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Case No.:

Merger
Trippensee/Rebuttal
Public Counsel
EM-96-149

REBUTTAL TESTIMONY

OF

RUSSELL W. TRIPPENSEE

Submitted on Behalf of
the Office of the Public Counsel

UNION ELECTRIC COMPANY

Case No. EM-96-149

"DENOTES HIGHLY CONFIDENTIAL INFORMATION"

May, 1996

Exhibit No. 36
Date 9-5-96 Case No. EM-96-149
Reporter XF

NP

**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) Case No. EM-96-149
 assets, real estate, leased property, easements and contractual)
 agreements to Central Illinois Public Service Company; and)
 (3) in connection therewith, certain other related transactions.)

AFFIDAVIT OF RUSSELL W. TRIPPENSEE

STATE OF MISSOURI)
) ss
 COUNTY OF COLE)

Russell W. Trippensee, of lawful age and being first duly sworn, deposes and states:

1. My name is Russell W. Trippensee. I am the Chief Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony consisting of pages 1 through 24 and Schedules RWT1 and RWT2.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Russell W. Trippensee
 Russell W. Trippensee

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

Bobbie J. Richards
 Bobbie J. Richards
 Notary Public

My commission expires November 3, 1996.

BOBBIE J RICHARDS
NOTARY PUBLIC STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXP. NOV 3, 1996

REBUTTAL TESTIMONY
OF
RUSSELL W. TRIPPENSEE
UNION ELECTRIC COMPANY
CASE NO. EM-96-149

1 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

2 A. Russell W. Trippensee. I reside at 1020 Satinwood Court, Jefferson City, Missouri 65109, and my
3 business address is P.O. Box 7800, Jefferson City, Missouri 65102.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am the Chief Utility Accountant for the Missouri Office of the Public Counsel (OPC or Public
6 Counsel).

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

8 A. I attended the University of Missouri at Columbia, from which I received a BSBA degree, major in
9 Accounting, in December 1977. I attended the 1981 NARUC Annual Regulatory Studies Program at
10 Michigan State University.

11 **Q. HAVE YOU PASSED THE UNIFORM CPA EXAM?**

12 A. Yes, I hold certificate number 14255 in the State of Missouri. I have not met the two year experience
13 requirement necessary to hold a license to practice as a CPA.

14 **Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE.**

15 A. From May through August, 1977, I was employed as an Accounting Intern by the Missouri Public
16 Service Commission (MPSC or Commission). In January 1978 I was employed by the MPSC as a
17 Public Utility Accountant I. I left the MPSC staff in June 1984 as a Public Utility Accountant III and
18 assumed my present position.

1 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL AFFILIATIONS.**

2 A. I served as the chairman of the Accounting and Tax Committee for the National Association of State
3 Utility Consumer Advocates from 1990-1992 and am currently a member of the committee. I am a
4 member of the Missouri Society of Certified Public Accountants.

5 **Q. PLEASE DESCRIBE YOUR WORK WHILE YOU WERE EMPLOYED BY THE MPSC**
6 **STAFF.**

7 A. Under the direction of the Chief Accountant, I supervised and assisted with audits and examinations of
8 the books and records of public utility companies operating within the State of Missouri with regard to
9 proposed rate increases.

10 **Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES WITH THE OFFICE OF**
11 **THE PUBLIC COUNSEL?**

12 A. I am responsible for the Accounting and Financial Analysis sections of the Office of the Public Counsel
13 and coordinating their activities with the rest of our office and other parties in rate proceedings. I am
14 also responsible for performing audits and examinations of public utilities and presenting the findings to
15 the MPSC on behalf of the public of the State of Missouri.

16 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THE MPSC?**

17 A. Yes. I filed testimony in the cases listed on Schedule I of my testimony on behalf of the Missouri Office
18 of the Public Counsel or MPSC Staff.

19 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

20 A. To present the Public Counsel's position with regard to the effect of the merger on the existing
21 Alternative Regulatory Plan (ARP) currently in place for Union Electric (UE or Company). I will also

1 address the merger premium requested by UE and the associated ratemaking treatment and accounting
2 procedures that it would entail. Finally I will discuss the history of acquisition adjustments in Missouri
3 and the rationale for why it is not appropriate to recognize acquisition adjustments in the ratemaking
4 process.

5 **Q. IS UE CURRENTLY OPERATING UNDER AN ARP AGREED TO BY THE**
6 **COMPANY, PUBLIC COUNSEL, THE STAFF, AND SEVERAL OTHER PARTIES**
7 **AND APPROVED BY THE COMMISSION?**

8 A. Yes. The parties presented a stipulation and agreement, which included an ARP, to the Commission on
9 June 12, 1995. The Commission approved the stipulation on July 21, 1995 with an effective date of
10 August 1, 1995. The stipulation included an ARP along with a general rate reduction. The stipulation
11 required a \$30 million decrease in general revenues along with a \$30 million one time credit to
12 customers. The ARP which was set out in the stipulation and agreement commenced on July 1, 1995.
13 The first ARP period ends June 30, 1996.

14 **Q. PLEASE EXPLAIN HOW AN ARP WORKS**

15 A. The ARP is based on the actual operating results of the Company and adjusted using procedures
16 designed to insure that costs and investment levels used in calculating the rate of return are consistent
17 with how those cost of service items would be determined in a rate proceeding. Certain normalization
18 adjustments such as weather, payroll, fuel expense excluding nuclear, year end plant levels and
19 depreciation expense are not made in determining earnings during the ARP period. The UE ARP looks
20 at the operating results of one year periods ending June 30, of 1996, 1997, and 1998 and the appropriate
21 adjustments to the actual financial records for these periods are set out on Attachment C to the

1 Commission's Report & Order in Case No. ER-95-411. An ARP allows a company to retain all
2 earnings below a level deemed reasonable by the Commission. A level of earnings above the reasonable
3 level of earnings is also allowed to be retained by a company's stockholders. This band of earnings
4 where the company's stockholders retain 100.00% is normally called a tolerance zone. The UE ARP
5 does not identify the level of reasonable earnings and simply identifies the high end of the tolerance zone,
6 12.61% return on equity.

7 **Q. WHY WAS THE AUTHORIZED LEVEL OF EARNINGS NOT IDENTIFIED IN THE**
8 **UE ARP**

9 A. The UE ARP was part of a stipulation and agreement on the overall revenue requirement. Consistent
10 with traditional regulatory practice in Missouri, the agreement was silent as to an authorized return on
11 equity.

12 **Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF HOW AN ARP WORKS.**

13 A. The level of earnings at the high end of the tolerance zone is often referred to as the sharing threshold.
14 This is because after actual earnings reach that level, customers begin sharing in the excess profits
15 generated by the preceding year's operations. The UE plan calls for the sharing to be equally divided
16 between customers and stockholders within a earnings range of 140 basis points. When actual earnings
17 exceed 14.00% return on equity, the customer receives 100% of the incremental earnings above 14.00%
18 under the UE ARP approved by the Commission..

19 **Q. CAN YOU PROVIDE A TABLE SHOWING THE SHARING GRID WHICH WAS**
20 **APPROVED BY THE COMMISSION WITH RESPECT TO UNION ELECTRIC?**

- 1 A. Yes. The following table appeared on Attachment A, page 4 of 23, to the Report and Order in Case No.
2 ER-95-411 which dealt with UE's rate reduction and ARP.

<u>Earnings Level</u> (Missouri Retail Electric Operations)	<u>Sharing</u> <u>Level</u> U.E.	<u>Sharing</u> <u>Level</u> 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%

- 3
4 Q. IS PUBLIC COUNSEL CURRENTLY INVOLVED IN REVIEWING THE RESULTS
5 FOR THE FIRST ARP PERIOD?
6 A. Yes. OPC has received reports from the first three quarters of the period, July 1, 1995 through March
7 31, 1996. The bulk of OPC efforts will be concentrated after the plan year when all reports have been
8 received. The process involved is similar to that experienced by OPC with an ARP under which
9 Southwestern Bell Telephone Company operated from 1990 - 1993.
10 Q. DOES PUBLIC COUNSEL BELIEVE THAT THE UE ARP WOULD BE ABLE TO
11 ACCOUNT FOR AND RECORD THE EFFECTS OF THE MERGER OF UNION
12 ELECTRIC AND CENTRAL ILLINOIS POWER COMPANY (CIPSCO) WITHOUT
13 MODIFICATION?
14 A. Yes., most definitely

1 Q. DOES OPC BELIEVE THAT THE ARP SHOULD BE MODIFIED IF THE MERGER
2 IS APPROVED?

3 A. No. The purpose of an ARP is to encourage utility companies to seek out ways to reduce the overall
4 cost of service to the customers. In exchange, the company is granted protection from immediate
5 regulatory action to reduce rates to fully reflect the reduction in the cost of service. This allows
6 stockholders and the ratepayers to share in the benefits arising from actions of a company's management
7 which serve to reduce the overall cost of service upon which rates are set.

8 This Commission should approve this proposed merger only if it is found to not be detrimental to the
9 public interest. It is only reasonable to conclude that such a finding would at least in part be based on
10 the assertion that the overall cost of service would be less, just as UE has asserted in its proposal which
11 quantifies gross cost savings (i.e. Merger synergies) of \$589,996,000 (UE witness Rainwater, Direct
12 Testimony, Schedule 8). A modification of the UE ARP due simply to the merger would be a violation
13 to the intent of an ARP. A decision to reduce the overall cost of service via a merger, fuel switching,
14 renegotiating fuel contracts, workforce downsizing, purchasing efficiencies, or any other positive action
15 by management could just as easily be attributed to the ARP. Public Counsel is not making any
16 proposal to modify the ARP so that ratepayers receive greater benefits from the merger. Public Counsel
17 is very concerned about UE's proposal to effectively modify the ARP by creating phantom costs to be
18 included in future ARP calculation of earnings. OPC is especially concerned since it appears that UE
19 was contemplating the merger prior to the stipulation being signed and definitely prior to the presentation
20 of the stipulation to the Commission.

1 An ARP is often justified by utilities as being needed to encourage companies to take risks to reduce
2 costs or increase efficiency and not be "penalized" by having the cost savings immediately flowed
3 through to the ratepayer. The Commission must keep in mind that the electric industry remains a "public
4 service" and as such excess profits provided by ratepayers cannot be justified. OPC is not opposed to
5 ARPs that ensure that excess profits will not occur and in fact such a plan, negotiated in good faith by
6 the parties, is currently in place for UE. Any modifications to the plan resulting from creative
7 accounting procedures which effectively modify the plan to the benefit of stockholders will not serve the
8 captive ratepayers whom this Commission is obligated to protect.

9 **Q. HAS THE COMPANY RECOGNIZED THAT THE ARP WAS INTENDED TO**
10 **INCREASE EFFICIENCY?**

11 A. It would seem so. The following response was contained in a document that was originally marked
12 highly confidential by the company but has been declassified by the Company prior to filing of this
13 testimony.

