Exhibit No.:	
Issues:	**Accounting**
Witness:	**Warner L. Baxter**
Type of Exhibit:	**Direct Testimony**
Sponsoring Party:	**Union Electric Co.**
Case No.:	

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. EM-96-149

DIRECT TESTIMONY

OF

WARNER L. BAXTER

FILED
NOV 7 - 1995
MISSOURI
PUBLIC SERVICE COMMISSION

St. Louis, Missouri
November 2, 1995

MISSOURI PUBLIC SERVICE COMMISSION
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 Serice Company; and (3) in connection therewith, certain other related transactions.	)	Case No.__________

AFFIDAVIT OF WARNER L. BAXTER

STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

Warner L. Baxter, being first duly sworn on his oath, states:

1. My name is Warner L. Baxter. I work in the City of St. Louis, Missouri, and I am the Assistant Controller at Union Electric Company.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony consisting of pages 1 through 14, inclusive, all of which testimony has been prepared in written form for introduction into evidence in the above-referenced docket.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

Warner L. Baxter
Warner L. Baxter

Subscribed and sworn to before me this 1st day of November, 1995.

R. P. ANZALONE NOTARY SEAL NOTARY PUBLIC STATE OF MISSOURI

R P Anzalone
Notary Public
R. P. ANZALONE
NOTARY PUBLIC—STATE OF MISSOURI
ST. LOUIS COUNTY
MY COMMISSION EXPIRES MAY 18, 1996

DIRECT TESTIMONY
OF
WARNER L. BAXTER
MISSOURI PUBLIC SERVICE COMMISSION

Background

Q. Please state your name and business address.

A. My name is Warner L. Baxter and my business address is 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. By whom are you employed and in what position?

A. I am employed by Union Electric Company (Union Electric) as Assistant Controller.

Q. Please describe your educational background and work experience.

A. I graduated from the University of Missouri - St. Louis in 1983 with a Bachelor of Science degree with a major in Accounting. I am also a licensed Certified Public Accountant in the state of Missouri and a member of the American Institute of Certified Public Accountants and the Missouri Society of Certified Public Accountants.

I was appointed to my current position in August 1995. Prior to that time, I was employed by Price Waterhouse LLP (Price Waterhouse). From 1983 to 1993, I worked in Price Waterhouse's St. Louis practice office in their Accounting and Auditing Services Department. I held a variety of positions including staff accountant, senior accountant, manager, and senior manager. My principal responsibilities included supervising audit and consulting services to clients in the public utility (including Union Electric) and manufacturing industries, among others. In addition, I was a member of Price Waterhouse's National Public Utilities Industry Services Group. In that capacity, I consulted on various accounting and regulatory matters, as well as assisted in the preparation of expert witness testimony in various rate cases, principally for the Illinois Commerce Commission. I also developed Price Waterhouse's financial statement disclosure and content guide for public utilities, and authored various sections of Price Waterhouse's annual Survey of Financial Reporting and Industry Developments for the public utility industry. From 1993 to 1995, I worked in Price Waterhouse's national office in New York in the Accounting and SEC Services Department. My responsibilities included researching and providing technical accounting, reporting and auditing guidance to Price Waterhouse partners and managers, as well as clients. In addition, I assisted in formulating firm-wide accounting positions, including those related to the public utilities industry. I was also responsible for monitoring the activities of various accounting standard setting bodies, including the Securities and Exchange Commission, Financial Accounting Standards Board, and Emerging Issues Task Force.

Purpose of Testimony

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

A. The purpose of my testimony is to discuss certain accounting matters and the expected income tax treatment related to the proposed merger of Union Electric and CIPSCO and the formation of Ameren Corporation (Ameren).

Proposed Accounting Treatment for the Merger

Q. Please describe the relevant accounting pronouncements under generally accepted accounting principles in the United States (GAAP) for business combinations.

A. The authoritative accounting pronouncement for business combinations is Accounting Principles Board Opinion No. 16 - Business Combinations (APB 16). Under APB 16, two methods of accounting for business combinations are acceptable, although not as alternatives in accounting for the same business combination. They are the pooling of interests method and the purchase method. A business combination which meets specified conditions requires accounting by the pooling of interests method. If all of the criteria are not met, then the business combination must be accounted for using the purchase method. I have attached, as Schedule 1, the pertinent portions of APB 16, which sets forth the criteria which must be met for using the pooling of interests method.

Q. Please describe the main differences between the pooling of interests and purchase methods of accounting.

A. A pooling of interests is the uniting of the ownership interests of two or more companies by an exchange of equity securities. Ownership interests continue and the former bases of accounting (i.e. historical cost) for the recorded assets and liabilities of the combining companies are retained and carried forward to the combined corporation. The results of operations of the combined corporation includes the results of the combining companies for the entire period in which the combination occurs (excluding intercompany transactions) and prior period results of operations are restated as the results of the combined corporation. As a result, historical financial statements of the combining companies are, in essence, simply added together as though the two companies always had been commonly owned.

Under the purchase method of accounting, the acquiring company records as its cost (i.e. its purchase price) the acquired assets less liabilities assumed. The difference between the price paid for the acquired company and the sum of the fair values of tangible and identifiable intangible assets less liabilities is then recorded as goodwill. The reported income of the combined company includes the results of operations (excluding intercompany transactions) of the acquired company only after the date of acquisition.

