Exhibit No.:	
Issues:	**Financial Issues**
Witness:	**Donald E. Brandt**
Type of Exhibit:	**Direct Testimony**
Sponsoring Party:	**Union Electric Co.**
Case No.:	

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. EM-96-149

DIRECT TESTIMONY

OF

DONALD E. BRANDT

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 Service Company; and (3) in connection therewith, certain other related transactions.	)	Case No.__________

AFFIDAVIT OF DONALD E. BRANDT

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

Donald E. Brandt, being first duly sworn on his oath, states:

1. My name is Donald E. Brandt. I work in the City of St. Louis, Missouri, and I am the Senior Vice President - Finance & Corporate Services of Union Electric Company.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony consisting of pages 1 through 13, 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.

Donald E. Brandt

Subscribed and sworn to before me this 2nd day of November, 1995.

BARBARA LUNGWITZ
Notary Public — Notary Seal
STATE OF MISSOURI
City of St. Louis
My Commission Expires: September 2, 1999

Barbara Lungwitz
Notary Public

DIRECT TESTIMONY

OF

DONALD E. BRANDT

Q. Please state your name and address.

A. My name is Donald E. Brandt and my business address is 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. What is your position with Union Electric Company?

A. My title is Senior Vice President - Finance and Corporate Services. In this position, I serve as Union Electric's Chief Financial Officer, having responsibility for all financial aspects of the Company. The Controller's, Treasurer's, Engineering & Construction, and Environmental & Safety Functions are under my direction and supervision, as well as the Tax and Internal Audit Departments.

Q. Please describe your educational, professional and business experience.

A. I received a Bachelor of Science Degree in Business Administration from St. Louis University in 1975. In May, 1975, I joined the independent accounting firm, Price Waterhouse. I joined Union Electric Company in May 1983 and assumed the Controller's position effective July 1983. In this position, I served as the Company's Chief Accounting Officer with responsibility for General and Property Accounting, Budgeting, Tax and Internal Audit. I was elected Vice President of the Company in April 1985 and promoted to Senior Vice President -

Finance and Accounting in 1988. It was at this time in 1988 that I first became UE's Chief Financial Officer. I assumed my current position on July 1, 1993.

I am a certified public accountant and a member of the Missouri Society of Certified Public Accountants and the American Institute of Certified Public Accountants. Additionally, I am a member of the Financial Executives Institute and have previously served on the Accounting Management Committee of the Edison Electric Institute.

While with Price Waterhouse I specialized within the utility industry. I served on the Union Electric engagement in each of my years with Price Waterhouse. I also served in a management capacity on a wide variety of auditing, accounting and consulting engagements with other Price Waterhouse utility clients.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address the financial implications of the proposed merger between Union Electric Company (UE) and CIPSCO Incorporated (CIPSCO). This includes the post-merger ability to attract capital; capital structure; external financing requirements; credit ratings; effect on holders of bonds, preferred stock, and unsecured debt; and the effect of these financial issues on our utility customers. Under the merger proposal, UE, Central Illinois Public Service Company (CIPS), and CIPSCO Investment Company would be wholly owned subsidiaries of a new holding company formed by UE and CIPSCO, named Ameren Corporation ("Ameren").

Q. Upon consummation of the proposed merger, what will occur regarding current common stockholders of UE and CIPSCO?

A. Each share of UE common stock would be exchanged for one share of Ameren common stock, and each share of CIPSCO common stock would be exchanged for 1.03 shares of common stock in Ameren. If this exchange ratio for holders of CIPSCO common stock results in the ownership of fractional shares of Ameren, cash will be received for the fractional portion. This exchange of shares is expected to qualify as a tax-free exchange and to be accounted for as a pooling of interests.