14 Q: Will this merger re-open negotiations with the Missouri PSC about rates?

15 A. No it gives us an opportunity to increase efficiency, which is just what the PSC wants
16 us to do.

17
18 This quote is contained in a document obtained from CIPSCO which was originally faxed to CIPSCO
19 from the UE legal department. The document is attached to my testimony as Schedule RWT-2 and was
20 received by OPC in response to OPC DR 622. In response to OPC DR 660, UE indicated this
21 document was prepared by it, reviewed by Company officers and by CIPSCO.

1 Q. HAS THE COMPANY MADE ANY STATEMENTS WITH RESPECT TO THE
2 ADEQUACY OF THE ARP AS IT RELATES TO THE MERGER?

3 A. Yes. OPC obtained a copy of a conference call with investment analysts held on August 14, 1995 with
4 officers from both UE and CIPSCO participating. In response to a question from Steve Fleishman from
5 Dean Witter, in which he asked, "And, I don't want to beat on a dead horse here. In terms of your rate
6 plan, was there something specifically in there that dealt with a potential merger if you did enter a
7 merger?" Don Brandt, an officer of UE stated;

8 Obviously, we will have to file for approval with a number of regulators including the
9 Missouri Public Service Commission to consummate this transaction. But, our
10 position, and I think it is very reasonable, is the Commission has put in place this
11 mechanism that sets certain parameters for reasonable return levels that we (UE) can
12 earn, -- that Union Electric can earn before a sharing occurs at a certain point. And,
13 that's 12.61% return on equity on a regulated basis where we begin sharing earnings
14 above that level at a 50 - 50 between customers and shareholders. So, our position, I
15 think it's very reasonable, is that mechanism is already in place in Missouri and the
16 efficiencies that are gained as a result of this merger should flow right into that
17 vehicle. Again, the Missouri Commission will have to approve the transaction, but the
18 mechanism for passing savings or portions of the savings on to customers has already
19 been developed. (emphasis added)

20 Previously in the conference call the following exchange took place between Chuck Mueller, UE CEO
21 and Mark Beckwith of Wellington Management.

22 Mark Beckwith of Wellington management. A question to Chuck and Don: "Is there
23 anything in your recently negotiated rate agreement that would allow the intervenors or
24 the Staff to reopen cost savings that may come out of this transaction in the early years
25 of the agreement?"

26 Chuck Mueller. We see nothing in that agreement that would allow such intervention.
27 In fact, the agreement, basically, provides a cost sharing vehicle already in place
28 for the synergies of the merger. (emphasis added)

29

1 Q. WHY DO YOU STATE THAT UE KNEW ABOUT THE POSSIBILITY OF A
2 MERGER PRIOR TO JUNE 12, 1995?

3 A. UE received a presentation from Goldman Sachs with the hard copy dated June 15, 1995, which is three
4 days after the stipulation was signed. A review of this document, provided in response to Staff DR 119
5 which is dated March 6, 1996, and provided to OPC on May 1, 1996, leads to a reasonable conclusion
6 that it was not commissioned and produced in just three days. The document is attached to OPC witness
7 Kind's Rebuttal testimony as Schedule RK-1. The document contains over 26 pages along with
8 CIPSCO specific information and analysis in addition to general electric industry analysis and
9 comparison.

10 Q. WILL THE MERGER RESULT IN COSTS OR REVENUES BEING RECORDED ON
11 THE COMPANY'S RECORDS WHICH WOULD SUBSEQUENTLY BE REFLECTED IN
12 AN ARP YEAR WHICH WOULD THEN BE REVIEWED BY COMMISSION?

13 A. Yes. There are certain actual costs associated with the merger that will be recorded on the company's
14 records. OPC witness Kind will discuss possible new revenue sources that will result from this merger
15 that are not addressed in the direct testimony of the Company.

16 Q. PLEASE IDENTIFY WHAT TYPE OF COSTS WILL BE INCURRED THAT ARE A
17 DIRECT RESULT OF THE MERGER.

18 A. Transaction costs and transition costs, (costs to achieve) are the two types of costs resulting from the
19 merger for which UE, CIPSCO and subsequently Ameren will expend moneys. Transaction costs are
20 those actual expenditures of funds necessary to evaluate and consummate the merger. These type of
21 costs would include brokerage fees, legal fees, and other related costs prior to the merger. Transition

1 costs or costs to achieve would include actual costs incurred subsequent to the merger to conduct all
2 actions necessary to merge the operations, attain cost reductions or develop new revenue sources.

3 **Q. HOW DOES UE PROPOSE TO RECORD THESE COSTS ON ITS FINANCIAL**
4 **RECORDS?**

5 **A.** The Company proposes a procedure which would require the recording of these costs in a deferred debit
6 account (USOA account 186) when paid and then amortize the costs to the income statement as an
7 expense over a ten year period. The allocation of these costs between years is to be based on a prorata
8 share of the total costs relative to the relationship of the expected cost savings during the post merger
9 year to the total cost savings over the first ten years following the merger.

10 **Q. WILL UE ACTUALLY INCUR THESE COSTS AND HAVE TO PAY THESE**
11 **TRANSACTION AND TRANSITION COSTS WITH COMPANY FUNDS?**

12 **A.** Yes. The deferral of costs to the deferred debit account will occur when the Company expends actual
13 dollars. The basic accounting entry associated with each transaction will require a credit to cash and a
14 debit to the deferred debit account.

15 **Q. DOESN'T UE PROPOSE THAT TWO OTHER TYPES OF COST BE RECOGNIZED**
16 **FOR REGULATORY PURPOSES?**

17 **A.** Yes. UE asserts that two other non-cash costs, "merger premium" and "the stockholder's share of net
18 savings" be included as costs as a result of this merger. These alleged costs would then be allocated to
19 expense over the next ten years. Upon being expensed, ratepayers would be required to provide
20 sufficient revenues to pay these expenses.

1 Let me state at this point that in using the term "merger premium", OPC is not agreeing that any
2 premium exists, but only using a term that UE has used to describe an amount of money it wishes the
3 ratepayers to pay its stockholders for approving this merger.

4 Q. HOW DOES UE PROPOSE TO TREAT THESE "ALLEGED" COSTS RESULTING
5 FROM THIS MERGER FOR REGULATORY PURPOSES?

6 A. UE proposes that the ratepayers pay the following costs either through inclusion of an annual level of
7 expense while the ARP is in effect or inclusion as an annual level of expense in a cost of service study in
8 any rate case or complaint case during the ten years following the merger. The sum of the annual level
9 of expenses over the ten year period would result in the ratepayer paying:

- 10 ♦ 100% of all transaction costs and transition costs associated with the merger
- 11 ♦ 50% of estimated savings, net of transaction costs, transition costs and "merger
12 premium" (Estimated Sharing Savings or ESS)
- 13 ♦ 100% of an imaginary merger premium, \$232 million, (IMP)

14 Q. WOULDN'T THIS TREATMENT OF THE IMP PROPOSED BY UE IN ITS
15 TESTIMONY BE ENTIRELY DIFFERENT THAN MR. BRANDT'S STATEMENT
16 YOU DISCUSSED EARLIER IN WHICH HE ESSENTIALLY INDICATED TO THE
17 INVESTMENT COMMUNITY THAT THE ARP IN PLACE IN MISSOURI WOULD
18 FLOW BENEFITS TO RATEPAYERS AND STOCKHOLDERS IN A REASONABLE
19 MANNER?

1 A. Yes. The ARP referred to by Mr. Brandt and under which UE is currently operating does not provide
2 for recognition of imaginary costs such as the Imaginary Merger Premium and the Estimated
3 Stockholder Sharing.

4 Q. YOU INDICATED THAT UNDER UE'S PROPOSAL IT WOULD COLLECT 100%
5 OF ALL TRANSACTION AND TRANSITION COSTS. ARE THOSE COSTS
6 ACTUAL COSTS?

7 A. Yes. Transition and transaction costs will actually be incurred by the Company and funds will be
8 expended in regard to them. This will result in expenses being recorded on the financial records of the
9 Company.

10 Q. DOESN'T THE COMPANY USE ESTIMATED TRANSACTION AND TRANSITION
11 COSTS IN THE CALCULATION OF ESTIMATED STOCKHOLDERS SHARING?

12 A. Yes, but those estimates are only necessary in order to determine the \$158 million of ESS the Company
13 wishes to inflate the cost of service by. The transaction and transition costs, in contrast, will actually be
14 incurred as expenses and be reflected on the financial records of the Company. As I will discuss
15 subsequently, the \$232 million of IMP and \$158 million of ESS will only be recorded as an expense if
16 the Commission authorizes future revenue streams related to these amounts.

17 Q. HOW SHOULD THE TRANSACTION AND TRANSITION COSTS BE RECORDED ON
18 THE FINANCIAL RECORDS AND FOR RATEMAKING PURPOSES.

19 A. These costs will actually be incurred so they will be recorded on the financial records. Public Counsel
20 would propose, to the extent these costs can be separately identified from normal expenses, these costs be
21 deferred in USOA 186, (Miscellaneous Deferred Debits) and amortized to the income statement as an

1 expense over a ten year period. To the extent these costs cannot be separately identified, which is a real
2 possibility, the expenditures will be expensed in the year they are incurred. In either instance it would be
3 OPC's position that the transaction and transition costs would be ultimately included in the determination
4 of the cost of service either for an ARP or a normal rate proceeding. This inclusion would of course be
5 subject to the normal Commission review for reasonableness and other procedures used in the evaluation
6 of expenses.

7 **Q. DID PUBLIC COUNSEL BELIEVE THE COMPANY IS INTENDING ON**
8 **INCLUDING THE ESTIMATED TRANSACTION AND TRANSITION COSTS IN**
9 **FUTURE EXPENSE DETERMINATIONS AS ONE MIGHT INFER FROM UE**
10 **WITNESS RAINWATER'S SCHEDULE 8?**

11 **A.** No. This would result in a blatant attempt to double dip the ratepayer with regard to these costs, by
12 setting up a procedure which includes both an estimate of transition and transaction cost (via the
13 Schedule 8 calculation) and also the actual cost (via the recording on the financial statements when the
14 cash is expended). The term double dip is the attempt to include an expense level related to a certain
15 action in the cost of service determinations at least twice. While UE's position on ESS and the IMP are
16 unique to say the least, OPC does not believe that UE would have the audacity to recommend a
17 procedure that would result in such a blatant double dip.