Q. Which accounting method will be followed for the merger between Union Electric and CIPSCO for financial and regulatory reporting purposes?

A. The terms of the transaction meet the specified conditions for the pooling of interests method. Therefore, the pooling of interests method will be followed for financial reporting purposes. The receipt by Union Electric and CIPSCO of a letter from their respective independent accountants stating that the merger will qualify for the pooling of interests method is a condition precedent to the consummation of the merger. For regulatory purposes, the recorded assets and liabilities of Union Electric and CIPSCO will be carried over at the recorded amounts stated in their respective balance sheets immediately preceding the merger, which is consistent with the pooling of interests method of accounting.

Accounting Policies and Procedures

Q. Please describe the accounting policies and procedures that will be used following the merger.

A. Following the merger, both Union Electric and Central Illinois Public Service Company (CIPS) will retain their status as independent operating companies, each of which will continue to follow the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts. Ameren and each of its subsidiaries will maintain its own set of books, accounts, and records in accordance with GAAP. An Accounting Transition Team, of which I am a member, has been formed to review and make recommendations concerning accounting matters, including specific accounting policies, procedures, systems, records, and controls. However, no changes in accounting policies are anticipated that will have a significant effect on utility revenues, jurisdictional cost of service, or rate base items. Union Electric and CIPS will continue to file separate FERC Form 1 reports and any other required state regulatory reports.

Q. What controls will be in place to assure that costs are fairly and reasonably allocated among the appropriate companies and that there will be no subsidization of one company by another?

A. First, and as stated previously, each of Ameren's subsidiaries will be independent operating companies. As a result, the majority of the assets, liabilities, revenues, and expenses will be clearly identifiable to one of the operating subsidiaries and will be accounted for accordingly. In addition, each company will have a separate set of books, accounts and records. As a result, existing accounting policies, procedures, and controls at Union Electric and CIPS will aid in the prevention of subsidization among the affiliated companies.

While the majority of the companies' assets, liabilities, revenues, and expenses will be clearly identifiable to one of the companies and accounted for as such, others will not. This is primarily due to the fact that certain duplicative functions and corporate activities in the finance, accounting, and information systems areas, among others, at Union Electric and CIPS will be consolidated in order to achieve the expected synergies and related savings created from the combination. Mr. Flaherty discusses these savings in more detail in his testimony. As a result, certain activities will be performed by one affiliate on behalf of one or more other affiliates. The Transition Task Force is currently studying potential arrangements for consolidation of duplicative functions. A General Services Agreement has been prepared, which sets forth general principles designed to prevent subsidization among affiliated companies. These general principles provide the foundation for a mechanism for intercompany billing for services and goods provided by one affiliate for another. A copy of this agreement is contained in Mr. Rainwater's testimony.

We have also addressed the issue of subsidization as it relates to the transfer of certain utility assets from Union Electric to CIPS (as discussed in more detail later in my testimony) by establishing a separate System Support Agreement between Union Electric and CIPS. Mr. Rainwater's testimony addresses how the provisions of this agreement, coupled with principles set forth in the General Services Agreement, ensure that Missouri customers will not subsidize non-Missouri operations as a result of these transactions.

In addition, we have addressed the issue of subsidization as it relates to the joint dispatching of Union Electric's and CIPS' power systems by establishing a Joint Dispatch Agreement between Union Electric and CIPS. Ms. Maureen Borkowski discusses this agreement in her testimony. In addition, Ms. Borkowski addresses how the provisions of this agreement ensure that Missouri customers will not subsidize non-Missouri operations due to the joint dispatching of power.

Q. What are the principles set forth in the General Services Agreement for determining billings among each of the affiliated companies?

A. Billings for services rendered will be based on the cost of the service performed. The Accounting Transition Team is currently studying the methodologies which will need to be employed to determine the cost of the services rendered; however, any methodology ultimately utilized will ensure that cost is determined on a fair and equitable basis.

Q. How will billings under the Joint Dispatch Agreement be determined?

A. Ms. Borkowski addresses this issue in her testimony.

Q. Do you expect the current methodology for allocating costs between electric, gas, and FERC ratepayers to change as a result of the merger and the related transfer of certain utility assets from Union Electric to CIPS?

A. No, I do not.

Accounting for the Costs of the Merger

Q. What are the estimated transaction costs associated with the merger?

A. These costs are estimated to be approximately $41 million.

Q. What do these costs consist of?

A. The costs consist of pre-merger transaction costs of approximately $22 million, and costs to achieve the merger savings (costs to achieve) of approximately $19 million. Generally, these costs relate to fees for financial advisors, legal counsel, accountants, and consultants, as well as printing costs and filing fees. Mr. Rainwater testifies, in more detail, as to the composition of these costs.

Q. For financial reporting purposes, how will these costs be allocated between Union Electric and CIPSCO?

A. With regard to the pre-merger transaction costs, generally all costs incurred in connection with the merger will be recorded by the company incurring such costs, except that costs incurred in connection with printing and filing the joint proxy statement/prospectus will be shared equally by Union Electric and CIPSCO. With regard to the costs to achieve, I anticipate that many of the costs will be fully reflected on the books of the company incurring the costs. I also anticipate that those costs which must be allocated will be allocated substantially in the proportions in which savings are projected to flow to the two companies. Mr. Rainwater addresses the anticipated flow of savings in his testimony.

