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AMEREN CORP  
Form U-1/A  
October 28, 2002

(As filed on October 28, 2002)

File No. 70-10078

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

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FORM U-1/A

AMENDMENT NO. 1  
TO  
APPLICATION OR DECLARATION  
UNDER THE  
PUBLIC UTILITY HOLDING COMPANY ACT OF 1935  
-----

AMEREN CORPORATION  
AMEREN ENERGY FUELS AND SERVICES COMPANY  
1901 Chouteau Avenue  
St. Louis, Missouri 63103

CILCORP INC.  
CENTRAL ILLINOIS LIGHT COMPANY  
CENTRAL ILLINOIS GENERATION, INC.  
300 Liberty Street  
Peoria, Illinois 61602

(Names of companies filing this statement and  
addresses of principal executive offices)  
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AMEREN CORPORATION

(Name of top registered holding company parent)  
-----

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Vice President, General Counsel and Secretary  
Ameren Services Company  
1901 Chouteau Avenue  
St. Louis, Missouri 63103

(Name and address of agent for service)  
-----

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The Application/Declaration filed in this proceeding on August 2, 2002 is hereby amended and restated in its entirety to read as follows:

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### ITEM 1. DESCRIPTION OF PROPOSED TRANSACTION.

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1.1 Introduction. Ameren Corporation ("Ameren"), a Missouri corporation and a registered holding company under the Public Utility Holding Company Act of 1935, as amended (the "Act"), (1) Ameren Energy Fuels and Services Company ("Ameren Fuels"), an indirect wholly-owned non-utility subsidiary of Ameren, CILCORP Inc. ("CILCORP"), an exempt holding company under Section 3(a)(1) of the Act, (2) CILCORP's public-utility subsidiary, Central Illinois Light Company ("CILCO"), and Central Illinois Generation, Inc. ("CIGI"), a subsidiary of CILCO that has been determined by the Federal Energy Regulatory Commission ("FERC") to be an "exempt wholesale generator" ("EWG"), (3) are filing this Application/Declaration pursuant to Sections 3(a)(1), 6(a), 7, 8, 9(a), 10, 11(b), 12(b), 12(c), 12(f) and 13(b) of the Act and Rules 26(c), 45, 46, 51, 54, 87 and 90-91 thereunder to request approval for the acquisition by Ameren of all of the issued and outstanding common stock of CILCORP (the "Transaction") and for certain other related proposals, as more fully described below. CILCORP is a wholly-owned subsidiary of The AES Corporation ("AES"), an exempt holding company under Section 3(a)(5) of the Act.(4)

Ameren requests that the Commission issue a final order approving the Transaction without an evidentiary hearing, as expeditiously as feasible. Ameren and AES intend to close the Transaction in December 2002 or as early in the first quarter of 2003 as possible.

As described in greater detail below, upon receipt of all necessary regulatory approvals, Ameren will purchase the common stock of CILCORP from AES for cash.(5) The Transaction is subject to, among other usual and customary

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1 See Ameren Corporation, Holding Co. Act Release No. 26809 (Dec. 30, 1997) (the "1997 Merger Order").

2 CILCORP is an exempt holding company under Section 3(a)(1) of the Act, pursuant to Rule 2. See Statement on Form U-3A-2 in File No. 69-305, filed February 27, 2002.

3 See Central Illinois Generation, Inc., 100 F.E.R.C. P. 62,011 (July 5, 2002). As explained below, CIGI will relinquish its EWG status on or shortly after Ameren completes its acquisition of the common stock of CILCORP, such that CIGI will become an additional public utility subsidiary of Ameren. Accordingly, for purposes of Sections 9(a) and 10 of the Act, Ameren's acquisition of CILCORP is treated as an indirect acquisition of the securities of two public-utility companies: CILCO and CIGI.

4 The Commission granted AES an exemption under Section 3(a)(5) of the Act in 1999 in connection with AES's acquisition of CILCORP. Subsequently, in 2001, the Commission authorized AES to acquire another utility holding company, IPALCO Enterprises, Inc., and extended AES's exemption under Section 3(a)(5), subject to the condition that AES divest its interest in CILCORP within two years following its acquisition of IPALCO Enterprises, Inc. See The AES Corporation, Holding Co. Act Release Nos. 27063 (Aug. 20, 1999) and 27363 (Mar. 23, 2001).