18 **Q. HAS UE IDENTIFIED ANY ACCOUNTING ENTRIES RELATED TO THE IMP**
19 **AND ESS COSTS ON THE RESULTING BOOKS AND RECORDS OF THE NEW**
20 **COMPANY AS A RESULT OF THEIR PROPOSED REGULATORY TREATMENT?**

21 **A.** No. Union Electric response to Staff DR #94 indicated that "The merger premium would not be
22 recorded on the books of UE or CIPS". There are accounting entries relating to the ESS but the entries

1 relate to only two of the four "cost" components which make up the alleged cost ESS. These two
2 components are transaction costs and transition costs which are the only actual costs for which Company
3 funds will be disbursed. The Company is currently recording transaction costs to USOA account 426,
4 which is normally considered a non-operating account.

5 Q. IS THE FACT THAT THERE ARE NO ACTUAL COSTS INCURRED OR CASH
6 OUTLAYS BY THE COMPANY WITH RESPECT TO THE IMP THE REASON YOU
7 REFER TO THE "MERGER PREMIUM" AS BEING IMAGINARY?

8 A. Yes. While OPC witness Burdette addresses this issue also, I will set out later in my testimony why the
9 merger premium is simply an attempt to increase the profitability of UE by modifying the ARP to allow
10 for the inclusion of an expense the Company has not, and will not incur.

11 Q. IS THE FACT THAT THERE ARE NO ACTUAL COSTS INCURRED OR CASH
12 OUTLAYS BY THE COMPANY WITH RESPECT TO THE ESTIMATED SAVINGS
13 COMPONENT OF THE ESS THE REASON YOU REFER TO THE
14 "STOCKHOLDERS SAVINGS SHARING" AS BEING IMAGINARY?

15 A. Yes. The assertion by UE that this is a cost the ratepayer should pay is even more egregious than the
16 IMP because it sets up a situation where company management would be incented not to implement
17 actions to effectuate the merger synergies. UE's proposal would require the ratepayers to pay the
18 stockholders one half the estimated savings regardless of whether or not those savings actually occur.
19 The expense associated with the ESS would serve to reduce any ratepayers share of excess earnings
20 during the period the ARP is in effect. If approved, as proposed by UE, it could well be in the best
21 interests of the stockholders for management to delay implementing merger synergies until after the ARP
22 has expired. This would allow greater retention of savings by the stockholders during the period

1 following the ARP if the merger synergies were implemented. An even more perverse possibility is that
2 the guaranteed recovery of the ESS could generate a rate increase assuming existing rates are adequate
3 prior to inclusion of the ESS and that measures to achieve the merger synergies were not implemented.
4 These outcomes, while unlikely because OPC is confident the Commission would not allow inaction by
5 the Company's management, do serve to illustrate the a fundamental flaw in the logic underlying the
6 Company's proposal.

7 **Q. ARE THERE ANY ACCOUNTING ENTRIES WHICH UE DOES NOT IDENTIFY**
8 **THAT WOULD BE REQUIRED IF ITS REGULATORY PROPOSAL IS ADOPTED?**

9 A. Yes. If the Commission were to grant UE's proposal as presented, two specific regulatory assets would
10 be created and regulatory asset accounts associated with the IMP and ESS would be set up. These
11 assets would then be reduced via an amortization to the income statement as an expense over the next ten
12 years as previously discussed.

13 **Q. PLEASE EXPLAIN WHAT YOU MEAN BY A REGULATORY ASSET.**

14 A. A regulatory asset is created when a public utility commission provides assurance that there will be a
15 future stream of revenues which is not related to the normal accounting entries that would result from the
16 normal operation of the regulated utility.

17 **Q. WHY WOULD REGULATORY ASSET ACCOUNTS BE REQUIRED IF THE**
18 **COMMISSION ADOPTS UE'S PROPOSAL AS PRESENTED IN ITS DIRECT**
19 **TESTIMONY?**

20 A. Unlike the transition costs for which actual expenditures (i.e. cash outlay) would be made for an actual
21 event therefore automatically requiring the appropriate accounting entries, neither the IMP or ESS

1 require an outlay of cash by the Company which would require an accounting entry to the financial
2 records. However, Commission approval of the Company's proposal would guarantee future streams of
3 revenue because of the requirement to recognize an arbitrary level of expense in future financial years.
4 This recognition in expense would essentially guarantee that customer rates would generate sufficient
5 revenue to cover the expense. This stream of revenues represents an asset to the Company and it is my
6 professional opinion that all external financial reports would be required to disclose its existence.

7 **Q. WHY DO YOU BELIEVE THE MERGER PREMIUM IDENTIFIED BY UE WOULD**
8 **RESULT IN THE CREATION OF A REGULATORY ASSET IF UE'S**
9 **RATEMAKING PROPOSAL IS ADOPTED?**

10 **A.** The merger premium identified by UE is not the result of a cash expenditure by the Company or, for
11 that matter, cash paid by anyone else. The premium is simply imaginary, thus OPC refers to it as the
12 IMP. It is the result of a mathematical calculation which is shown on Schedule 6 of UE witness Gary
13 Rainwater's direct testimony. If the Commission were to allow future revenue streams in the amount of
14 \$232 million, those revenue streams would clearly be the result of the regulators' actions and not any
15 action by the Company which enhanced the value of the assets serving the rate payers. The revenue
16 stream available to the stockholders would not have any offsetting cash expenditure associated with it.
17 The cash resulting from the revenue stream would be available to pay dividends to the stockholder.

18 **Q. YOUR ANSWER TO THE PREVIOUS QUESTION RAISES TWO ITEMS THAT**
19 **NEED TO BE ADDRESSED. THESE RELATE TO WHY THE PREMIUM IS**
20 **IMAGINARY AND SECONDLY WHY THE VALUE OF THE ASSETS SERVING THE**
21 **RATEPAYER HAVE NOT BEEN ENHANCED. PLEASE EXPLAIN WHY THE**
22 **PREMIUM IS IMAGINARY.**

1 A. The Company's calculation is a result of multiplying the number of shares of CIPSCO stock outstanding
2 by the agreed upon stock exchange ratio. This resulting number of shares is then multiplied by the price
3 of UE stock on August 11, 1995. This product is then compared to the product resulting from the actual
4 number of CIPSCO shares of stock outstanding times the August 11, 1995 market price of CIPSCO
5 stock. This calculation can be found on Schedule 6 of UE witness Rainwater's direct testimony This
6 calculation attempts to measure the increased value of stock investments held by CIPSCO stockholders
7 at the time of the merger, if you overlook the inherent flaws in the calculation's assumptions. It is quite
8 evident from this calculation that neither UE nor CIPSCO nor the resulting company Ameren will pay
9 one penny to a stockholder with respect to a stockholder's gain on this stock exchange transaction.

10 The only exchange of moneys that will occur is, if and when CIPSCO stockholders, after they receive
11 their shares of Ameren stock, decide to sell that stock. At that point in time, some unknown investor in
12 the market will pay an unknown price. Only then will you know if the original individual CIPSCO
13 investors, who now holds the Ameren stock, will experience a gain or loss on their investment.

14 However it is also just as critical to realize that stock market transactions have no effect on the
15 investment necessary to serve the ratepayer. Stock transactions occur each and every day the market is
16 open without any effect on the financial records, (i.e. rate base and income statement) of a utility
17 company. If this Commission accepts UE's proposal to recognize individual stockholders stock market
18 profits as having an effect on the cost of service necessary to serve ratepayers, the Commission should
19 consider how it will recognize the change in the cost of service each and every time a share of stock is
20 sold in the future. UE's proposal is even more radical in that it uses imaginary or anticipated stock

1 market profits and not actual stock sales. Another point that needs to be made is that if existing
2 stockholders do not sell at some point in the future, there will be no individual stockholder gain or loss.

3 **Q. YOU SPOKE OF AN INHERENT FLAW IN THE CALCULATION OF THE MERGER**
4 **PREMIUM, PLEASE EXPLAIN.**

5 A. The calculation has one basic assumption flaw with respect to determining a premium. The calculation
6 assumes that the individual stockholders will sell their stock. If a merger premium actually exists, a
7 company involved must receive and record a capital gain which can also be referred to as profit. In
8 order for a stockholder to actually realize a capital gain, the stockholder must sell the stock. If the sale
9 occurs at a date other than the date used for calculation of the "merger premium" the individual
10 stockholder may experience a different gain or even a loss depending on market conditions at the time.
11 UE has assumed the all stockholders will sell their stock, at a price that allows all stockholders to reap
12 capital gains in total equal to \$232 million, and then assigns this imaginary gain to the Company.

13 Another basic flaw relates to how UE portrays this "merger premium". The Company portrays it as
14 something the Company will pay. In fact, the only cash exchange that could take place is when and if
15 new investors purchase the stock of existing investors. The Company is not involved in that financial
16 transaction except to change its stockholder records.

17 **Q. HAS THE COMPANY RECOGNIZED THAT THE MERGER PREMIUM WILL NOT**
18 **RESULT IN AN ACTUAL PREMIUM PAID BY THE COMPANY?**

19 A. Yes. The following question and answer was contained in document outlines responses to questions that
20 would be raised after the announcement of the merger. This document was originally classified as highly
21 confidential by the Company, but has been voluntarily declassified prior to filing by UE.

1 Q. UE is paying a 23 percent premium that won't be recoverable in rates. How will you
2 get that back?

3 A: Since this is a business combination, strictly speaking, UE is not "paying anything."
4 The exchange ratio is 1.03 shares of the new holding company for CIPSCO holders; 1
5 share in the new holding company for Union Electric stockholders. Our regulators will
6 look at that issue in today's business climate – one of increasing utility competition,
7 and one in which UE is already committed to share savings with customers. We
8 expect this merger to create efficiencies that will result in a sharing of net savings
9 between our customer and our stockholders. (emphasis added)

10
11 This quote is contained in a document obtained from CIPSCO which was originally faxed to CIPSCO
12 from UE legal department. The relevant pages of the document are attached to my testimony as
13 Schedule RWT-2 and was received by OPC in response to OPC DR 622.

14 Q. PLEASE EXPLAIN WHY THE ASSETS SERVING THE RATEPAYERS WILL NOT
15 BE ENHANCED AS A RESULT OF THIS PROPOSED MERGER.

16 A. This merger simply changes the ownership of the assets serving the ratepayers, not the value. The
17 differential in stock exchange ratios between UE and CIPSCO stockholders does change the ownership
18 rights to the combined assets in that CIPSCO stockholders would have a larger claim against the
19 liquidated assets of the combined company than if the stock exchange ratios were equal. However,
20 neither the value of the assets, if liquidated, nor the assets' (rate base) ability to serve the ratepayer has
21 been changed.

22
23 If the Commission accepts UE's proposal to guarantee future revenue streams to recognize the IMP, the
24 result will be the recording of a regulatory asset as previously discussed. This in turn will result in a

1 write-up of the assets of Ameren thereby inflating the financial records above original cost. The concept
2 of original cost is firmly entrenched in regulation and with good cause. A simple example illustrates
3 why. If a series of transactions such as this merger occurred with the IMP treated in a manner consistent
4 with UE's proposal, the result would be an increase in rate base and an increased overall cost of service.