Q. How will Union Electric treat these costs for financial reporting purposes?

A. All merger-related costs will be expensed as incurred for financial reporting purposes, pending regulatory treatment; however, these expenses will not be treated as an operating expense. Instead, they will be segregated and recorded as a non-operating expense.

Q. How does Union Electric propose treating these costs for regulatory purposes during the remaining term of Union Electric's 1995 incentive/sharing rate agreement?

A. For regulatory purposes, Union Electric proposes that these costs, as well as the merger premium and one-half of the merger related net savings, as discussed in Mr. Rainwater's testimony, be accumulated and amortized over the period from 1997-2006. In his testimony, Mr. Rainwater discusses how the merger transaction costs, merger premium, and the net merger savings will be amortized and allocated to future years' cost of service, as well as how these items will be allocated between regulatory jurisdictions. The amortized amounts will be added to depreciation and amortization expense in the annual "Earnings Report" for the twelve months ending June 30 submitted to the Commission.

Q. Based on the schedules presented by Mr. Rainwater in his testimony, can you state what costs will be added to depreciation and amortization expense in the annual "Earnings Report" submitted to the Commission for the twelve months ending June 30, 1997, and June 30, 1998?

A. Yes. Schedule 10 of Mr. Rainwater's testimony presents the amortization and allocation of the total merger investment and one-half of the net merger savings to cost of service by jurisdiction for the period 1997-2006. The amounts proposed to be included in Union Electric's retail electric cost of service for 1997 and 1998 are $16.4 million and $17.3 million, respectively. However, Union Electric will not add these amounts to depreciation and amortization expense in its "Earnings Report" for the twelve months ending June 30, 1997, and June 30, 1998, respectively. This is because Schedule 10 to Mr. Rainwater's testimony reflects an annualized amortization and allocation of the total merger investment and one-half of the net merger savings to cost of service, and assuming that the merger is consummated at the end of 1996, the cost of service amounts added to depreciation and amortization expense for the twelve months ending June 30, 1997, and June 30, 1998, must be modified. Instead, Union Electric will add approximately $8.2 million (one-half of the $16.4 million amount reflected in Schedule 10 for 1997) to depreciation and amortization expense in the "Earnings Report" for the twelve months ending June 30, 1997, and $16.8 million (the remaining $8.2 million balance related to 1997 plus one-half of the $17.3 million amount reflected in Schedule 10 for 1998) for the twelve months ending June 30, 1998. Amortizing and allocating the merger investment and one-half of the net merger savings to cost of service in this manner is a reasonable approach to recognize the differences in time periods between the "Earnings Report" and Schedule 10 to Mr. Rainwater's testimony.

Q. If Union Electric's incentive/sharing rate agreement were extended beyond July 1998, how would you propose treating merger cost recovery during the extension period?

A. In exactly the same manner as I have described for 1998. For example, in the "Earnings Report" for the twelve months ending June 30, 1999, Union Electric would add $18.7

million to depreciation and amortization expense (the remaining $8.7 million balance related to 1998 plus one-half of the $20.1 million amount reflected in Schedule 10 for 1999) and so on.

Q. How does Union Electric propose treating these costs for regulatory purposes if and when the incentive/sharing rate agreement terminates?

A. In any given rate case test year, the appropriate amount shown in Schedule 10 to Mr. Rainwater's testimony would be added to depreciation and amortization expense and be included in cost of service.

Net Merger Savings

Q. In his testimony, Mr. Rainwater states that approximately $590 million of gross merger savings will be realized from the merger, a portion of which will effectively lower rate payers' cost-of-service. What controls, policies, and procedures will be established to assure that the projected net merger savings estimated are ultimately realized?

A. As reflected in Schedule 8 to Mr. Rainwater's testimony, the net savings consist of gross savings achieved less costs to achieve these savings, pre-merger transaction costs, and the merger premium. I will address each of these items separately.

With regard to the gross savings achieved, Union Electric and CIPSCO engaged Mr. Thomas Flaherty, the National Partner for Deloitte & Touche Consulting Group, a division of Deloitte & Touche LLP, and the utility industry's leading expert on synergy assessment. Together, Mr. Flaherty and management from Union Electric and CIPSCO performed extensive analyses and identified by area and by year, the expected overall cost savings which are expected to be achieved as a result of the merger. Because of the extensive analyses performed to date, the inherent difficulties in tracking and documenting merger savings, combined with the fact that expected merger savings will exceed the amortized merger investment by 37% in the first ten years following the merger, as discussed in Mr. Rainwater's testimony, I do not believe it is necessary, nor would it be cost effective, to establish extensive accounting policies and procedures to identify, segregate, and track the expected savings. Instead, on an annual basis, we will review the savings which we expect to achieve and monitor the changes in business processes to see if they are consistent with the changes in processes required to achieve the projected savings.

With regard to the costs to achieve, pre-merger transaction costs, and the merger premium, separate accounting records will be established. The projected pre-merger transaction costs have been identified, as shown in Schedule 7 to Mr. Rainwater's testimony, and are currently being segregated and monitored for accounting purposes. With regard to the costs to achieve, the nature of these costs has already been identified as well (see Schedule 7 in Mr. Rainwater's testimony) and are discussed in more detail in Mr. Flaherty's testimony. These costs will also be segregated for accounting purposes and monitored. Finally, with regard to the merger premium, this is a one-time cost that will be incurred upon consummation of the merger. Consistent with the pre-merger transaction costs and costs to achieve, this cost will be segregated for accounting purposes as well. Schedule 6 of Mr. Rainwater's testimony shows how the premium was calculated.

