries' Books and Records	Daniel I. Beck Tom Y. Lin Jay W. Moore Mark L. Oligschlaeger Michael J. Wallis	Schedule 1 9 15 53 - 54 12 - 13
Ameren and Ameren Affiliates and Subsidiaries to Provide Answers and Access to Officers and Employees	Daniel I. Beck Jay W. Moore Mark L. Oligschlaeger Michael J. Wallis	Schedule 1 15 53 - 54 12 - 13
Maintain Current Discovery Practices	Mark L. Oligschlaeger	56
Accounting and Other Controls for Cost Allocations and Transfer Pricing	Mark L. Oligschlaeger	54 - 55
Ameren and UE Acceptance of Language Contained in Stipulation and Agreement from Case No. GR-93-106	Michael J. Wallis	11
UE to Continue to Provide Monthly Surveillance Reports	Jay W. Moore	42
Quarterly Provision of Allocation Information	Mark L. Oligschlaeger	56
Maintain Payroll Records on Merger Related Activities Separately	Thomas M. Imhoff	11
Electronic Format of Data Required under 4 CSR 240 - 20.080	Tom Y. Lin	9
Electronic Format for After-the-Fact Resource Allocation Data	Daniel I. Beck	Schedule 1
Ameren to Provide Information Needed to Estimate Differentiated Required ROE	Jay W. Moore	23
Prevention of Diversion of UE Management Talent	Mark L. Oligschlaeger	55