5 The overall increase in rate base as compared to the actual dollars invested by the Company would be
6 an amount equal to the combined IMPs. The ratepayers would still be receiving the same service but at
7 a significantly higher price. The only party which would be better off would be the stockholders who
8 would be receiving the inflated and unjustified revenue streams.

9 This alleged cost is entirely different from cash expenditures that the company makes to increase the
10 value of its asset either via action which increases the life or efficiency of existing plant or acquisition of
11 new plant. For example, UE is currently spending a substantial sum of funds to update and extend the
12 life of some of its coal units. These expenditures do increase the value of the plant (recorded on the
13 financial records as assets) used and useful in serving the ratepayer. Plant and other rate base
14 investments found not to be used and useful in serving the ratepayer are not included in the determination
15 of rate base on which a reasonable return is calculated.

16 **Q. ARE THE COMPANY AND ITS STOCKHOLDERS ONE AND THE SAME?**

17 **A.** No. As discussed by OPC witness Burdette, stock represents a claim on the assets of a company, with
18 each share of stock having an equal claim. In addition, individual stockholders will have paid vastly
19 different amounts of money to previous stockholders in order to obtain that claim on assets. The
20 decision of what an individual stockholder will pay does not change the value of the Company's tangible
21 asset which the stock represents ownership. In contrast, the Company's investment in plant in service

1 and other rate base items is not related to the price current stockholders have paid a previous
2 stockholders for the share of stock. UE's attempt to relate these two unrelated actions should not be
3 tolerated.

4 Q. ARE THERE OTHER FACTORS WHICH EFFECT THE STOCK EXCHANGE RATE
5 WHICH UNDERLIES THE COMPANY'S ALLEGED "MERGER PREMIUM"?

6 A. Yes. The Goldman Sachs June 15 presentation, previously discussed, outlined several considerations
7 that must be taken into account in developing a stock exchange ratio which results in a "merger
8 premium" as used by the financial industry. A review of this document clearly indicates that the target
9 company is CIPSCO even though the document sometimes uses a code name, ** _____ **, for the
10 company. The Goldman Sachs document is attached to OPC witness Kind's rebuttal testimony as
11 Schedule RK-7, and contains the following statements regarding other considerations which a "merger
12 premium" would address:

- 13 **
- 14 ♦ _____
 - 15 ♦ _____
 - 16 ♦ _____
 - 17 ♦ _____
 - 18 ♦ _____
 - 19 ♦ _____
 - 20 ♦ _____
 - 21 ♦ _____
 - 22 ♦ _____
- **

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1 Q. DO THE ISSUES OUTLINED IN THE GOLDMAN SACHS DOCUMENTS AND
2 IDENTIFIED AS ** _____ ** HAVE ANYTHING TO DO WITH
3 PROVIDING SERVICE TO THE RATEPAYER?

4 A. No. Items such as ** _____
5 _____ ** are directed at satisfying the personal needs and goals of existing individual
6 management employees, not providing service to ratepayers. ** _____
7 _____ ** also has no bearing on the
8 quality of service provided ratepayers.

9 Q. UE WITNESS RAINWATER REFERS TO THE "MERGER PREMIUM" AND THE
10 TRANSACTION COSTS AS THE MERGER INVESTMENT ON PAGE 17
11 BEGINNING ON LINE 14 OF HIS DIRECT TESTIMONY. DO YOU HAVE ANY
12 COMMENT ON HIS ASSERTION THAT THESE COSTS REPRESENT AN
13 INVESTMENT?

14 A. As I have extensively discussed previously and the Company has acknowledged, there will be no cash
15 outlay by the Company and no entry on the financial records of the Company with respect to the merger
16 premium. Despite UE's testimony to the contrary, a merger premium does not exist. A premium
17 represents a gain to someone. As everyone knows, Uncle Sam will recognize any gain, if it exists, and
18 assess income taxes on it. As UE has freely admitted (Mr. Warner Baxter's testimony, page 14, line 9),
19 there are not any income tax consequences for the Company or even for its stockholders as a result of
20 this transaction.

21 An investment requires an asset to be purchased or created. Clearly the combination of UE and
22 CIPSCO does not create any new assets. The transaction costs are properly being recorded as an

NP

1 expense on the Company's financial statement, not an asset as Mr. Rainwater implies. While OPC is
2 not opposed to allowing these actual expenses to be deferred and amortized to expense over a period of
3 time, assuming the merger is approved. This does not change the fact that for financial purposes and in
4 accordance with the USOA adopted by this Commission, transaction costs are an expense, not a asset
5 requiring an investment. This deferral and amortization recommendation includes the assumption the
6 Commission will review the actual expenses incurred with respect to reasonableness at the appropriate
7 time.

8 **Q. MR. RAINWATER ALSO SPEAKS OF THE RATEPAYER RECEIVING A 20%
9 RETURN ON INVESTMENT, (RAINWATER DIRECT TESTIMONY, PAGE 18,
10 LINES 10 - 15). PLEASE COMMENT ON HIS ASSERTION THAT
11 RATEPAYERS ARE SOMEHOW MAKING AN INVESTMENT.**

12 **A.** Investment denotes ownership. To my knowledge customers are not considered owners of UE by virtue
13 of paying just and reasonable rates. The logical extension of Mr. Rainwater's assertion is that customers
14 obtain a proprietary interest in the assets and profits of the Company. I have been a customer of UE for
15 over 15 years, and if Mr. Rainwater is correct in that my rates constitute acquiring ownership, I can only
16 state I have yet to receive a dividend check. All I find in my mailbox is another month's bill.

17 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

18 **A.** The Company's proposal to require the rate payer to pay \$232 million dollars in additional revenues
19 over the next ten years is detrimental to the public interest. The basis for this payment is unsubstantiated
20 and any quantification is based on stock sales which may or may not occur and which in any event are
21 not related to the company's financial operations. The Company's proposal to require the ratepayer to

1 pay \$158 million dollars over the next ten years allegedly to share the net merger savings with
2 stockholders is nothing more than a unsolicited deep grab into the ratepayers' pockets. The two
3 proposals also represent two major adjustments to the ARP currently in place for UE which violate the
4 intent and the substance of the ARP and bring into question the good faith with which that agreement
5 was made. Finally, Public Counsel is not opposed to the recovery of reasonable transaction costs and
6 transition costs associated with the merger. OPC would recommend that these costs be deferred and
7 recovered over a ten year period. While it could be argued these transaction and transition costs are
8 more akin to organizational costs which would normally be recovered over the average life of the utility
9 property, OPC believes that a ten year period represents a reasonable recovery period in light of the
10 alleged merger synergies which may occur.

11 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

12 **A. Yes.**

Rebuttal Testimony of
Russell W. Trippensee
Case No. EM-96-149

Missouri Power & Light Company, Steam Dept., Case No. HR-82-179
Missouri Power & Light Company, Electric Dept., Case No. ER-82-180
Missouri Edison Company, Electric Dept., Case No. ER-79-120
Southwestern Bell Telephone Company, Case No. TR-79-213
Doniphan Telephone Company, Case No. TR-80-15
Empire District Electric Company, Case No. ER-83-43
Missouri Power & Light Company, Gas Dept., Case No. GR-82-181
Missouri Public Service Company, Electric Dept., Case No. ER-81-85
Missouri Water Company, Case No. WR-81-363
Osage Natural Gas Company, Case No. GR-82-127
Missouri Utilities Company, Electric Dept., Case No. ER-82-246
Missouri Utilities Company, Gas Dept., Case No. GR-82-247
Missouri Utilities Company, Water Dept., Case No. WR-82-248
Laclede Gas Company, Case No. GR-83-233
Great River Gas Company, Case No. GR-85-136 (OPC)
Northeast Missouri Rural Telephone Company, Case No. TR-85-23 (OPC)
United Telephone Company, Case No. TR-85-179 (OPC)
Kansas City Power & Light Company, Case No. ER-85-128 (OPC)
Arkansas Power & Light Company, Case No. ER-85-265 (OPC)
KPL/Gas Service Company, GR-86-76 (OPC)
Missouri Cities Water Company, Case Nos. WR-86-111, SR-86-112 (OPC)
Union Electric Company, Case No. EC-87-115 (OPC)
Union Electric Company, Case No. GR-87-62 (OPC)
St. Joseph Light and Power Company, Case Nos. GR-88-115, HR-88-116 (OPC)
St. Louis County Water Company, Case No. WR-88-5 (OPC)
West Elm Place Corporation, Case No. SO-88-140 (OPC)
United Telephone Long Distance Company, Case No. TA-88-260 (OPC)
Southwestern Bell Telephone Company, Case No. TC-89-14, et al. (OPC)
Osage Utilities, Inc., Case No. WM-89-93 (OPC)
GTE North Incorporated, Case Nos. TR-89-182, TR-89-238, TC-90-75 (OPC)
Contel of Missouri, Inc., Case No. TR-89-196 (OPC)
The Kansas Power and Light Company, Case No. GR-90-50 (OPC)
Southwestern Bell Telephone Company, Case No. TO-89-56 (OPC)
Capital City Water Company, Case No. WR-90-118 (OPC)
Laclede Gas Company, Case No. GR-90-120 (OPC)
Southwestern Bell Telephone Company, Case No. TR-90-98 (OPC)
Empire District Electric Company, Case No. ER-90-138 (OPC)
Associated Natural Gas Company, Case No. GR-90-152 (OPC)
Southwestern Bell Telephone Company, Case No. TO-91-163
Union Electric Company, Case No. ED-91-122

Schedule RWT 1-1

Rebuttal Testimony of
Russell W. Trippensee
Case No. EM-96-149

Missouri Public Service, Case Nos. EO-91-358 and EO-91-360
The Kansas Power and Light Company, Case No. GR-91-291
Southwestern Bell Telephone Co., Case No. TO-91-163
Union Electric Company, EM-92-225 and EM-92-253
Southwestern Bell Telephone Company, TO-93-116
Missouri Public Service Company, ER-93-37, (January, 1993)
Southwestern Bell Telephone Company, TO-93-192, TC-93-224
Saint Louis County Water Company, WR-93-204
United Telephone Company of Missouri, TR-93-181
Raytown Water Company, WR-94-300
Empire District Electric Company, ER-94-174
Raytown Water Company, WR-94-211
Missouri Gas Energy, GR-94-343
Capital City Water Company, WR-94-297
Southwestern Bell Telephone Company, TR-94-364
Missouri Gas Energy, GR-95-33
St. Louis County Water Company, WR-95-145
Missouri Gas Energy, GO-94-318
Alltel Telephone Company of Missouri, TM-95-87
Southwestern Bell Telephone Company, TR-96-28
Steelville Telephone Exchange, Inc., TR-96-123
Union Electric Company, EM-96-146

Schedule RWT 1-2

Highly Confidential

P.2
RGL

10th draft
August 13, 1995
1:55 a.m.