5 In conjunction with the Transaction, Ameren has also agreed to acquire from AES all of the membership interests in AES Medina Valley (No. 4), L.L.C., which indirectly through intermediate subsidiaries holds all of the membership interests in AES Medina Valley Cogen, L.L.C. ("AES Medina Valley"). AES Medina Valley, which has been determined by FERC to be an EWG, owns a 40 MW gas-fired cogeneration facility in Mossville, Illinois that produces electricity, steam and chilled water for sale to CILCO. See AES Medina Valley Cogen, L.L.C., 94

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F.E.R.C. P. 62,264 (Mar. 30, 2001). Ameren's indirect acquisition of AES Medina Valley is exempt pursuant to Section 32(g) of the Act. AES Medina Valley (No. 4), L.L.C. also owns all of the membership interests in AES Medina Valley Operations, L.L.C., which operates the Mossville facility.

conditions precedent, receipt by the parties of required state and federal regulatory approvals and filing of pre-merger notification statements under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended ("HSR Act"), and the expiration or termination of the statutory waiting period thereunder. (See Item 4 - Regulatory Approvals, below). The boards of directors of Ameren and AES have each approved the proposed Transaction. The Transaction does not require any approval by the shareholders of Ameren or AES.

In addition to authorization of the Transaction, CILCORP, CILCO and CIGI are requesting authorization herein through March 31, 2006 (the "Authorization Period") for a program of long-term and short-term financing, including authorization for CILCORP, CILCO and CIGI to issue long-term and short-term notes to Ameren to evidence borrowings from Ameren. Ameren Fuels is requesting authorization to enter into a fuel services agreement with CILCO and CIGI on terms that are substantially identical to the terms of a Fuel Services Agreement with AmerenUE and AmerenCIPS that the Commission has previously approved. CILCORP is requesting authorization to issue guarantees and provide other forms of credit support on behalf of its subsidiaries, and to pay dividends out of capital and unearned surplus, subject to certain limitations. Finally, CILCORP and CILCO are requesting an order granting to each of them an exemption under Section 3(a)(1) of the Act.

1.2 Description of Ameren and Its Subsidiaries.

Ameren's primary operating subsidiaries are Central Illinois Public Service Company ("AmerenCIPS") and Union Electric Company ("AmerenUE"), which are electric and gas utility companies, and Ameren Energy Generating Company ("Ameren Energy Generating"), which is an EWG.(6) These companies are engaged principally in the generation, transmission, distribution and sale of electric energy and the purchase, distribution, transportation and sale of natural gas.

AmerenCIPS, an Illinois corporation, supplies electric and gas utility service in a 20,000 square-mile area in central and southern Illinois having an

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6 See Ameren Energy Generating Co., 93 F.E.R.C. P. 62,210 (Dec. 18, 2000).

estimated population of 820,000. AmerenCIPS supplies electric service to about 325,000 customers and natural gas service to about 170,000 customers.

AmerenUE, a Missouri corporation, is the largest electric utility in the State of Missouri. It supplies electric and gas service in territories in a 24,500 square-mile area in Missouri and Illinois having an estimated population of 2,600,000, including the greater St. Louis area. AmerenUE supplies electric service to about 1.2 million customers and natural gas service to about 130,000

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customers.

Ameren Energy Generating is an indirect wholly-owned electric generating subsidiary of Ameren that was organized in order to facilitate the restructuring of AmerenCIPS in accordance with the Illinois Electric Service Customer Choice and Rate Relief Law of 1997 ("Customer Choice Law"). In May 2000, Ameren Energy Generating acquired all of the existing generating assets of AmerenCIPS.

AmerenUE and Ameren Energy Generating together own and operate about 12,600 MW of electric generating capacity, all of which is located in Missouri and Illinois. As of December 31, 2001, AmerenUE and AmerenCIPS owned and operated, or partially owned, a total of approximately 5,400 circuit miles of electric transmission lines and approximately 7,800 miles of natural gas transmission and distribution mains, substantially all of which are located in Missouri and Illinois.<sup>(7)</sup> AmerenUE and AmerenCIPS are members of the Mid-American Interconnected Network ("MAIN"), which is one of the ten regional electric reliability councils organized for coordinating the planning and operation of the nation's bulk power supply. AmerenUE and AmerenCIPS operate their electric transmission systems as a single control area, subject to a single open access transmission tariff on file with the FERC. On May 28, 2002, Ameren informed the FERC that AmerenUE and AmerenCIPS intend to participate in the Midwest Independent System Operator ("MISO"), either as transmission owners or as members of an independent transmission company that is itself a member of the MISO. Subsequently, on June 20, 2002, Ameren and two other utilities (American Transmission Systems, Inc., a subsidiary of FirstEnergy Corp., and Northern Indiana Public Service Company, a subsidiary of NiSource Inc.) agreed to form a for-profit independent transmission company, called GridAmerica, LLC, as the vehicle through which they would participate in the MISO and filed a letter of intent to that effect with the FERC. On July 3, 2002, definitive agreements establishing GridAmerica, LLC as a participant in the MISO were filed with the FERC.