The exchange ratios are perceived by both UE and CIPSCO as being fair to shareholders of both companies when viewed in terms of the resulting premium calculated to holders of CIPSCO common shares. Since each share of UE and CIPSCO is being exchanged for 1.0 and 1.03 shares of Ameren common stock, respectively, the net result is that holders of CIPSCO will receive a 23% premium on the value of their shares using closing prices on August 11, 1995 as the basis of the valuation calculation. The net effect is the same as if UE had paid the cash equivalent of a 23% premium for CIPSCO in effecting the merger, except for preferable tax consequences to the stockholders of both companies.

Q. Why was the premium perceived as fair by UE?

A. In making this assessment, UE relied significantly upon the opinion of its financial advisor, Goldman, Sachs & Co. UE selected Goldman, Sachs because the firm is an internationally recognized investment banking firm that has substantial experience in similar transactions and has extensive knowledge of UE and the industry in which it operates.

Goldman Sachs performed many analyses on behalf of UE, most prominent of which was an analysis of premiums paid in past electric mergers. Goldman Sachs reviewed and analyzed selected financial, operating, and stock market information relating to five merger transactions involving electric utility companies in which at least 60% of the resulting combined company's common equity was held by the stockholders of one of the companies participating in the transaction. These transactions were the acquisition of Savannah Electric and Power Company by the Southern Company; the acquisition of Gulf States Utilities Company by Entergy Corporation; the acquisition of Iowa Southern Inc. by IE Industries Inc.; the merger of Cincinnati Gas & Electric Company with PSI Resources, Inc.; and the merger of Washington Water Power Company with Sierra Pacific Resources. Using analyses based on multiples of earnings per share, gross cash flow, book value, and premium to market value, the range of implied CIPSCO exchange ratios was 0.92 to 1.21 with a midpoint of 1.07.

Q. What other financial analyses were performed which led to the resulting premium paid for CIPSCO?

A. On behalf of UE, Goldman Sachs reviewed, among other things, the Merger Agreement; Annual Reports to shareholders and Annual Reports on Form 10-K of UE and CIPSCO; interim reports to shareholders and Quarterly Reports on Form 10-Q of UE and CIPSCO; FERC Form 1 of UE and CIPS; other communications from UE and CIPSCO to their respective shareholders; and internal financial analyses and forecasts for UE and CIPSCO prepared by their respective managements. This included analyses and forecasts of certain operating efficiencies and financial synergies expected to be achieved as a result of the transactions contemplated by the Merger Agreement which were prepared jointly by the managements of UE and CIPSCO, with the assistance of a third party consultant, Deloitte and Touche. Goldman Sachs also held discussions with members of the senior management of UE and CIPSCO regarding the past and current business operations, financial condition and future prospects of their respective companies, and their analyses of the strategic benefits of the merger, including the amount and timing of realization of synergies.

In addition, Goldman Sachs reviewed the reported price and trading activity for UE and CIPSCO common stock, compared financial and stock market information for UE and CIPSCO with similar information for certain other companies, the securities of which are publicly traded, reviewed the financial terms of recent business combinations in the electric utility industry, and performed such other studies and analyses as Goldman Sachs considered appropriate such as discounted cash flow analyses and discounted dividend analyses.

Based upon the above analyses and Goldman Sachs' considerable expertise, UE was convinced that the resulting exchange ratio and market premium were fair to stockholders of both UE and CIPSCO.

Q. Will the proposed merger and transfer of Illinois jurisdictional distribution properties have any direct impact on the capital structure of UE and CIPS?

A. There will be only a minor change in the capital structure of UE and CIPS as a result of the transfer of UE's Illinois property to CIPS. The transfer will result in an approximate $60 million reduction in UE's common equity and a comparable increase to CIPS. Otherwise, the two operating companies will retain their existing long-term capital structures. The primary difference is that Ameren Corporation common stock will replace the common stock of UE and CIPSCO.

Q. Please describe the consolidated capital structure of Ameren

Corporation.

A. Schedule 1 shows the pro forma capital structure of Ameren as it would have existed on June 30, 1995 along with that of UE and CIPSCO. At that time, Ameren capitalization would have been 51.2% common equity, 5.3% preferred stock, and 43.5% long-term debt. This is little changed from UE's capital structure at that time of 52.1% common equity, 5.1% preferred stock, and 42.8% long-term debt.