CONFIDENTIAL
FILE COPY

Financial questions and answers ...

The reasons why this merger benefits stockholders and investors:

- o Premier midwestern competitor
- o Two low-cost, financially sound utilities with excellent balance sheets and strong earnings trend.
- o Efficiencies of size -- reduce general and administrative costs; joint dispatching; lower electricity production and gas costs; employee reductions.
- o Strong marketing opportunities -- links with 28 other utilities.

- The combined company will be the country's

- ... 19th largest utility in terms of market capitalization;
- ... 18th largest in terms of total electric sales;
- ... 14th largest in generating capacity.

About the specifics of the deal:

Q: Why?

A: It's a natural alliance -- we have two financially strong companies with complementary strengths in contiguous and similar markets and an opportunity to reduce duplicative costs. This merger means we can grow revenues on a lower-cost business.

Q: What is the total value of the deal?

A: \$1.2 billion.

Q: What's the premium?

A: The exchange ratio results in a premium of about 23 percent to CIPSCO stockholders.

Q: Is the transaction dilutive?

A: We expect no dilution in the first two years after the transaction closes. After we achieve the synergies we expect, we will see earnings accretion begin to flow to stockholders and cost savings flow to customers.

Highly Confidential

Q: When did these talks start?

A: Initial discussions began in late June.

Q: Why not just an outright purchase? Why not just pay cash?

A: *The exchange ratio is appropriate in light of other transactions in the industry. Investors favor the stock-for-stock transaction... It doesn't trigger a tax event. Also, a cash transaction would generate a significant amount of goodwill, which would hang over earnings for years.*

Q: Do you plan any other such deals before this merger closes? Is this just the start of creating a national company?

A: We always look at opportunities, but our first priority is to successfully complete this merger and capitalize on the opportunities it presents.

Q: Why is there a premium for CIPSCO and not for UE stockholders?

A: *This is typical in combinations of larger and smaller companies.*

About the immediate aftermath:

Q: UE is paying a 23 percent premium that won't be recoverable in rates. How will you get that back?

A: *Since this is a business combination, strictly speaking, UE is not "paying" anything. The exchange ratio is 1.03 shares of the new holding company for CIPSCO holders; 1 share in the new holding company for Union Electric stockholders. Our regulators will look at that issue in today's business climate -- one of increasing utility competition, and one in which UE is already committed to share savings with customers. We expect this merger to create efficiencies that will result in a sharing of net savings between our customers and our stockholders.*

Q: What commissions have to okay this transaction and what problems do you foresee with those commissions?

A: This has to be approved by the Illinois Commerce Commission, the Missouri Public Service Commission, the Federal Energy Regulatory Commission, the NRC and the SEC. It will also be reviewed by the FTC and the Justice Department. Stockholders of both companies have to approve the transaction, of course. This merger provides long-term benefits for our customers, stockholders, employees and our communities ... so, while our regulators will have questions and the process will take some time, we don't expect any major regulatory obstacles.

Highly Confidential

Q: Illinois Power has asked the Illinois legislature to open transmission facilities to retail wheeling. Will they force this on you?

A: We think the UE/CIPs combination works so well for customers and stockholders that we don't anticipate substantive objections ... and we don't anticipate that retail wheeling will be an issue in this approval process.

Q: What problems do you foresee with FERC? Will you accede to open transmission requirements to get their okay?

A: We now provide transmission services, and we've done that for many years. We will file an appropriate open access transmission tariff.

Q: Will any of the regulatory groups force any divestitures? What about your gas businesses?

A: We don't believe that will be a problem. As PUCHA is now written, a waiver is required to operate both electric and gas businesses... and such waivers have been granted to other companies in the past. We don't foresee any problems.

Q: What's the expected closing date?

A: We expect to close the deal by late 1996.

Q: Does the agreement have a lock-up provision?

A: Yes ... The details will be in the filings.

Q: (UE) ... will you keep with your dividend schedule and raise the dividend in October as you have in the past?

A: A primary goal at both companies has always been to provide a fair return to stockholders -- that's apparent in the companies long history of dividend payments and dividend increases. Although I can't speak for all of UE's directors, I can assure you that this goal hasn't changed.

Q: Will this merger re-open negotiations with the Missouri PSC about rates?

A: No ... it gives us an opportunity to increase efficiency, which is just what the PSC wants us to do.

Q: Will you try to negotiate something like the rate deal you have in Missouri now with the Illinois regulators?

A: We believe in incentive regulation. It's healthy and good for everyone. and we will be talking to Illinois regulators about that issue.

Highly Confidential

Q: Have you heard from any of the commissioners yet? What's their reaction to the proposed merger?

A: We notified the commissioners and the staffs right after we made the announcement. They haven't commented to us. We believe the long-term strategic advantages to this merger for customers, stockholders and our communities are numerous and compelling.

Q: After the merger, will you restructure the company?

A: We will focus on making the most of the synergies we have identified -- bringing cost savings to customers and additional earnings to stockholders. Unlike the majority of mergers, we don't expect most of the savings to come from labor reductions. Instead, we're looking at savings from reductions in general and administrative expenses, improved fuel costs and other savings. We also expect to take advantage of marketing synergies.

Q: [Environmental Question]: Will you try to clean up respective environmental liabilities before the merger is closed?

A: Both companies have always made strong commitments to being good environmental stewards. We're proud of our respective environmental records and will keep them intact.

About the resulting company:

Q: Why the holding structure format? Won't that get in the way of cost savings?

A: We opted for that structure because it took advantage of the companies' independent strengths and because it allows for the flexibility to take advantage of cost savings and other opportunities as they occur.

Q: How much do you expect the savings to total and where will they come from?

A: We anticipate about \$570 million in savings over the next 10 years. The timing of those savings depends on when we achieve the synergies we expect, but they would begin the first year after the transaction is completed. About half of the \$570 million are expected to come from reductions in general and administrative costs, and about 30 percent will come through labor reductions. Other savings come from jointly dispatching power, joint purchase of materials and from reductions in electric production costs and gas costs. We will detail those savings more specifically in regulatory filings.

Highly Confidential

Q: Do you plan for labor savings to account for much of the overall savings?

A: Unlike most mergers, we anticipate that less than one-third of the savings will come from labor reductions. We anticipate a reduction of about 300 employees, primarily through attrition, over the years.

Q: When will the savings happen? Is it back loaded? And how much will the savings cost?

A: The savings will begin the first year we implement the synergies. Then they will ramp up gradually. The costs to achieve these savings will be about \$19 million, mainly in the first two years.

Q: Do you expect any union problems to arise from this?

A: We have been in touch with union leadership at both companies and discussed the benefits of this merger ... we believe this agreement is in the best long-term interests of our employees, as well as our customers and stockholders. We don't anticipate any problems.

Q: Are you going to continue in the nonregulated business that CIPS runs? Do you plan to expand it?

A: We will continue that business, and we intend to pursue opportunities as they arise.

Q: What will the addition of nuclear do to the combined companies credit rating?

A: The combined company's financial where-with-all will be one of its primary strengths, and Callaway is one of the best-run nuclear plants in the world ... so we expect the companies will keep their excellent rating status. We don't believe the credit ratings will change, since the basic character of the two businesses will remain intact, with opportunities to improve from there. One of the keys to this agreement is the financial strength of both companies.

Q: What will this do to rates in Illinois for the combined company? Will you lower them to match UE's or raise them to match CIPS?

A: We expect the effect on rates to be positive for the customer. As synergies occur and certain costs of producing energy are reduced, customers will benefit. The long-term outlook is that prices will be lower than they would have been if this strategic combination had not occurred.

Q: Will this merger trigger some bond calls?

A: No.

Q: Will you issue any debt?

A: No, not to do this transaction.

Highly Confidential

Q: What is the reserve margin for the combined company?

A: It will be around 20 percent ... a great place to be. Enough availability to supply our native load with reserves of low-cost power to sell outside our system. *[Actual estimate of reserve margin is 19 percent of combined company.]*

Q: What are the implications of the merger on EEInc? Will you continue to sell to the DOE or try to get out of that contract?

A: The DOE is one of our best customers, and we want to keep them.

Q: What will the merger do to existing fuel and interchange contracts?

A: From a contractual standpoint, nothing will happen to the contracts. From an operations standpoint, it makes us a bigger, more effective player in this market.

Other questions

Q: What's the application process? When will the filings be made public?

A: We will file with the ICC, MPSC and FERC this fall, and will submit filings to the SEC and the NRC. The Justice Department and the FTC will review the agreement, as they do with all mergers over a certain size. We anticipate hearings before the ICC and MPSC.

Q: What about the citizens' group in Illinois. Do you expect problems from them?

A: This business combination is a natural fit -- and it benefits customers and stockholders. So we don't expect any difficulty.

Q: The annual growth rate of the two companies over the past few years averages around 2 percent, maybe less on a weather-adjusted basis. How can the combination of two low-growth companies help either one?

A: This company will be able to keep prices down while it maintains quality service. We expect that combination will help us grow revenues on a lower-cost basis. UE and CIPS are coming from positions of strength to markets we know.

Q: What about the dividend payout ratio? Both companies have payout ratios well over 80 percent, without the prospects of increased revenues. How does that help the stockholder?

A: The merged company will be a strong company, able to spread lower costs over increased revenues. This strategy will put us in the forefront of utility competition and make it possible for us to keep rewarding our stockholders.

Highly Confidential

Q: Could the holding company structure present problems for realizing efficiencies and cost savings?

A: We don't believe that a holding company structure will prevent us from accomplishing savings, given our strong management. It's not our intent to create a large bureaucracy -- where it makes sense to consolidate, we will. Our transition team, run by members from both companies, will re-align the companies in the most efficient way possible. The combined company will be larger, stronger and better able to take advantage of opportunities that arise in a changing industry.

Q: UE ... were you holding up announcing this deal until you got your rate deal with Missouri?

A: Absolutely not. The issue didn't come up until after we filed the stipulation in Missouri.

Q: What happens to UE's Illinois customers under this holding company structure?

A: Our customers will be CIPS customers ... but UE retains the transmission lines located in Illinois and our Venice plant, an 429 megawatt oil and natural gas plant on that side of the river.

Q: How will the holding company board be structured? Will UE and CIPS still have boards?

A: The holding company board will be composed of UE's 10 directors and 5 directors from CIPSCO. Each of the two operating subsidiaries will have a separate board that includes one or more members of the other operating company.

Q: It says in the press release that the new company will pay a dividend at UE's level. Don, you said in the past that UE doesn't have a dividend policy per se. Will this change?

