



PSC NEWS

MISSOURI PUBLIC SERVICE COMMISSION

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PSC STAFF FILES RECOMMENDATION IN UE MERGER CASE

Jefferson City (May 7, 1996)—Provided certain conditions are met, the Staff of the Missouri Public Service Commission has recommended the Commission approve the merger of Union Electric Company (UE) and Central Illinois Public Service Company (CIPS) into a registered public utility holding company, Ameren Corporation. If those conditions are not met, the Staff of the Missouri Public Service Commission has determined the proposed merger is detrimental to the public interest and therefore, should not be approved by the Commission.

Along with the Staff's testimony, the Staff filed a legal memorandum. This memorandum as well as the Staff testimony address concerns relating to possible loss of state jurisdiction over the operations of Union Electric.

The Staff of the Missouri Public Service Commission is a party to this case. PSC Staff recommendations, as well as evidence and recommendations offered by other parties in this case, will be thoroughly reviewed by the five member Commission which will determine whether the application should be approved.

Necessary conditions for the Staff to recommend approval of the merger include:

- * Replace UE's ratemaking proposal for sharing merger savings with the Staff's proposal for sharing merger savings.
- * No direct recovery of the "merger premium."
- * Filing of updated General Services Agreement with the opportunity for Commission and Staff review.
- * UE acceptance of conditions relating to the Joint Dispatch Agreement and the System Support Agreement.
- * Ameren and UE acceptance of conditions which maintain Commission regulation.
- * Commission access to Ameren's and its affiliates' and subsidiaries' books and records, and officers and employees.

(More)

Exhibit No. 42
Date 6/9/99 Case No. EO-96-14
Reporter KRM

The Staff of the Missouri PSC states in its testimony that Union Electric'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's ratemaking proposal, according to Staff testimony, 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's ratemaking proposal is unjustly and unreasonably skewed to its shareholders' advantage.

Staff proposes in its testimony that gross merger savings, adjusted for an amortization for transaction costs and "costs to achieve," should be flowed through the existing alternative regulation plan. On July 21, 1995, the Commission approved an experimental alternative regulation plan to continue for the three years ending June 30, 1998. Staff's proposal 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. According to Staff testimony, Staff's proposal also allows Union Electric an opportunity for the indirect recovery of the alleged "merger premium" for the stockholders.

Formal evidentiary hearings in this case will begin on July 1, 1996, in the Commission's hearing room which is located on the fifth floor of the Truman State Office Building in Jefferson City. Hearings will continue through July 3, 1996. Hearings will then resume on July 8, 1996, and will continue through July 12, 1996, if necessary.

On November 7, 1995, Union Electric filed an application with the Missouri Public Service Commission seeking Commission authority to merge UE and CIPSCO Incorporated into a registered public utility holding company, Ameren Corporation. Ameren will be the parent company for Union Electric Company and Central Illinois Public Service Company, the principal operating company of CIPSCO Incorporated. Ameren will be a Missouri corporation based in St. Louis.

Union Electric stated in its application that the merger will reduce combined operating costs. Union Electric estimates the cost savings to be approximately \$590 million over a period of 10 years.