Transfer of Assets

Q. Will any utility assets be transferred between Union Electric and CIPS?

A. Yes, Union Electric will transfer its Illinois retail electric and gas business and related facilitates to CIPS coincident with the effective date of the merger. This transfer will not include Union Electric's electric transmission and generating assets located in Illinois. These assets will be transferred tax-free and at their existing bases of accounting (i.e. book value). Schedule 4 in Mr. Rainwater's testimony reflects the assets to be transferred.

Q. Have you prepared or has there been prepared under your direction and supervision a series of schedules related to the transfer of these assets for presentation to the Commission in this proceeding?

A. Yes. I am sponsoring Schedules 2, 3 and 4.

Q. In general, what is the subject matter of Schedules 2, 3 and 4?

A. Schedules 2 and 3 are financial statements of Union Electric as of and for the twelve months ended June 30, 1995, on both an actual and pro forma basis reflecting the financial position and results of operations of Union Electric after the transfer of the Illinois properties. Schedule 4 is a listing of the accounting entries necessary for recording this transfer.

Q. Specifically describe Schedule 2.

A. Schedule 2 is a Balance Sheet for Union Electric at June 30, 1995, and as adjusted to reflect the pro forma adjusting entries to record the transfer.

Q. Specifically describe Schedule 3.

A. Schedule 3 is a Statement of Income for Union Electric for the twelve months ended June 30, 1995, and as adjusted to reflect the pro forma adjusting entries to record the effects on income resulting from the transfer.

Q. Specifically describe Schedule 4.

A. Schedule 4 details the pro forma adjusting entries required to reflect the transfer of the Illinois properties to CIPS as of and for the twelve months ended June 30, 1995.

Q. Please explain the pro forma adjusting entries shown on Schedule 4.

A. Entry A records the transfer of Electric Plant in Service of $125.0 million, Gas Plant in Service of $21.1 million, Construction Work in Progress of $1.7 million, and the related Accumulated Provision for Depreciation of $81.2 million to CIPS.

Entry B records the transfer of Accumulated Deferred Income Taxes of $12.6 million related to the transferred electric and gas properties to CIPS.

Entry C records the transfer of plant materials and operating supplies of $1.4 million to CIPS.

Entry D reflects the estimated loss of electric revenues of $155.2 million and gas revenues of $9.7 million associated with the transfer of Illinois customers to CIPS.

Entry E reflects the estimated revenues of $119.8 million to be realized under the new System Support Agreement with CIPS.

Entry F reflects the elimination of estimated operations and maintenance expenses of $22.1 million, depreciation of $5.6 million, taxes other than income taxes of $9.1 million, and income taxes of $4.1 million resulting from the transfer of electric and gas properties, as well as Illinois customers to CIPS.

Entry G reflects the effects on cash and short-term borrowings of $9.9 million due to the transfer of Illinois properties and customers to CIPS.

Entry H reflects the estimated net effect on retained earnings of the pro-forma income statement adjustments shown on Schedule 3.

Q. Please describe any impact on property taxes resulting from this transaction.

A. Since none of the assets to be transferred are located within the state of Missouri, this transaction will have no impact on the tax revenues of the political subdivisions in Missouri in which any of Union Electric's structures, facilities, or equipment are located.

Q. Will the transfer of certain Illinois assets from Union Electric to CIPS affect the ability of Ameren to use the pooling of interests method?

A. No, it will not.

Tax Treatment of the Merger

Q. What is the expected tax treatment for the merger?

A. The merger will be treated as a tax-free reorganization under the Internal Revenue Code (Code). As a result, no gain or loss will be recognized by any of the entities pursuant to the merger for federal income tax purposes. The receipt of a letter by Union Electric and CIPSCO from their respective tax counsel stating that the merger will be treated as a tax-free reorganization under the Code is a condition precedent to the consummation of the merger

Q. Are the merger transaction costs discussed previously in your testimony deductible for federal income tax purposes?

A. No, they are not.

Q. Does this conclude your direct testimony?

A. Yes, it does.

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accounting are described in paragraphs 45 to 48, and combinations involving all of those conditions should be accounted for as described in paragraphs 50 to 65. All other business combinations should be treated as the acquisition of one company by another and accounted for by the purchase method as described in paragraphs 66 to 96.

Conditions for Pooling of Interests Method

45. The pooling of interests method of accounting is intended to present as a single interest two or more common stockholder interests which were previously independent and the combined rights and risks represented by those interests. That method shows that stockholder groups neither withdraw nor invest assets but in effect exchange voting common stock in a ratio that determines their respective interests in the combined corporation. Some business combinations have those features. A business combination which meets *all* of the conditions specified and explained in paragraphs 46 to 48 should be accounted for by the pooling of interests method. The conditions are classified by (1) attributes of the combining companies, (2) manner of combining interests, and (3) absence of planned transactions.

46. *Combining companies.* Certain attributes of combining companies indicate that independent ownership interests are combined in their entirety to continue previously separate operations. Combining virtually all of existing common stock interests avoids combining only selected assets, operations, or ownership interests, any of which is more akin to disposing of and acquiring interests than to sharing risks and rights. It also avoids combining interests that are already related by substantial intercorporate investments.