A: The dividend will still be set by the board, of course. We haven't set any target payout ratio, if that's what you mean. However, it does indicate that the new company's attitude toward rewarding investors will follow UE's and CIPSCO's history.

word h ccs ques

13
August 22, 1995
Investor Services

Highly Confidential

Q: Why is UE merging with CIPSCO?

A: This merger creates a company that can generate more revenue with less cost:

- It links two of the nation's lowest-cost, most financially solid utilities;
- The increased size increases cost savings;
- The companies have complementary strengths and similar markets.

Q: What will happen to the dividend? Can we expect an increase at the usual time?

A: It's anticipated that the new holding company will adopt UE's dividend payment level, now just over 80 percent for 1994 results. The board of directors makes decisions about the dividend, so we can't speculate about possible increases -- but both companies have histories of consistent dividend payments and dividend increases.

Q: Is this transaction dilutive? (In this sense, dilutive means weakening the worth of a share of stock -- a very general definition.)

A: We expect no dilution. And, after the two companies begin to implement savings programs, stockholders would begin to see benefits from improved earnings -- depending on economic conditions and other factors.

Q: When will this happen?

A: We expect the process to take about 1 1/2 years ... we hope to complete it by the end of 1996.

Q: How will the stock trade in the meantime?

A: It will trade separately until the transaction is completed. Before that happens, UE will send you a proxy this fall and hold a special stockholders meeting before the end of the year. Then it will take about a year to get regulatory approvals. After we go through that process and complete the transaction, we will send you information about the details. The stock of the new holding company -- rather than Union Electric -- will trade on the New York Stock Exchange.

Q: Will the ticker symbol be the same?

A: The ticker symbol will be determined later.. don't know what the ticker symbol will be for the new company ... it may stay the same.

Q: Will I have to turn in my stock certificate?

A: Yes, we will ask for your stock certificate when the merger is completed ... but we will give you plenty of time to do that.

Highly Confidential

Q: How many shares of the new company will I get?

A: You'll get one share of stock in the new company for every UE share you have. [Note: CIPSCO stockholders will get 1.03 shares of stock in the new company for every share they own.]

Q: Will this affect me, since I own UE's preferred stock?

A: No ... it won't affect it at all.

Q: Are any of your bonds callable as a result of this merger?

A: No.

Q: How much is this costing me as a stockholder?

A: The long-run goal of the transaction is to create a stronger company, which means a better investment.

Offer to send a news release and transaction at a glance sheet.

lsq/aa

Highly Confidential

Q. When did talks start?

A. Initial discussions began in late June.

Q. How much do you expect savings to total? Where will these savings come from?

A. We anticipate about \$570 million in savings over the next 10 years. The timing of these savings depends on when we achieve the synergies, but we expect to realize savings beginning in the first year after the transaction is completed. About half of the \$570 million is expected to come from reductions in general and administrative costs. About 30 percent will come through labor reductions. Other savings come from jointly dispatching power, joint purchase of materials, and from reductions in electric production costs and gas costs. We will detail those savings more specifically in regulatory filings.

Q. How much will implementing the savings cost you?

A. We estimate the costs to achieve these savings will be about \$19 million over 10 years, mainly booked in the first two years.

Q. When are you filing with which regulators?

A. We will file with the Missouri Public Service Commission, the Illinois Commerce Commission and the Federal Energy Regulatory Commission this fall and will submit filings to the Securities and Exchange Commission and the Nuclear Regulatory Commission. The Federal Trade Commission and the Department of Justice will review the agreement, as they do with all mergers over a certain size. We anticipate hearings before the Illinois Commerce Commission and the Missouri Public Service Commission.

Q. Is the transaction dilutive?

A. We expect no dilution in the first two years after the transaction closes. After we achieve the synergies we expect, we will see earnings begin to flow to stockholders and cost savings flow to customers.

Q. Are you paying a premium for this company? Will that be recoverable in rates?

A. The transaction represents a premium of about 23 percent to CIPSCO's stockholders. Of course, this isn't an acquisition; it's a business combination. The exchange ratio is 1.03 shares of the new holding company for CIPSCO shareholders. Our regulators will look at that issue in the light of today's business climate—one of increasing utility competition and one in which UE is already committed to share savings with customers. We expect this merger to create efficiencies that will result in a sharing of net savings between our customers and our stockholders.

Q. Why not an outright purchase? Why not just pay cash?

A. Investors favor the stock-for-stock transaction. It doesn't trigger a tax event. Also, a cash transaction would generate a significant amount of goodwill. Goodwill must be written off against earnings.

Highly Confidential

- Q. Other recently announced merger deals seemed to promise a lot more in terms of savings and in a shorter time period. Why your time frame and amount?
- A. These two companies are already low-cost producers -- offering some of the lowest rates in the nation. Both have reduced costs fairly aggressively. With two already-efficient operations, you won't see the dramatic savings projected with some other transactions.
- Q. Why become a holding company?
- A. We opted for that structure because it took advantage of the companies' independent strengths and because it provides flexibility in capitalizing on cost savings and opportunities, as they occur.
- Q. Are you going to continue in the nonregulated business that CIPSCO runs? Do you plan to expand it?
- A. We will continue that business and intend to pursue opportunities as they arise.
- Q. There has been a lot of press about the antiquated nature of the public utility holding company act. Why place yourself under utility holding company act provisions?
- A. We don't believe that a holding company will prevent us from accomplishing savings, given our very strong management. In addition, the Securities and Exchange Commission regulation under Public Utility Holding Company Act (PUHCA) is changing.
- Q. Explain the thinking behind PUHCA.
- A. PUHCA was enacted to curb Depression-era pyramid schemes and the practices of billing utility subsidiaries excessively for services and writing up assets, among other abuses. PUHCA limits the concentration and type of investments a utility holding company can make.
- Q. What happens to the CIPSCO holding company entity? Does it dissolve now that you have a holding company structure where you can place your nonutility ventures?
- A. Once the transaction closes, then CIPSCO will no longer exist, but CIPS--Central Illinois Public Service Company--continues to exist.
- Q. Will any of the regulatory agencies force any divestitures?
- A. We don't believe this will be a problem. As PUHCA is now written, a waiver is required to operate both electric and gas businesses. Such waivers have been granted to other companies in the past. We don't foresee any problems.

Highly Confidential

- Q. Isn't it a departure for UE to be involved with diversification in non-utility areas--like that of CIPSCO Incorporated?
- A. CIPSCO has followed a conservative investment philosophy in placing a small amount of its earnings -- about five percent--in leveraged leases and a hedged equity portfolio. These include ownership interests in peaking turbines, real estate and an aircraft. CIPSCO's stated plans have been to use this subsidiary to invest in energy businesses, such as electric generating plants.
- Q. How will companies work together between now and closure?
- A. Until completion of the transaction, UE and CIPSCO will operate independently. A transition team will manage this. The new holding company chairman and CEO (UE CEO) Chuck Mueller and holding company vice chairman (CIPSCO CEO) Cliff Greenwalt are chairing the team.
- Q. For the individual UE and CIPSCO shareholders out there who will be confused by this, I need to say something about what they should do with their stock?
- A. There's no need to do anything immediately. The stock of each company continues to trade separately. Here's how the transaction works: This fall, shareholders of both companies will get copies of a proxy explaining the transaction. Following that, both groups of shareholders will vote on the agreement---including holders of preferred shares. Regulatory approvals will take about a year. In late 1996, the companies will contact shareholders with the details of the transaction as of that time. Subject to shareholder approval, shareholders can exchange their certificates or transfer can be handled through any third party holding their shares, like UE's DR Plus dividend reinvestment plan.
- Q. When can people buy stock in this new company?
- A. Once the transaction is final, the shares will be listed on the New York Stock Exchange and will be available for purchase. We will let you know the date.

Highly Confidential

Q&A FOR RESPONSE TO ILLINOIS-SPECIFIC MEDIA/EMPLOYEE QUESTIONS

- Q. How many employees does UE have in Illinois who might be affected by this transaction?
- A. Around 170.
- Q. How many gas and electric customers does UE have in Illinois?
- A. As of June 30, 1995, UE's gas customers number 17,907. Electric customers in Illinois number 63,835.
- Q. How much do these Illinois customers represent in revenues?
- A. At June 30, 1995, UE's Illinois electric revenues totalled \$155.2 million. UE's Illinois gas revenues were \$9.7 million.
- Q. What happens to UE's Illinois customers under this holding company?
- A. Our customers will become CIPS customers, but UE retains the transmission lines the company owns in Illinois and our Venice Plant, a 429-megawatt oil and natural gas plant in Venice, Ill.
- Q. What happens to Illinois employees of UE?
- A. The transition team will be analyzing that issue. We will keep employees informed on that.
- Q. In Illinois, what is the rate differential between UE and CIPS? Will UE's Illinois customers have to pay the CIPS rate?
- A. The best index is average revenues per customer. In Illinois, for UE's industrial customers that number is 3.07 cents per kilowatthour; commercial rates are 5.51 cents per kilowatthour and residential rates are 7.61 cents per kilowatthour. CIPS's industrial rates are 4.71 cents per kilowatthour; commercial rates are 6.75 cents per kilowatthour and residential rates are 8.01 cents per kilowatthour.
- These revenues average 4.26 cents per kilowatt hour for UE, versus 6.51 cents per kilowatthour for CIPS.
- As you can see from this, CIPS' rates are among the lowest in the region but are slightly higher than UE's Illinois rates. Details of the transfer of customers to CIPS will be worked out before the merger is consummated. We will keep customers informed on that.
- Q. CIPS has a scrubber. UE has switched to western coal. What does this mean for the Illinois coal industry?
- A. Any change in coal usage could not be attributed to the merger. Each company must evaluate its own fuel plan in light of long-term fuel contracts, the unique characteristics of each company's generating units and the individual company's compliance strategy.

Highly Confidential

- Q. What will happen to UE stock in the 401K plan?
A. There will be an exchange of shares. UE common shareholders will own one share of the new holding company stock for each share of UE stock they hold. The exact provisions for this will be communicated to all shareholders, including employees who holds shares.
- Q. Will employees be able to apply for job openings at the holding company or at either operating company?
A. Qualified employees will have opportunities within the entire organization. As the new organization takes shape, employees will be able to apply for job openings at the holding company or at operating companies. However, it is not expected that employees will transfer back and forth between companies on a routine basis.
- Q. Will the holding company and each operating company maintain its own wage rates, benefit packages and work practices?
A. Yes.
- Q. What will happen to the multiple computer systems development projects that are in varying stages of completion?
A. This will be a high priority for the management transition task force. Each of these projects will be thoroughly reviewed to determine whether any alternative approaches should be considered. In the end, however, both operating companies need to be able to operate efficiently while approvals for the transaction are being pursued.
- Q. What happens to incentive compensation and stock option plans?
A. Each company will maintain its own plans.
- Q. Do both companies have employment contracts for key management?
A. Any arrangements will be identified in the proxy.
- Q. Did you discuss this merger with labor unions prior to signing an agreement?
A. No. Discussion prior to announcing the agreement would have violated Federal securities law.
- Q. Will CIPS office employees have to join a union?
A. No. The two companies will manage their labor agreements independently.
- Q. Will CIPS employees be paid out of St. Louis? What about benefit plans?
A. CIPS employees will remain CIPS employees. The benefit plans will continue but will be one of the items the transition team addresses.