In addition to the capital of UE and CIPS, Ameren also reflects the capitalization of CIPSCO Investment Company and Electric Energy, Inc. (EEI). CIPSCO Investment is currently a wholly-owned investment subsidiary of CIPSCO and is capitalized with $72 million of equity. This capital represents only 1.3% of the capitalization of Ameren. EEI is currently owned 40% by UE and 20% by CIPS. With the proposed merger, Ameren will effectively become majority owner of EEI, causing its capitalization to be included on the consolidated balance sheet net of minority interest, even though it has not been previously included with UE or CIPSCO. The amount of $130 million of EEI long-term debt included in Ameren's capital structure represents only 2.3% of total capital. Neither of these amounts has a material effect on the capitalization of Ameren.

Q. How will the merger affect the external financial requirements of UE?

positive. The following represents a sampling of quotes from well-regarded industry analysts:

"A merger of two high quality midwestern electric companies. Both are low-cost producers and have strong balance sheets. Earnings outlook enhanced by economies of scale and increased ability to market power via access to other utilities." Daniele Seitz, UBS Securities.

"The merger combines two competitively strong, low-cost electric producers. The proposed merger is a combination of two financially strong, contiguous utilities with highly compatible operations and managements. Both companies are already low cost producers and the merger is expected to enhance their low cost position ... In our view, the combination of UEP and CIPSCO should create an even more competitive company that appears to be very well situated to deal with the coming deregulation of the electric power industry." Barry Abramson, Prudential Securities.

"This merger is another in the industry trend towards combinations of utilities of comparable quality; the prospective cost savings are significant. This merger combines two relatively healthy, low cost producers, creating an entity that would appear more competitive by virtue of its scale and its business diversity ..." William Tilles and Robert Packer, Smith Barney.

"We believe the UEP/CIP merger makes sense as a potential combination of two well-managed, low-cost producers." Duff & Phelps, Marybeth McGirr Flater.

This strong endorsement from the financial community should allow Ameren to attract capital on favorable terms and keep its cost of capital below what it would have been in absence of the proposed merger. However, there were explicit statements that the favorable endorsement hinged upon an equitable sharing of savings between customers and investors.

Q. **What is the anticipated dividend policy of Ameren?**

A. I anticipate that Ameren will adopt UE's per share dividend. As of the fourth quarter of 1995, this equaled a quarterly dividend of $0.625 per share and an annual rate of $2.50. Adoption of this dividend rate would have resulted in a payout ratio for Ameren of 91% for the twelve months ended September 30, 1995, had UE and CIPS been combined under Ameren at that time.

Both UE and CIPSCO have a long history of uninterrupted dividend payments and have regularly increased dividend amounts. Future dividend practice is intended to be consistent with past policy but will, of course, be influenced by factors such as earnings growth, cash flow coverage, payout and other key financial statistics and projections. Both companies continuously monitor and assess dividend practice, and these activities will continue.

Q. **What is the impact on the preferred stockholders of UE and CIPS?**

A. There will be no impact on preferred stockholders of either company. All of the existing preferred stock of UE and CIPS will remain outstanding, required preferred dividend rates will remain unchanged, and payment of preferred dividends will be subject to authorization of the boards of directors of each operating company. Neither company will suffer any deterioration in its ability to pay preferred dividends as a result of the merger.

Q. Turning now from equity capital to debt, what will be the impact on the bondholders of UE and CIPS?

A. The existing secured long-term debt of UE and CIPS will remain outstanding, and there will be no changes to existing mortgages. Bondholders of both UE and CIPS will continue to be covered under their existing respective indenture provisions. Similarly, each company will maintain its ability to borrow in the unsecured debt market with the obligations on unsecured debt remaining exclusively with the issuing entity. Since the merger is expected to result in an improvement in business fundamentals and reduction in risk, there should be no deterioration in the claims-paying ability of either company. Furthermore, the merger will likely allow some consolidation of existing lines of credit and revolving credit agreements on which a commitment fee is paid, thereby lowering effective credit costs of the two companies.