The two conditions in this paragraph define essential attributes of combining companies.

a. Each of the combining companies is autonomous and has not been a subsidiary or division of another corporation within two years before the plan of combination is initiated.

A plan of combination is initiated on the earlier of (1) the date that the major terms of a plan, including the ratio of exchange of stock, are announced publicly or otherwise formally made known to the stockholders of any one of the combining companies or (2) the date that stockholders of a combining company are notified in writing of an exchange offer. Therefore, a plan of combination is often initiated even though consummation is subject to the approval of stockholders and others.

A new company incorporated within the preceding two years meets this condition unless the company is successor to a part of a company or to a company that is otherwise not autonomous for this condition. A wholly owned subsidiary company which distributes voting common stock of its parent corporation to effect the combination is also considered an autonomous company provided the parent corporation would have met all conditions in paragraphs 46 to 48 had the parent corporation issued its stock directly to effect the combination.

Divestiture of assets to comply with an order of a governmental authority or judicial body results in an exception to the terms of this condition. Either a subsidiary divested under an order or a new company which acquires assets disposed of under an order is therefore autonomous for this condition.

b. Each of the combining companies is independent of the other combining companies.

This condition means that at the dates the plan of combination is initiated and consummated the combining companies hold as intercorporate investments no more than 10 percent in total of the outstanding voting common stock of any combining company.[4] For the percentage computation, intercorporate investments exclude voting common stock that is acquired after the date the plan of combination is initiated in exchange for the voting common stock issued to effect the combination. Investments of 10 percent or less are explained in paragraph 47-b.

47. *Combining of interests.* The combining of existing voting common stock interests by the exchange of stock is the essence of a business combination accounted for by the pooling of interests method. The separate stockholder interests lose their identities and all share mutually in the combined risks and rights. Exchanges of common stock that alter relative voting rights, that result in preferential claims to distributions of profits or assets for some common stockholder groups, or that leave significant minority interests in combining companies are incompatible with the idea of mutual sharing. Similarly, acquisitions of common stock for assets or debt, reacquisitions of outstanding stock for the purpose of exchanging it in a business combination, and other transactions that reduce the common stock interests are contrary to the idea of combining existing stockholder interests. The seven conditions in this paragraph relate to the exchange to effect the combination.

a. The combination is effected in a single transac-

[4] An exception for common stock held on October 31, 1970 is explained in paragraph 99.

tion or is completed in accordance with a specific plan within one year after the plan is initiated.

Altering the terms of exchange of stock constitutes initiation of a new plan of combination unless earlier exchanges of stock are adjusted to the new terms.[5]

A business combination completed in more than one year from the date the plan is initiated meets this condition if the delay is beyond the control of the combining companies because proceedings of a governmental authority or litigation prevents completing the combination.

b. A corporation offers and issues only common stock with rights identical to those of the majority of its outstanding voting common stock[6] in exchange for substantially all of the voting common stock interest of another company at the date the plan of combination is consummated.

The plan to issue voting common stock in exchange for voting common stock may include, within limits, provisions to distribute cash or other consideration for fractional shares, for shares held by dissenting stockholders, and the like but may not include a pro rata distribution of cash or other consideration.

Substantially all of the voting common stock means 90 percent or more for this condition. That is, after the date the plan of combination is initiated, one of the combining companies (issuing corporation) issues voting common stock in exchange for at least 90 percent of the voting common stock of another combining company that is outstanding at the date the combination is consummated. The number of shares exchanged therefore excludes those shares of the combining company (1) acquired before and held by the issuing corporation and its subsidiaries at the date the plan of combination is initiated, regardless of the form of consideration,[7] (2) acquired by the issuing corporation and its subsidiaries after the date the plan of combination is initiated other than by issuing its own voting common stock, and (3) outstanding after the date the combination is consummated.

An investment in stock of the issuing corporation held by a combining company may prevent a combination from meeting this condition even though the investment of the combining company is not more than 10 percent of the outstanding stock of the issuing corporation (paragraph 46-b). An investment in stock of the issuing corporation by another combining company is the same in a mutual exchange as an investment by the issuing corporation in stock of the other combining company—the choice of issuing corporation is essentially a matter of convenience. An investment in stock of the issuing corporation must be expressed as an equivalent number of shares of the investor combining company because the measure of percent of shares exchanged is in terms of shares of stock of the investor company. An investment in 10 percent or less of the outstanding voting common stock of the issuing corporation affects the measure of percent of shares exchanged in the combination as follows:

> The number of shares of voting common stock of the issuing corporation held by the investor combining company at the date the plan is initiated plus shares it acquired after that date are restated as an equivalent number of shares of voting common stock of the investor combining company based on the ratio of exchange of stock in the combination.
>
> The equivalent number of shares is deducted from the number of shares of voting common stock of the investor combining company exchanged for voting common stock of the issuing corporation as part of the plan of combination.
>
> The reduced number of shares is considered the number exchanged and is compared with 90 percent of the outstanding voting common stock of the investor combining company at the date the plan is consummated to determine whether the terms of condition 47-b are met.

Since the number of shares of voting common stock exchanged is reduced for an intercorporate investment in voting common stock of the issuing corporation, the terms of condition 47-b may not be met even though 90 percent or more of the outstanding common stock of a combining company is exchanged to effect a combination.