AMEREN CORPORATION
PRO FORMA COMBINED BALANCE SHEET (ASSETS AND OTHER DEBITS)
SEPTEMBER 30, 1995
(UNAUDITED)

Line No.	Title of Account	UE (As Reported)	CIPS (As Reported)	Pro-Forma Adjustments	Pro-Forma Combined
1	UTILITY PLANT				
2	Utility Plant (101-106, 114)	\$7,972,794,773	\$2,498,997,443	(Note 2) -	\$10,471,792,216
3	Construction Work in Progress (107)	103,624,579	51,940,448	-	155,565,027
4	Total Utility Plant	8,076,419,352	2,550,937,891	-	10,627,357,243
5	Less Accumulated Provision for Depreciation, Amortization and Depletion (108, 111, 115)	2,849,689,671	1,115,529,321	-	3,965,218,992
6	Net Utility Plant, Less Nuclear Fuel	5,226,729,681	1,435,408,570	-	6,662,138,251
7	Nuclear Fuel (120.1-4, 120.60-63, 120.66-99)	711,127,410	-	-	711,127,410
8	Less Accumulated Provision for Amortization of Nuclear Fuel (120.5, 120.55)	559,019,123	-	-	559,019,123
	Net Utility Plant	5,378,837,968	1,435,408,570	-	6,814,246,538
	OTHER PROPERTY AND INVESTMENTS				
14	Nonutility Property (121)	2,056,607	82,091	-	2,138,698
15	Less Accumulated Provision for Depreciation and Amortization (122)	539,697	92,356	-	632,053
16	Investment in Associated Companies (123)	-	23,137	-	23,137
17	Investment in Subsidiary Companies (123.1)	(2,627,416)	2,134,932	-	(492,484)
20	Other Investments (124)	293,482	3,476,163	-	3,769,645
21	Special Funds (125-128)	88,309,032	-	-	88,309,032
	Total Other Property and Investments	87,492,008	5,623,967	-	93,115,975
	CURRENT AND ACCRUED ASSETS				
24	Cash (131)	1,711,647	1,572,310	-	3,283,957
25	Special Deposits (132-134)	106,167	2,750,249	-	2,856,416
26	Working Funds (135)	478,650	100,088	-	578,738
27	Temporary Cash Investments (136)	72,835,427	700,632	-	73,536,059
29	Customer Accounts Receivable (142)	277,715,571	50,519,359	-	328,234,930
30	Other Accounts Receivable (143)	6,323,798	19,016,702	-	25,340,500
31	Less Accumulated Provision For Uncollectible Accounts - Credit (144)	7,181,815	720,000	-	7,901,815
32	Notes Receivable from Associated Companies (145)	13,192,500	-	-	13,192,500
33	Accounts Receivable from Associated Companies (146)	192,899	381,567	-	574,466
34	Fuel Stock (151)	43,198,492	40,402,985	-	83,601,477
35	Fuel Stock Expense Undistributed (152)	-	2,035	-	2,035
37	Plant Material and Operating Supplies (154)	95,038,273	36,162,791	-	131,201,064
43	Stores Expenses Undistributed (163)	3,171,759	3,431,870	-	6,603,629
44	Gas Stored Underground - Current (164.1-.4)	12,235,865	11,200,135	-	23,436,000
46	Prepayments (165)	14,853,055	6,316,796	-	21,169,851
48	Interest and Dividends Receivable (171)	(774)	1,343,463	-	1,342,689
49	Rents Receivable (172)	106,524	-	-	106,524
50	Accrued Utility Revenues (173)	58,983,000	16,993,000	-	75,976,000
51	Miscellaneous Current and Accrued Assets (174)	-	8,249,068	-	8,249,068
	Total Current and Accrued Assets	592,961,038	198,423,050	-	791,384,088
	DEFERRED DEBITS				
54	Unamortized Debt Expenses (181)	11,484,370	3,118,763	-	14,603,133
57	Other Regulatory Assets (182.3)	747,414,279	57,789,205	-	805,203,484
58	Preliminary Survey and Investigation Charges (183)	-	75,588	-	75,588
60	Clearing Accounts (184)	804,451	(651,423)	-	153,028
62	Temporary Facilities (185)	166,075	-	-	166,075
62	Miscellaneous Deferred Debits (186)	896,855	28,558,962	-	29,455,817
65	Unamortized Loss on Reacquired Debt (189)	34,248,496	13,694,235	-	47,942,731
66	Accumulated Deferred Income Taxes (190)	162,794,000	46,798,257	-	209,592,257
68	Total Deferred Debits	957,808,528	149,383,587	-	1,107,192,113
69	Total Assets and Other Debits	\$7,017,099,540	\$1,788,839,174	-	\$8,805,938,714

See accompanying Notes to Unaudited Pro Forma Combined Financial Statements

Exhibit No. 35
Date 9-5-96 Case No. EM-96-149
Reporter XF

AMEREN CORPORATION
PRO FORMA COMBINED BALANCE SHEET (ASSETS AND OTHER DEBITS)
SEPTEMBER 30, 1995
(UNAUDITED)

Line No.	Title of Account	UE (As Reported)	CIPS (As Reported)	Pro-Forma Adjustments (Note 2)	Pro-Forma Combined
1	PROPRIETARY CAPITAL				
2	Common Stock Issued (201)	\$510,834,120	\$121,281,894	(\$630,743,429)	\$1,372,585
3	Preferred Stock Issued (204)	219,147,100	80,000,000	-	299,147,100
6	Premium on Capital Stock (207)	712,546,956	-	630,528,909	1,343,075,865
7	Other Paid-In Capital (208-211)	5,122,017	-	-	5,122,017
11	Retained Earnings (215, 215.1, 216)	1,136,951,274	463,886,894	-	1,600,838,168
12	Unappropriated Undistributed Subsidiary Earnings (216.1)	(6,143,416)	814,204	-	(5,329,212)
13	Less Reacquired Capital Stock (217)	(214,950)	-	214,520	(430)
14	Total Proprietary Capital	2,578,243,101	665,982,992	-	3,244,226,093
15	LONG-TERM DEBT				
16	Bonds (221)	1,369,000,000	299,000,000	-	1,668,000,000
19	Other Long-Term Debt (224)	378,585,000	182,000,000	-	558,585,000
20	Unamortized Premium on Long-Term Debt (225)	23,052	10,449	-	33,501
21	Less Unamortized Discount on Long-Term Debt - Debit (226)	9,741,099	2,159,918	-	11,901,017
22	Total Long-Term Debt	1,735,866,953	478,850,531	-	2,214,717,484
23	Minority Interest in Consolidated Subsidiary	-	-	-	-
24	OTHER NONCURRENT LIABILITIES				
24	Obligations Under Capital Lease - Noncurrent (227)	63,475,450	-	-	63,475,450
26	Accumulated Provision for Injuries and Damages (228.2)	13,129,399	-	-	13,129,399
27	Accumulated Provision for Pensions and Benefits (228.3)	-	-	-	-
28	Accumulated Miscellaneous Operating Provisions (228.4)	19,745,868	-	-	19,745,868
30	Total Other Noncurrent Liabilities	96,350,717	-	-	96,350,717
31	CURRENT AND ACCRUED LIABILITIES				
32	Notes Payable (231)	-	-	-	-
33	Accounts Payable (232)	118,284,204	48,232,785	-	166,516,989
35	Accounts Payable to Associated Companies (234)	-	-	-	-
36	Customer Deposits (235)	11,658,830	2,733,912	-	14,392,742
37	Taxes Accrued (236)	181,723,132	23,823,732	-	205,546,864
38	Interest Accrued (237)	57,372,136	8,610,043	-	65,982,179
39	Dividends Declared (238)	3,300,619	174,276	-	3,474,895
42	Tax Collections Payable (241)	6,901,390	1,228,098	-	8,129,488
43	Miscellaneous Current and Accrued Liabilities (242)	47,030,185	28,168,134	-	75,198,319
44	Obligations Under Capital Leases - Current (243)	34,295,214	-	-	34,295,214
45	Total Current and Accrued Liabilities	460,565,710	112,970,980	-	573,536,690
46	DEFERRED CREDITS				
47	Customer Advances for Construction (252)	7,927,675	1,234,685	-	9,162,360
48	Accumulated Deferred Investment Tax Credits (255)	168,067,607	53,074,146	-	221,141,753
50	Other Deferred Credits (253)	210,049,872	29,105,205	-	239,155,077
51	Other Regulatory Liabilities (254)	220,943,717	114,569,185	-	335,512,902
53	Accumulated Deferred Income Taxes (281-283)	1,539,084,188	333,051,450	-	1,872,135,638
54	Total Deferred Credits	2,146,073,059	531,034,671	-	2,677,107,730
68	Total Liabilities and Other Credits	\$7,017,099,540	\$1,788,839,174	-	\$8,805,938,714

See accompanying Notes to Unaudited Pro Forma Combined Financial Statements.