Ameren's direct non-utility subsidiaries are:

- o CIPSCO Investment Company, which holds various nonregulated and passive investments, including passive investments in low income housing projects and investments in equipment leases;
- o Ameren Services Company ("Ameren Services"), a service company subsidiary that provides administrative, accounting, legal, engineering, executive, and other corporate support services to Ameren and its associate companies;

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<sup>7</sup> Ameren owns interconnecting electric transmission facilities in southeastern Iowa but does not serve any customers in Iowa.

- o Ameren Energy, Inc., an energy-related company under Rule 58 that primarily serves as the short-term energy trading and marketing agent for AmerenUE and Ameren Energy Generating and provides a range of energy and risk management services;
- o Ameren Development Company, an intermediate non-utility holding company, which directly and indirectly owns all of the outstanding stock of two energy-related companies under Rule 58 (Ameren ERC, Inc., which provides energy management services, and Missouri

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Central Railroad, a fuel transportation subsidiary) and of an exempt telecommunications company within the meaning of Section 34 of the Act (Ameren Energy Communications, Inc.);

- o Ameren Energy Resources Company, also an intermediate non-utility holding company, which holds all of the outstanding common stock of Ameren Energy Development Company, an EWG, as well as of two energy-related companies under Rule 58 (Ameren Energy Marketing Company, a power marketer, and Ameren Fuels, which brokers and markets energy commodities and owns and manages fuel procurement and delivery assets). Ameren Energy Generating is a wholly-owned subsidiary of Ameren Energy Development Company.

In addition, Ameren indirectly owns 60% of the common stock of Electric Energy, Inc. ("EEI"), an EWG. EEI owns and/or operates electric generation and transmission facilities in Illinois that supply electric power primarily to a uranium enrichment plant located in Paducah, Kentucky.(8)

An organizational chart showing the relationship of Ameren and its subsidiaries is filed herewith as Exhibit E-1.

For the twelve months ended December 31, 2001, Ameren reported total operating revenues of \$4,505,867,000, operating income of \$664,987,000, and net income of \$468,545,000. On a consolidated basis, approximately 92.2% of Ameren's 2001 operating revenues were derived from sales of electricity, 7.6% from sales of gas and gas transportation service, and .2% from other sources. At December 31, 2001, Ameren had \$10,400,575,000 in total assets, including net property and plant of \$8,426,562,000. As of August 9, 2002, Ameren had issued and outstanding 144,946,829 shares of common stock, \$.01 par value. Ameren's common stock is listed and traded on the New York Stock Exchange ("NYSE").

### 1.3 Description of CILCORP and Its Subsidiaries.

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CILCORP, an Illinois corporation, owns all of the issued and outstanding common stock of CILCO, its predominant subsidiary. CILCO is engaged in the generation, transmission, distribution and sale of electric energy in an area of approximately 3,700 square miles in central and east-central Illinois, and the

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8 The remaining 40% of the stock of EEI is held equally by two unaffiliated electric utility companies.

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purchase, distribution, transportation and sale of natural gas in an area of approximately 4,500 square miles in central and east-central Illinois.

#### a. CILCO's Electric Utility Operations.

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CILCO furnishes electric service to retail customers in 136 Illinois communities (including Peoria, East Peoria, Pekin, Lincoln and Morton). At December 31, 2001, CILCO had approximately 201,000 retail electric customers. CILCO owns and operates two coal-fired base load generating plants, a natural gas-fired cogeneration plant, two natural gas combustion turbine generators and 16 diesel-fueled power modules and leases 14 diesel-fueled power modules, all of



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which are located in Illinois. These facilities had an available summer capability of 1,172 MW in 2001 and 1,197 MW in 2002. The natural gas combustion turbine generators and the power modules are typically used for peaking service. The cogeneration plant, which became operational in 1995, produces steam for sale to a large agricultural processing customer and electricity for distribution to CILCO's customers.