Q. What impact is the merger expected to have on the ratings assigned

to the companies' long-term debt?

A. According to the initial response of Standard & Poor's and Moody's, the merger could have a slight positive effect on UE's bond ratings and a slight negative effect on that of CIPS. The ratings on UE's first mortgage bonds is currently AA- by Standard and Poor's and A1 by Moody's. The ratings on CIPS' senior secured debt is AA+ by S&P and Aa1 by Moody's. Immediately after the announcement of the proposed merger, both rating agencies placed UE under review for possible upgrade and CIPS under review for possible downgrade. Because of the similarity of the ratings of the two companies, there is no reason to expect any of the ratings to move outside of the A1 to AA1 range by Moody's or AA- to AA+ range by Standard & Poor's. Any increase in UE's bond ratings would be expected to be relatively small. Similarly, a downgrade, if any, in CIPS' rating would be slight. There is no danger that the merger itself could cause the ratings to approach the lower strata of investment grade.

Q. Having reviewed all components of the capital structure of UE and Ameren, please summarize how you expect the proposed merger to affect UE's ability to attract capital at reasonable rates.

A. UE's ability to attract capital at reasonable rates should be enhanced by the proposed merger. Moody's and Standard & Poor's have both placed UE on watch for possible upgrade. The positive reception of respected electric utility analysts indicates that we should be able to access equity markets under more favorable circumstances than we have in the past. Increased earnings and an enhanced competitive position of Ameren should make an equity investment in the company more attractive, and the predictability of the company's dividend practice provides an element of stability viewed positively by the financial community.

Q. Does the proposed merger benefit the Missouri jurisdictional customers of UE?

A. Yes. From a financial perspective, the merger will result in a net savings through cost reduction and increased efficiencies of about $590 million over a ten-year period. In addition to the direct cost efficiencies that will result from the merger, the improved financial condition of the combined company will result in more favorable financing costs. In aggregate, these savings will help to minimize the need for future rate increases, thus making the merged companies' rates more competitive. These benefits will accrue to customers on a long-term basis into the future and will enhance the economic vitality and attractiveness of the service territories served by UE and CIPS.

Q. Does this conclude your direct testimony?

A. Yes, it does.

Ameren Corporation
Pro Forma Combined
Capitalization at June 30, 1995
(Thousands of Dollars)

	Union Electric	CIPSCO	Pro Forma Adjustment	Pro Forma Combined	Pro Forma %
Common Stock[1]	$ 510,619	$ 356,812	$(866,059)	$ 1,372	-----
Other Stockholders' Equity[1]	1,741,478	283,555	866,059	2,891,092	-----
Total Common Stockholders' Equity	2,252,097	640,367	------	2,892,464	51.2
Preferred Stock of Subsidiary[2]	219,147	80,000	------	299,147	5.3
Long-Term Debt	1,851,978	479,770	130,000[3]	2,461,748	43.5
Total Capitalization	$4,323,222	$1,200,137	$130,000	$5,653,359	100.0%

1 The pro forma combined condensed financial statements reflect the conversion of each share of Union Electric Common Stock ($5 par value) outstanding into one share of Ameren Corporation's ("Ameren") Common Stock ($.01 par value) and the conversion of each share of CIPSCO Common Stock (no par value) outstanding into 1.03 shares of Ameren's Common Stock, as provided in the Merger Agreement.

2 Currently, the Union Electric Preferred Stock is not issued by a subsidiary; subsequent to the Merger, Union Electric will be a subsidiary of Ameren and its Preferred Stock will be shown as issued by a subsidiary of the parent company.

3 Pro forma adjustments have been made to consolidate the financial results of Electric Energy Inc. ("EEInc."), which will, in substance, be a 60% owned subsidiary of Ameren subsequent to the Merger. Prior to the Merger, Union Electric and CIPSCO held 40% and 20% ownership interests, respectively, in EEInc. and accounted for these investments under the equity method of accounting.