AMEREN CORPORATION
PRO FORMA COMBINED STATEMENTS OF INCOME
FOR THE 12 MONTHS ENDED SEPTEMBER 30, 1995
(UNAUDITED)

Line No.	Account	TOTAL			
		UE (As Reported)	CIPS (As Reported)	Pro-Forma Adjustments	Pro-Forma Combined
1	UTILITY OPERATING INCOME				
2	Operating Revenues (400)	\$2,222,756,129	\$826,750,632	-	\$3,049,506,761
3	OPERATING EXPENSES				
4	Operations (401)	916,764,797	465,586,745	-	1,382,351,542
5	Maintenance (402)	220,997,338	66,486,006	-	287,483,344
6	Depreciation (403)	231,162,909	79,090,143	-	310,253,052
7	Amortization and Depletion of Utility Plant (404-405)	399,251	3,092,983	-	3,492,234
8	Amortization of Utility Plant Acquisition Adjustment (406)	161,339	-	-	161,339
9	Amort. of Property Losses, Unrecovered Plant and Regulatory Study Costs (407)	763,584	-	-	763,584
13	Taxes Other Than Income Taxes (408.1)	212,121,782	56,145,606	-	268,267,388
14	Income Taxes - Federal (409.1)	192,414,000	34,226,313	-	226,640,313
15	- Other (409.1)	30,501,000	5,579,847	-	36,080,847
16	Provision for Deferred Income Taxes (410.1)	51,856,000	18,762,587	-	70,618,587
17	Less Provision for Deferred Income Taxes - Credit (411.1)	67,744,000	7,746,727	-	75,490,727
18	Investment Tax Credit Adjustment - Net (411.4)	(6,179,000)	(3,362,481)	-	(9,541,481)
19	Less Gains from Disposition of Utility Plant (411.6)	46,563	-	-	46,563
21	Less Gains from Disposition of Allowances (411.8)	-	4,071,093	-	4,071,093
22	Gains from Disposition of Allowances (411.9)	-	262,797	-	262,797
23	Total Utility Operating Expenses	1,783,172,437	714,052,726	-	2,497,225,163
24	Net Utility Operating Income	439,583,692	112,697,906	-	552,281,598
	OTHER INCOME AND DEDUCTIONS				
27	Other Income				
29	Revenues From Merchandising, Jobbing and Contract Work (415)	-	(33,838)	-	(33,838)
30	Less costs and Expenses of Merchandising, Jobbing and Contract Work (416)	-	6,921	-	6,921
33	Nonoperating Rental Income (418)	(35,052)	-	-	(35,052)
34	Equity in Earnings of Subsidiary Companies (418.1)	1,274,061	2,460,000	-	3,734,061
35	Interest and Dividend Income (419)	5,037,908	1,561,995	-	6,599,903
36	Allowance for Other Funds Used During Construction (419.1)	6,185,709	725,206	-	6,910,915
37	Miscellaneous Nonoperating Income (421)	35,256	4,980	-	40,236
38	Gain on Disposition of Property (421.1)	131,280	12,103	-	143,383
39	Total Other Income	12,629,162	4,723,525	-	17,352,687
40	Other Income Deductions				
41	Loss on Disposition of Property (421.2)	171	3,512	-	3,683
42	Miscellaneous Amortization (425)	1,589,742	319,062	-	1,908,804
43	Miscellaneous Income Deductions (426.1-426.5)	19,804,137	400,566	-	20,204,703
44	Total Other Income Deductions	21,394,050	723,140	-	22,117,190
45	Taxes Applicable to Other Income and Deductions				
46	Taxes Other Than Income Taxes (408.2)	81,230	803	-	62,033
47	Income Taxes - Federal (409.2)	(3,800,000)	1,151,278	-	(2,648,722)
48	- Other (409.2)	(601,000)	62,458	-	(538,542)
49	Provision for Deferred Income Taxes (410.2)	771,000	(83,103)	-	687,897
50	Less Provision for Deferred Income Taxes - Credit (411.2)	(85,000)	32,570	-	(52,430)
53	Total Taxes on Other Income and Deductions	(3,483,770)	1,098,866	-	(2,384,904)
54	Net Other Income and Deductions	(5,281,118)	2,901,519	-	(2,379,599)
	INTEREST CHARGES				
56	Interest on Long-Term Debt (427)	116,193,535	31,032,909	-	147,226,444
57	Amortization of Debt Discount and Expense (428)	1,350,846	504,974	-	1,855,820
58	Amortization of Loss on Reacquired Debt (428.1)	4,181,868	1,188,926	-	5,370,794
59	Less Amortization of Premium on Debt - Credit (429)	29,778	6,633	-	36,411
62	Other Interest Expense (431)	13,411,773	785,646	-	14,197,419
63	Less Allowance for Borrowed Funds Used During Construction - Credit (432)	6,335,883	107,239	-	6,443,122
64	Net Interest charges	128,772,361	33,398,583	-	162,170,944
72	Net Income	\$305,530,213	\$82,200,842	-	\$387,731,055

See accompanying Notes to Unaudited Pro Forma Combined Financial Statements

AMEREN CORPORATION
PRO FORMA COMBINED STATEMENTS OF INCOME
FOR THE 12 MONTHS ENDED SEPTEMBER 30, 1995
(UNAUDITED)

Line No.	Account	ELECTRIC UTILITY			
		UE (As Reported)	CIPS (As Reported)	Pro-Forma Adjustments	Pro-Forma Combined
1	UTILITY OPERATING INCOME				
2	Operating Revenues (400)	\$2,138,371,426	\$701,527,125	-	\$2,839,898,551
3	OPERATING EXPENSES				
4	Operations (401)	853,356,406	376,555,380	-	1,229,911,786
5	Maintenance (402)	217,685,186	62,109,390	-	279,794,576
6	Depreciation (403)	226,486,118	73,334,725	-	299,820,843
7	Amortization and Depletion of Utility Plant (404-405)	399,251	2,233,703	-	2,632,954
8	Amortization of Utility Plant Acquisition Adjustment (406)	161,339	-	-	161,339
9	Amort. of Property Losses, Unrecovered Plant and Regulatory Study Costs (407)	763,584	-	-	763,584
13	Taxes Other Than Income Taxes (408.1)	204,568,719	46,552,224	-	251,120,943
14	Income Taxes - Federal (409.1)	192,037,000	33,644,963	-	225,681,963
15	- Other (409.1)	30,464,000	5,638,007	-	36,102,007
16	Provision for Deferred Income Taxes (410.1)	50,555,000	16,618,331	-	67,173,331
17	Less Provision for Deferred Income Taxes - Credit (411.1)	67,448,000	10,109,133	-	77,557,133
18	Investment Tax Credit Adjustment - Net (411.4)	(6,104,000)	(3,153,220)	-	(9,257,220)
19	Less Gains from Disposition of Utility Plant (411.6)	46,563	-	-	46,563
21	Less Gains from Disposition of Allowances (411.8)	-	4,071,093	-	4,071,093
22	Gains from Disposition of Allowances (411.9)	-	262,797	-	262,797
23	Total Utility Operating Expenses	1,702,878,040	599,616,074	-	2,302,494,114
24	NET UTILITY OPERATING INCOME	\$435,493,386	\$101,911,051	-	\$537,404,437

Line No.	Account	GAS UTILITY			
		UE (As Reported)	CIPS (As Reported)	Pro-Forma Adjustments	Pro-Forma Combined
1	UTILITY OPERATING INCOME				
2	Operating Revenues (400)	\$83,936,337	\$125,223,507	-	\$209,159,844
3	OPERATING EXPENSES				
4	Operations (401)	63,137,656	89,031,365	-	152,169,021
5	Maintenance (402)	3,212,137	4,376,616	-	7,588,753
6	Depreciation (403)	4,645,817	5,755,418	-	10,401,235
7	Amortization and Depletion of Utility Plant (404-405)	-	859,280	-	859,280
8	Amortization of Utility Plant Acquisition Adjustment (406)	-	-	-	-
9	Amort. of Property Losses, Unrecovered Plant and Regulatory Study Costs (407)	-	-	-	-
13	Taxes Other Than Income Taxes (408.1)	7,504,571	9,593,382	-	17,097,953
14	Income Taxes - Federal (409.1)	381,000	581,350	-	962,350
15	- Other (409.1)	38,000	(58,160)	-	(20,160)
16	Provision for Deferred Income Taxes (410.1)	1,298,000	2,144,256	-	3,442,256
17	Less Provision for Deferred Income Taxes - Credit (411.1)	291,000	(2,362,406)	-	(2,071,406)
18	Investment Tax Credit Adjustment - Net (411.4)	(74,000)	(209,261)	-	(283,261)
23	Total Utility Operating Expenses	79,852,181	114,436,652	-	194,288,833
24	NET UTILITY OPERATING INCOME	\$4,084,156	\$10,786,855	-	\$14,871,011

Line No.	Account	STEAM HEATING UTILITY			
		UE (As Reported)	CIPS (As Reported)	Pro-Forma Adjustments	Pro-Forma Combined
1	UTILITY OPERATING INCOME				
2	Operating Revenues (400)	\$448,366	-	-	\$448,366
3	OPERATING EXPENSES				
4	Operations (401)	270,735	-	-	270,735
5	Maintenance (402)	100,015	-	-	100,015
6	Depreciation (403)	30,974	-	-	30,974
7	Amortization and Depletion of Utility Plant (404-405)	-	-	-	-
8	Amortization of Utility Plant Acquisition Adjustment (406)	-	-	-	-
9	Amort. of Property Losses, Unrecovered Plant and Regulatory Study Costs (407)	-	-	-	-
13	Taxes Other Than Income Taxes (408.1)	48,492	-	-	48,492
14	Income Taxes - Federal (409.1)	(4,000)	-	-	(4,000)
15	- Other (409.1)	(1,000)	-	-	(1,000)
16	Provision for Deferred Income Taxes (410.1)	3,000	-	-	3,000
17	Less Provision for Deferred Income Taxes - Credit (411.1)	5,000	-	-	5,000
18	Investment Tax Credit Adjustment - Net (411.4)	(1,000)	-	-	(1,000)
23	Total Utility Operating Expenses	442,216	-	-	442,216
24	NET UTILITY OPERATING INCOME	\$6,150	-	-	\$6,150

See accompanying Notes to Unaudited Pro Forma Combined Financial Statements

AMEREN CORPORATION
NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

1. All financial statement presentation and accounting policy differences between Union Electric and CIPS are immaterial and have not been adjusted in the pro forma combined financial statements.
2. The pro forma combined financial statements reflect the conversion of each share of Union Electric Common Stock (\$5 par value) outstanding into one share of Ameren Common Stock (\$.01 par value) and the conversion of each share of CIPS Common Stock (no par value) outstanding into 1.03 shares of Ameren Common Stock, as provided in the Merger Agreement. The pro forma combined financial statements are presented as if the companies were combined during all periods included therein.
3. Net income for the twelve months ended September 30, 1995 includes a pre-tax charge of \$6.3 million for CIPS' voluntary separation program.
4. The allocation between Union Electric and CIPS and their customers of the estimated cost savings resulting from the Mergers, net of the costs incurred to achieve such savings, will be subject to regulatory review and approval. Transaction costs are currently estimated to be approximately \$22 million (including fees for financial advisors, attorneys, accountants, consultants, filings and printing). None of these estimated cost savings or the costs to achieve such savings have been reflected in the pro forma combined financial statements. However, net income for the twelve months ended September 30, 1995 includes a charge of \$9 million, net of income taxes, for merger transaction costs.
5. Intercompany transactions (including purchased and exchanged power transactions) between Union Electric and CIPS during the periods presented were not material and, accordingly, no pro forma adjustments were made to eliminate such transactions.
6. In accordance with FERC reporting requirements, pro forma adjustments have not been made to consolidate the financial results of EEI, which will, in substance, be a 60% owned subsidiary of Ameren subsequent to the Merger. Union Electric and CIPS hold 40% and 20% ownership interests, respectively, in EEI and account for these investments under the equity method of accounting.
7. Net income for the twelve months ended September 30, 1995 includes a one-time credit to Missouri electric customers which reduced revenues and pre-tax income of Union Electric by \$30 million.