The major generating facilities of CILCO (representing 92.4% of CILCO's available summer generating capability projected for 2002), all of which are fueled with coal, are as follows:

STATION & UNIT	INSTALLED	AVAILABLE SUMMER CAPABILITY (MW)
Duck Creek		
Unit 1	1976	366
E. D. Edwards		
Unit 1	1960	117
Unit 2	1968	262
Unit 3	1972	361

CILCO's transmission system (all of which is located in Illinois) includes approximately 285 circuit miles operating at 138 kV, 48 circuit miles operating at 345 kV and 18 principal substations with an installed capacity of approximately 3,724 megavolt-amperes. CILCO's electric distribution system (all of which is located in Illinois) includes approximately 6,516 circuit miles of overhead pole and tower lines and 1,933 miles of underground distribution cables. The distribution system also includes approximately 108 substations with an installed capacity of 1,766 megavolt-amperes.

CILCO has a power purchase agreement with AmerenCIPS for the purchase of 100 MW of capacity and firm energy for the months of June through September through 2003 which, additionally, provides for 100 MW of firm energy for the month of January through 2003. CILCO and Ameren also make short-term sales of power to each other from time to time under market-based rate tariffs as authorized by the FERC.

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CILCO's service territory is adjacent to AmerenCIPS' service territory. The transmission systems of the two companies are directly interconnected via a 345 kV line that runs approximately 21.3 miles between CILCO's Duck Creek station, which is southwest of Peoria, to a 345/138 kV transformer owned by AmerenCIPS near Ipava, Illinois. AmerenCIPS owns about 9.5 miles of this line, and CILCO owns the rest. CILCO is also directly interconnected with Commonwealth Edison Company, Illinois Power Company and City Water, Light and Power, the municipal utility in the City of Springfield, Illinois ("CWL"). Like AmerenUE and AmerenCIPS, CILCO is a member of MAIN. CILCO is already a transmission owning member of the MISO, and operates its transmission system under the direction of the MISO pursuant to the terms of the MISO Open Access Transmission Tariff on file with the FERC.(9)

CILCO intends to transfer substantially all of its generating assets and certain associated transmission facilities, such as step-up transformers and generation tie lines, to CIGI, in the form of a capital contribution of these

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assets in exchange for all of CIGI's common stock and CIGI's assumption of certain liabilities.(10) This transfer is expected to be completed prior to closing of the Transaction, but could possibly be delayed until after closing. The transferred assets will remain subject to the lien of CILCO's Indenture of Mortgage and Deed of Trust, which secures CILCO's first mortgage bonds ("CILCO Mortgage").(11) This reorganization is being undertaken pursuant to the Customer Choice Law. CILCO will retain all of its other electric transmission and distribution assets and operations. CILCO has obtained the approvals of the

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9 As described in Item 3.2(a) below, Ameren is proposing in its FERC application, as a condition for obtaining FERC approval of the Transaction, to implement certain transmission system upgrades in order to increase import capability into the control areas of Ameren, CILCO and CWLP.

10 CILCO will transfer generating facilities representing 1,136 MW of its total generating capacity. These include the Duck Creek and E.D. Edwards coal-fired units and certain peaking units. CILCO will continue to own and maintain a natural gas-fired cogeneration plant and 26 MW of capacity provided by 16 diesel-fueled power modules located at various substations, which will be managed by CIGI.

11 CILCO does not have sufficient unfunded property additions at this time to obtain a complete release of the generation assets under the CILCO Mortgage. Under the CILCO Mortgage, CILCO does not require the trustee's approval to transfer the generating assets to CIGI (although CILCO has notified the trustee of its intent to do so) and also would not require the trustee's approval to transfer CIGI's common stock to CILCORP or another subsidiary of Ameren after the Transaction closes. In general, the CILCO Mortgage permits CILCO to transfer a portion of its assets, subject to the lien. However, even after the transfer of the assets to CIGI, CILCO will continue to have certain ongoing obligations with respect to the transferred property, such as ensuring that the lien is maintained, taxes are paid and the property is insured. The trustee under the CILCO Mortgage will continue to have recourse against the transferred assets in the event of a CILCO default under the CILCO Mortgage.