A combination of more than two companies is evaluated essentially the same as a combination of two companies. The percent of voting common stock exchanged is measured separately for each combining company, and condition 47-b is met if 90 percent

[5] However, an adjustment after the effective date of this Opinion in the terms of exchange in a plan of combination initiated before and consummated after the effective date always constitutes initiation of a new plan. The one year specified in this condition is measured, therefore, from the date of adjustment of terms and all other conditions are evaluated for the new plan. (Paragraph 97 describes the application of this Opinion to a plan of combination initiated before the effective date of this Opinion and consummated later in accordance with the terms of exchange prevailing on the effective date.)

[6] A class of stock that has voting control of a corporation is the majority class.

[7] An exception for common stock held on October 31, 1970 is explained in paragraph 99.

Schedule 1
Page 2 of 4

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new plan. (Paragraph 97 describes the
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or more of the voting common stock of each of the several combining companies is exchanged for voting common stock of the issuing corporation. The number of shares exchanged *for stock of the issuing* corporation includes only shares exchanged by stockholders *other than the several* combining companies themselves. Thus, intercorporate investments in combining companies are included in the number of shares of stock outstanding but are excluded from the number of shares of stock exchanged to effect the combination.

A new corporation formed to issue its stock to effect the combination of two or more companies meets condition 47-b if (1) the number of shares of each company exchanged to effect the combination is not less than 90 percent of its voting common stock outstanding at the date the combination is consummated and (2) condition 47-b would have been met had any one of the combining companies issued its stock to effect the combination on essentially the same basis.

Condition 47-b relates to issuing common stock for the common stock interests in another company. Hence, a corporation issuing stock to effect the combination may assume the debt securities of the other company or may exchange substantially identical securities or voting common stock for other outstanding equity and debt securities of the other combining company. An issuing corporation may also distribute cash to holders of debt and equity securities that either are callable or redeemable and may retire those securities. However, the issuing corporation may exchange only voting common stock for outstanding equity and debt securities of the other combining company that have been issued in exchange for voting common stock of that company during a period beginning two years preceding the date the combination is initiated.

A transfer of the net assets of a combining company to effect a business combination satisfies condition 47-b provided all net assets of the company at the date the plan is consummated are transferred in exchange for stock of the issuing corporation. However, the combining company may retain temporarily cash, receivables, or marketable securities to settle liabilities, contingencies, or items in dispute if the plan provides that the assets remaining after settlement are to be transferred to the corporation issuing the stock to effect the combination. Only voting common stock may be issued to effect the combination unless both voting common stock and other stock of the other combining company are outstanding at the date the plan is consummated. The combination may then be effected by issuing all voting common stock or by issuing voting common and other stock in the same proportions as the outstanding voting common and other stock of the other combining company. An investment in 10 percent or less of the outstanding voting common stock of a combining company held by another combining company requires special computations to evaluate condition 47-b. The computations and comparisons are in terms of the voting common stock of the issuing corporation and involve:

> *Stock issued for common stock interest.* The total number of shares of voting common stock issued for all of the assets[8] is divided between those applicable to outstanding voting common stock and those applicable to other outstanding stock, if any, of the combining company which transfers assets (transferor company).
>
> *Reduction for intercorporate investments.* The number of issued shares of voting common stock applicable to the voting common stock interests of the transferor combining company is reduced by the sum of (1) the number of shares of voting common stock of the issuing corporation held by the transferor combining company at the date the plan of combination is initiated plus shares it acquired after that date and (2) the number of shares of voting common stock of the transferor combining company held by the issuing corporation at the date the plan of combination is initiated plus shares it acquired after that date. The shares of the transferor combining company are restated as the equivalent number of shares of voting common stock of the issuing corporation for this purpose. Restatement is based on the ratio of the number of shares of voting common stock of the transferor combining company which are outstanding at the date the plan is consummated to the number of issued shares of voting common stock applicable to the voting common stock interests.

Comparison with 90 percent. The reduced number of shares of stock issued is compared with 90 percent of the issued number of shares of voting common stock applicable to voting common stock interests to determine if the transfer of assets meets the terms of condition 47-b.

c. None of the combining companies changes the equity interest of the voting common stock in contemplation of effecting the combination either within two years before the plan of combination is initiated or between the dates the combination is initiated and consummated; changes in contemplation of effecting the combination may include distributions to stockholders and additional issuances, exchanges, and retirements of securities.

[8]Including (for this computation) stock of the issuing corporation held by the transferor combining company.

Distributions to stockholders which are no greater than normal dividends are not changes for this condition. Normality of dividends is determined in relation to earnings during the period and to the previous dividend policy and record. Dividend distributions on stock of a combining company that are equivalent to normal dividends on the stock to be issued in exchange in the combination are considered normal for this condition.

d. Each of the combining companies reacquires shares of voting common stock only for purposes other than business combinations, and no company reacquires more than a normal number of shares between the dates the plan of combination is initiated and consummated.

Treasury stock acquired for purposes other than business combinations includes shares for stock option and compensation plans and other recurring distributions provided a systematic pattern of reacquisitions is established at least two years before the plan of combination is initiated. A systematic pattern of reacquisitions may be established for less than two years if it coincides with the adoption of a new stock option or compensation plan. The normal number of shares of voting common stock reacquired is determined by the pattern of reacquisitions of stock before the plan of combination is initiated.