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Illinois Commerce Commission ("ICC")(12) and the FERC(13) for the transfer of these assets, and CIGI has received a determination by the FERC that it is an EWG.(14)

As part of this reorganization, CILCO and CIGI will also enter into a Power Supply Agreement ("PSA") and an Interconnection Agreement pursuant to which CIGI will supply the full requirements of CILCO's customers through December 31, 2004.(15) In light of recently enacted legislation in Illinois, which extends the rate freeze for CILCO through 2006 if Ameren completes the acquisition of CILCORP, Ameren anticipates that CILCO and CIGI will file a request with FERC to extend the PSA, on its existing terms, until December 31, 2006. After December 31, 2006, CILCO will obtain its full requirements from market sources, which could include CIGI or other affiliates of CILCO and Ameren, if any of such entities offer the most economical and reliable source of power and energy.

b. CILCO's Gas Utility Operations.

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CILCO provides gas service to customers in 128 Illinois communities (including Peoria, East Peoria, Pekin, Lincoln and Springfield). At December 31, 2001, CILCO had approximately 204,000 gas customers, including 160 industrial, commercial and residential gas transportation customers that purchase gas directly from suppliers for transportation through CILCO's system. CILCO's gas system includes approximately 3,632 miles of transmission and distribution mains (all of which are located in Illinois). CILCO has an underground gas storage facility located about ten miles southwest of Peoria near Glasford, Illinois. The facility has a present working capacity of approximately 3,700,000 Mcf with daily withdrawal capacity of up to approximately 120,000 Mcf, depending on field pressure. An additional storage facility near Lincoln, Illinois, has a present working capacity of approximately 4,200,000 Mcf with a daily withdrawal capacity of up to approximately 65,000 Mcf, depending on field pressure.

### c. Regulation of CILCO and CIGI.

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CILCO is regulated by the ICC with respect to retail electric and gas rates and service, classification of accounts, the issuance of stock and evidence of indebtedness (other than indebtedness with a final maturity of less than one year and renewable for a period of not more than two years), contracts with any affiliated interest, and other matters, and by the FERC with respect to transmission service and wholesale electric rates. CIGI is not a public utility company under the laws of Illinois and is therefore not subject to regulation by the ICC. However, CIGI is subject to regulation by the FERC with respect to wholesale electric rates and other matters.

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- 12 See Central Illinois Light Company, Docket Nos. 02-0140 (consolidated) and 02-0153 (April 10, 2002), 2002 Ill. PUC LEXIS 414.
- 13 See Central Illinois Light Company, 99 F.E.R.C. P. 62,143 (May 28, 2002).
- 14 See note 3, supra.
- 15 CIGI has filed the PSA with the FERC in a separate proceeding.

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### d. CILCORP's Non-Utility Businesses.

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CILCORP directly owns all of the common stock of three non-utility subsidiaries: CILCORP Investment Management Inc. ("CIM"), CILCORP Ventures Inc. ("CVI"), and QST Enterprises Inc. ("QST"). CIM manages the Company's investment portfolio. CIM, through subsidiaries, is a lessor in seven leveraged lease transactions covering electric production facilities, warehouses, office buildings, passenger railway equipment and an aircraft that are leased to third parties. CIM's subsidiaries are CILCORP Lease Management Inc., which was formed in 1985, and CIM Leasing Inc. and CIM Air Leasing Inc., which were both formed in 1993. CIM's other wholly-owned subsidiary is CIM Energy Investments Inc., which was formed in 1989 to invest in non-regulated, independent power production facilities. CIM also directly owns limited partnership interests in affordable housing portfolios. CVI primarily invests in ventures in energy-related products and services. CVI has an 80% interest in the Agricultural Research and Development Corporation and has one wholly-owned subsidiary, CILCORP Energy Services Inc. ("CESI"). CESI was formed to pursue

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energy-related opportunities in the non-regulated market. CESI's primary business is gas management services, including commodity purchasing for gas management customers. QST was organized to provide energy and related services in non-regulated retail and wholesale markets. QST has two active subsidiaries: CILCORP InfraserVICES Inc., which provides utility operation and maintenance services (predominantly to Caterpillar Inc., CILCO's largest customer); and ESE Land Corporation, which holds interests in environmentally distressed parcels of real estate acquired for resale.

As previously noted, CILCO directly engages in making steam sales to a large agricultural processing customer. In addition to CIGI, CILCO owns all of the issued and outstanding common stock of two non-utility subsidiaries. The first, CILCO Exploration and Development Company, engages in the exploration and development of gas, oil, coal and other mineral resources. The second, CILCO Energy Corporation, was formed to research and develop new sources of energy, including the conversion of coal and other minerals into gas. Neither company conducts any significant business at this time.

An organizational chart showing the relationship of CILCORP and its subsidiaries is filed herewith as Exhibit E-2. A more complete description of CILCORP's non-utility subsidiaries and investments and an analysis of the legal basis upon which Ameren is entitled to retain such subsidiaries and investments is filed herewith as Exhibit I. Ameren is committing to divest or discontinue certain non-utility businesses and investments of CILCORP.

For the twelve months ended December 31, 2001, CILCORP reported consolidated revenues of \$814,870,000, of which \$391,811,000 (48.1%) were derived from sales of electricity, \$271,434,000 (33.3%) from sales of gas and gas transportation service, and \$151,625,000 (18.6%) from CILCORP's non-utility operations. At December 31, 2001, CILCORP had \$1,811,698,000 in total assets, including total net property, plant and equipment of \$857,987,000.

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### e. Capitalization of CILCORP and Subsidiaries.

CILCORP currently has issued and outstanding 1,000 shares of common stock, no par value, all held by AES. In addition, CILCORP has outstanding \$225 million of 8.7% senior notes, due 2009, and \$250 million of 9.375% senior notes, due 2029 (the "CILCORP Senior Notes"), which are secured by a pledge of the common stock of CILCO. (16) The CILCORP Senior Notes are currently rated BB+ by Standard & Poor's ("S&P") and Baa2 by Moody's Investor Service ("Moody's"). CILCORP also had committed bank lines totaling \$35 million at December 31, 2001, under which it had outstanding borrowings of \$20 million.

At March 31, 2002, CILCO had issued and outstanding 13,563,871 shares of common stock, no par value, all of which are held by CILCORP; 191,204 shares of cumulative preferred stock, \$100 par value, and 220,000 shares of Class A preferred stock, no par value, totaling \$41,120,000; and \$242,250,000 of long-term debt, as follows: two series of first mortgage bonds totaling \$115,000,000, with maturities of 2007 and 2022; four series of medium term notes totaling \$71,350,000, with maturities ranging from 2003 to 2025; four series of pollution control revenue bonds totaling \$52,200,000, with maturities ranging from 2010 to 2023; and bank loans totaling \$6,100,000. In addition, at December 31, 2001, CILCO had issued and outstanding \$43,000,000 of commercial paper, and had in place bank lines totaling \$100,000,000 which are used to backstop its commercial paper. CILCO's secured long-term debt is currently rated BBB- by S&P and A2 by Moody's. CILCO's commercial paper is currently rated P-1

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by Moody's. Following the announcement of the Transaction, both CILCO and CILCORP were placed on "credit watch" by S&P, with positive implications to their ratings. Moody's currently has CILCORP and CILCO under review for possible downgrade.

On a consolidated basis, CILCORP's capitalization at December 31, 2001 was as follows:

Common equity	\$515,112,000	38%
Preferred stock	\$41,120,000	3%
Long-term debt	\$717,730,000	54%
Short-term debt (incl. current portion of long term debt)	\$64,400,000	5%
Total capitalization	\$1,338,362,000	100%

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16 As explained in Item 3 below, the pledge of CILCO's shares cannot be eliminated without redeeming the CILCORP Senior Notes. Because of the current high cost of redeeming the CILCORP Senior Notes, Ameren is proposing that the CILCORP Senior Notes and the pledge securing them remain outstanding after the acquisition of CILCORP.

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CILCO's capitalization at December 31, 2001 was as follows:

Common equity	\$339,901,000	51%
Preferred stock	\$41,120,000	6%
Long-term debt	\$242,730,000	36%
Short-term debt (incl. current portion of long term debt)	\$44,400,000	7%
Total capitalization	\$668,151,000	100%

### 1.4 Principal Terms of Stock Purchase Agreement.

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The Stock Purchase Agreement provides that, subject to the receipt of all necessary regulatory approvals and the satisfaction of other conditions precedent, Ameren will pay AES, in consideration for all of the issued and outstanding common stock of CILCORP, cash in an amount equal to \$1,340,000,000, less the amount of "Assumed Obligations," increased or decreased, as appropriate, by the amount, if any, by which "Working Capital" of CILCORP as of the closing date exceeds or is less than the "Base Working Capital" of CILCORP, and increased or decreased, as appropriate, by the amount of the "CapEx Adjustment," as such terms are defined below, the net amount of the foregoing being the "Purchase Price."