Acquisitions by other combining companies of voting common stock of the issuing corporation after the date the plan of combination is initiated are essentially the same as if the issuing corporation reacquired its own common stock.

e. The ratio of the interest of an individual common stockholder to those of other common stockholders in a combining company remains the same as a result of the exchange of stock to effect the combination.

This condition means that each individual common stockholder who exchanges his stock receives a voting common stock interest exactly in proportion to his relative voting common stock interest before the combination is effected. Thus no common stockholder is denied or surrenders his potential share of a voting common stock interest in a combined corporation.

f. The voting rights to which the common stock ownership interests in the resulting combined corporation are entitled are exercisable by the stockholders; the stockholders are neither deprived of nor restricted in exercising those rights for a period.

This condition is not met, for example, if shares of common stock issued to effect the combination are transferred to a voting trust.

g. The combination is resolved at the date the plan is consummated and no provisions of the plan relating to the issue of securities or other consideration are pending.

This condition means that (1) the combined corporation does not agree to contingently issue additional shares of stock or distribute other consideration at a later date to the former stockholders of a combining company or (2) the combined corporation does not issue or distribute to an escrow agent common stock or other consideration which is to be either transferred to common stockholders or returned to the corporation at the time the contingency is resolved.

An agreement may provide, however, that the number of shares of common stock issued to effect the combination may be revised for the later settlement of a contingency at a different amount than that recorded by a combining company.

48. *Absence of planned transactions.* Some transactions after a combination is consummated are inconsistent with the combining of entire existing interests of common stockholders. Including those transactions in the negotiations and terms of the combination, either explicitly or by intent, counteracts the effect of combining stockholder interests. The three conditions in this paragraph relate to certain future transactions.

a. The combined corporation does not agree directly or indirectly to retire or reacquire all or part of the common stock issued to effect the combination.
b. The combined corporation does not enter into other financial arrangements for the benefit of the former stockholders of a combining company, such as a guaranty of loans secured by stock issued in the combination, which in effect negates the exchange of equity securities.
c. The combined corporation does not intend or plan to dispose of a significant part of the assets of the combining companies within two years after the combination other than disposals in the ordinary course of business of the formerly separate companies and to eliminate duplicate facilities or excess capacity.

Subsidiary Corporation

49. Dissolution of a combining company is not a condition for applying the pooling of interests method of accounting for a business combination. One or more combining companies may be subsidiaries of the issuing corporation after the combination is consummated if the other conditions are met.

Application of Pooling of Interests Method

50. A business combination which meets all of the

UNION ELECTRIC COMPANY
BALANCE SHEET
June 30, 1995
(Thousands of Dollars)

ASSETS	Per Books	Pro Forma Adjustments (See Sch. 4)		As Adjusted
PROPERTY AND PLANT:				
Utility Properties				
Tangible, at original cost				
Electric	$ 7,850,625	$ (126,574)	(A)	$ 7,724,051
Gas	167,376	(21,181)	(A)	146,195
Other	982			982
Nuclear fuel	176,119			176,119
Miscellaneous intangible at original cost	162			162
Total utility properties	8,195,264	(147,755)		8,047,509
Less accumulated depreciation and amortization	2,802,665	(81,228)	(A)	2,715,836
		(5,601)	(F)	
Total utility properties, net	5,392,599	(60,926)		5,331,673
Non-utility property, at cost, net of accumulated depreciation of $536	1,520			1,520
Total property and plant, net	5,394,119	(60,926)		5,333,193
DEFERRED CHARGES AND OTHER ASSETS:				
Unamortized debt expense	11,665			11,665
Nuclear decommissioning trust fund	64,342			64,342
Other	59,659			59,659
Total deferred charges and other assets	135,666	-		135,666
REGULATORY ASSET:				
Deferred income taxes	720,995			720,995
CURRENT ASSETS:				
Cash and special deposits	3,679	(164,909)	(D)	3,679
		119,832	(E)	
		35,205	(F)	
		9,872	(G)	
Environmental bond trust fund	647			647
Accounts receivable - trade	178,207			178,207
Less allowance for doubtful accounts	(6,239)			(6,239)
Unbilled Revenue	110,103			110,103
Other accounts and notes receivable	17,099			17,099
Materials and supplies, at average cost - Fossil fuel	42,460	(911)	(C)	41,549
- Gas stored underground	8,645	(141)	(C)	8,504
Construction and maintenance	94,073	(362)	(C)	93,711
Other	15,237			15,237
Total current assets	463,911	(1,414)		462,497
TOTAL ASSETS	$ 6,714,691	$ (62,340)		$ 6,652,351