The term Assumed Obligations means the amounts required to be included on CILCORP's balance sheet as of the closing date as long-term debt (including the current portion), short-term debt, capital lease obligations, preferred stock of subsidiaries, and other obligations for borrowed money. Working Capital means the current assets of CILCORP less current liabilities (not counting in current liabilities any short-term debt or current maturity of long-term debt that is included in Assumed Obligations) as of the closing date. As agreed to in the Stock Purchase Agreement, Base Working Capital is \$75 million. The CapEx

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Adjustment Amount represents the amount, if any, by which expenditures by CILCORP for certain capital improvements prior to closing are less or greater than the amounts agreed to under the Stock Purchase Agreement.

If the closing date under the Stock Purchase Agreement had occurred on March 31, 2002, and assuming no change in the Base Working Capital amount and no CapEx Adjustment Amount, the cash paid by Ameren at closing for the common stock of CILCORP would have been approximately \$522 million.

The Stock Purchase Agreement further provides that, in the event that the closing date does not occur by the "Trigger Date," as defined below, then the Purchase Price shall be increased by \$33,699 per day from the Trigger Date through the closing date, subject to certain limitations. The Trigger Date is the later of (i) December 31, 2002, (ii) the date on which AES is capable (without further action by any third party) of completing performance in all material respects of its obligations required to be performed on or prior to closing, and (iii) the date which is 90 days following the date on which the ICC grants its approval of the Transaction. Subject to certain limitations and exceptions, either party may terminate the Stock Purchase Agreement if closing has not occurred by March 27, 2003.

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### 1.5 Operation of the Combined System Following the Acquisition.

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Following the acquisition of CILCORP, Ameren proposes to retain CILCORP as a direct subsidiary for the foreseeable future, and CILCORP will continue to own all of the common stock of CILCO. CILCO, in turn, will continue to hold all of the common stock of CIGI for the foreseeable future. CILCO will maintain its headquarters in Peoria for a period of at least five years and will maintain a local management team and adequate staffing levels to operate its utility system. CILCO will continue to operate as a separate control area. CILCO's generating plants (which CILCO intends to transfer to CIGI by the time of the closing) will not be jointly dispatched with the generating plants owned by AmerenUE and Ameren Energy Generating. Nevertheless, CILCO's electric operations, as well as its gas operations, will be integrated with those of AmerenUE and AmerenCIPS. A fuller description of Ameren's plans to integrate CILCO's operations with those of its existing subsidiaries and estimates of merger savings are set out in Item 3.3 below.

### 1.6 Financing the Purchase Price.

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Ameren will finance the cash portion of the Purchase Price, estimated not to exceed \$525 million, using cash on hand and/or proceeds of debt and/or equity financings previously authorized in File No. 70-9877. (17) Ameren is not requesting any new or additional financing authority as part of this Application/Declaration.

### 1.7 Affiliate Transactions.

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#### a. Existing Sales, Service and Construction Contracts.

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Historically, CILCO has provided certain administrative, management and technical services at cost to CILCORP and all of its other associate companies under a service agreement that has been approved by the ICC. (18) Although it is

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expected that Ameren Services will assume the responsibility for providing these services after the Transaction closes pursuant to new service agreements, as described below, there may be a period, not to exceed two years, during the transition in which CILCO will continue to provide certain corporate support services, such as accounting, tax, cash management and billing and sales services, to its associate companies. In addition, following the transfer of its generating assets to CIGI, CILCO and CIGI request authorization to provide to each other, on a permanent basis, certain technical services relating to the operation and maintenance of generating assets located at CILCO substations (supra, note 10), and the equipment connecting CIGI's generation facilities with CILCO's transmission facilities. All of these services will be performed at cost in accordance with Rules 90 and 91 pursuant to a Services and Facilities Agreement (Exhibit B-3 hereto) to be executed when the generating assets are transferred to CIGI

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17 See Ameren Corporation, Holding Co. Act Release No. 27449 (Oct. 5, 2001). On September 10, 2002, Ameren sold 8.05 million new shares of common stock in a public offering at \$42.00 per share. Net proceeds (after underwriting discount) to Ameren were \$327 million.