CAPITALIZATION AND LIABILITIES	Per Books	Pro Forma Adjustments (See Sch. 4)		As Adjusted
CAPITALIZATION:				
Common stock, $5 par value, authorized 150,000,000 shares - outstanding 102,123,834 shares (excluding 42,990 at par value in treasury)	$ 510,619	$		$ 510,619
Other paid-in capital, principally premium on common stock	717,669			717,669
Retained earnings	1,023,809	(66,527)	(A)	964,153
		12,556	(B)	
		(1,414)	(C)	
		(4,271)	(H)	
Total common stockholders' equity	2,252,097	(59,656)		2,192,441
Preferred stock not subject to mandatory redemption	218,497			218,497
Preferred stock subject to mandatory redemption	650			650
Long-term debt	1,861,835			1,861,835
Unamortized (discount) and premium on debt	(9,857)			(9,857)
Total long-term debt	1,851,978	-		1,851,978
Total capitalization	4,323,222	(59,656)		4,263,566
ACCUMULATED DEFERRED TAXES ON INCOME	1,368,260	(10,761)	(B)	1,357,499
ACCUMULATED DEFERRED INVESTMENT TAX CREDIT	169,611	(1,795)	(B)	167,816
REGULATORY LIABILITY	222,546			222,546
ACCUMULATED PROVISION FOR NUCLEAR DECOMMISSIONING	66,015			66,015
OTHER DEFERRED CREDITS	152,666			152,666
CURRENT LIABILITIES:				
Current maturity on long-term debt	65,181			65,181
Accounts payable	72,680			72,680
Wages payable	33,357			33,357
Bank loans	25,400	9,872	(G)	35,272
Taxes accrued	101,600			101,600
Interest accrued	48,244			48,244
Dividends declared	3,301			3,301
Other	62,608			62,608
Total current liabilities	412,371	9,872		422,243
TOTAL CAPITALIZATION AND LIABILITIES	$ 6,714,691	$ (62,340)		$ 6,652,351

This balance sheet reflects the accepted accounting practices of the Company. It does not include the notes usually accompanying the published financial statements of the Company. However, this balance sheet reflects all adjustments which are, in the opinion of management, necessary to a fair statement of financial position as of June 30, 1995 and should be considered in conjunction with the notes to financial statements included in the Company's annual report to the Commission

UNION ELECTRIC COMPANY
STATEMENT OF INCOME
Year Ended June 30, 1995
(Thousands of Dollars)

	Per Books	Pro Forma Adjustments (See Sch. 4)		As Adjusted
OPERATING REVENUES:				
Electric	$ 1,959,548	$ (155,228)	(D)	$ 1,924,152
		119,832	(E)	
Gas	84,969	(9,681)	(D)	75,288
Steam	445			445
Total operating revenues	2,044,962	(45,077)		1,999,885
OPERATING EXPENSES:				
Operations				
Fuel and purchased power	388,099	(6,097)	(F)	382,002
Other	372,613	(8,551)	(F)	364,062
Total operations	760,712	(14,648)		746,064
Maintenance	218,341	(7,428)	(F)	210,913
Depreciation and nuclear decommissioning	230,450	(5,601)	(F)	224,849
Current income taxes	217,414	(4,062)	(F)	213,352
Deferred income taxes - net	(18,739)			(18,739)
Deferred investment tax credit - net	(6,182)			(6,182)
Taxes other than income taxes	211,271	(9,067)	(F)	202,204
Total operating expenses	1,613,267	(40,806)		1,572,461
NET OPERATING INCOME	431,695	(4,271)		427,424
OTHER INCOME AND (DEDUCTIONS):				
Allowance for equity funds used during construction	5,539			5,539
Miscellaneous - net	(1,162)			(1,162)
Net other income and (deductions)	4,377	-		4,377
INCOME BEFORE INTEREST CHARGES	436,072	(4,271)		431,801
INTEREST CHARGES:				
Interest and amortization of net expense on debt and loss on reacquired debt	143,000			143,000
Allowance for borrowed funds used during construction	(6,326)			(6,326)
Total interest charges - net	136,674	-		136,674
NET INCOME	299,398	(4,271)		295,127
PREFERRED STOCK DIVIDENDS	13,251			13,251
EARNINGS ON COMMON STOCK	$ 286,147	$ (4,271)	(H)	$ 281,876

This statement reflects the accepted accounting practices of the Company. It does not include the notes usually accompanying the published financial statements of the Company. However, this statement reflects all adjustments which are, in the opinion of management, necessary to a fair statement of results for the period and should be considered in conjunction with the notes to financial statements included in the Company's annual report to the Commission.

UNION ELECTRIC COMPANY

Pro Forma Adjusting Entries

As of and for the Twelve Months Ended June 30, 1995

(Thousands of Dollars)

	DEBIT	CREDIT
ENTRY A:		
Accumulated Provision for Depreciation	$ 81,228	
Electric Plant in Service		$ 124,970
Gas Plant in Service		21,073
Construction Work in Progress - Electric		1,604
- Gas		108
Retained Earnings	66,527	

To record the transfer of electric and gas property to CIPS, including construction work in progress and the related accumulated provision for depreciation.

	DEBIT	CREDIT
ENTRY B:		
Accumulated Deferred Investment Tax Credit	1,795	
Accumulated Deferred Taxes on Income	10,761	
Retained Earnings		12,556

To record the transfer of accumulated deferred income taxes related to the transferred electric and gas properties.

	DEBIT	CREDIT
ENTRY C:		
Retained Earnings	1,414	
Plant Materials and Operating Supplies		911
Fuel		141
Gas Stored Underground		362

To record the transfer of fuel and plant materials and operating supplies to CIPS.

UNION ELECTRIC COMPANY
Pro Forma Adjusting Entries
As of and for the Twelve Months Ended June 30, 1995
(Thousands of Dollars)

	DEBIT	CREDIT
ENTRY G:		
Cash	$ 9,872	
Bank Loans		$ 9,872

To record the estimated effect on short-term debt of the transfer of electric and gas properties and the Illinois Customers to CIPS.

	DEBIT	CREDIT
ENTRY H:		
Unappropriated Retained Earnings	4,271	
Balance Transferred from Income		4,271

To record the net effect on Retained Earnings resulting from entries D, E and F.