18 With one exception, CILCO's non-utility associate companies do not have employees of their own.

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As previously noted (supra, note 5), in conjunction with the Transaction, Ameren has also agreed to purchase from AES all of the membership interests in an entity that indirectly owns AES Medina Valley, an EWG. AES Medina Valley owns a 40 MW gas-fired cogeneration facility in Mossville, Illinois that produces electricity, steam heat and chilled water that is sold to CILCO pursuant to a FERC and ICC-approved Tolling Agreement, dated December 22, 2000, for resale to Caterpillar Inc., CILCO's largest customer. The term of the Tolling Agreement extends until July 2021. As part of the development of the Mossville facility, AES Medina Valley also entered into a 10-year Fuel Supply and Services Agreement with CESI, CILCORP's gas marketing subsidiary, pursuant to which CESI supplies all of AES Medina Valley's gas requirements and also provides certain ancillary services relating to the supply of gas to the Mossville facility. In addition, under the terms of a FERC-approved Interconnection Agreement between CILCO and AES Medina Valley, CILCO provides metering and other ancillary services to AES Medina, at cost. All of these agreements have been collaterally assigned as security for non-recourse debt financing for the Mossville facility and will remain in place following Ameren's indirect purchase of AES Medina Valley. To the extent required, Ameren requests authorization for CILCO, CESI and AES Medina Valley to continue to perform their respective obligations under the foregoing agreements in accordance with their terms.(19)

b. Ameren Services.  
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Under the 1997 Merger Order, the Commission authorized Ameren to organize and capitalize Ameren Services as a service company subsidiary, and authorized Ameren Services to provide AmerenUE, AmerenCIPS and other companies in the Ameren system with administrative, management, engineering, construction, environmental, and other support services pursuant to a General Services Agreement, which Ameren Services has entered into with Ameren, AmerenUE, AmerenCIPS and certain other associate companies. Under the 1997 Merger Order,

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Ameren Services is required to give written notice to the Commission at least 60 days prior to implementing any change in the type and character of the companies receiving services, the methods of allocating costs to associate companies, or the scope or character of services to be rendered.

Ameren Services intends to enter into separate service agreements ("Service Agreements") with CILCORP, CILCO, CIGI and certain of CILCORP's other subsidiaries that are identical in all material respects with the General Services Agreement. Thus, Ameren Services will provide to the new client companies the same administrative, management, and technical services that it now provides to Ameren system companies under the General Services Agreement, utilizing the same work order procedures and the same methods of allocating

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19 The sale of electricity by AES Medina Valley and natural gas by CESI are not subject to the Act. The sale of steam and chilled water by AES Medina Valley involves "goods produced by the seller" subject to Rules 87(b)(6), 90(d)(2) and 92(b). As indicated, these transactions have been reviewed by both the FERC and the ICC. The ancillary services provided by CESI and CILCO to AES Medina Valley under the Fuel Supply and Services Agreement and the Interconnection Agreement are exempt under Rule 87(b)(1). In any event, these costs are ultimately passed through to Caterpillar, a non-affiliate.

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costs that are specified in the General Services Agreement. In connection with the Transaction, certain employees of CILCORP and its subsidiaries may be transferred to and become employees of Ameren Services.

c. Ameren Fuels.  
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By order dated April 5, 2001 in File No. 70-9775, (20) the Commission authorized Ameren Fuels to provide AmerenUE and AmerenCIPS fuel management services pursuant to the terms of a Fuel and Natural Gas Services Agreement ("Fuel Services Agreement").(21) Under the Fuel Services Agreement, Ameren Fuels, as agent for its associate companies, manages all aspects of procurement, storage, transportation and handling of coal, natural gas, and other fuels. Such services include negotiating contracts with third parties, contract administration, regulatory reporting and ash management services, among others. For the services rendered, Ameren Fuels is reimbursed for all costs properly chargeable or allocable thereto, as controlled through a work order procedure. Costs are computed in accordance with Rule 90 and 91. Ameren Fuels is authorized under the Fuel Services Agreement to take title to and resell fuel to its associate companies, but solely in an agency capacity.

In conjunction with the Transaction, Ameren Fuels proposes to enter into separate fuel services agreements with CILCO and CIGI that are identical in all material respects to the Fuel Services Agreement, pursuant to which Ameren Fuels will manage gas supply resources for CILCO and manage fuel procurement for CIGI. These services will be provided at cost, in accordance with Rule 90 and 91.

1.8 Financing by CILCORP, CILCO and CIGI  
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The existing equity and long-term and short-term debt securities of CILCORP, CILCO and CIGI, as described in Item 1.3 above, will remain outstanding



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after the Transaction closes. In addition, CILCORP, CILCO and CIGI herein request authority, to the extent such transactions are not exempt, to engage in certain ongoing external and intrasystem financing transactions from time to time during the Authorization Period. Any securities issued by CILCORP, CILCO or CIGI to third parties (including any securities issued by CILCO pursuant to Rule 52(a)) may be issued directly, or may be issued indirectly through one or more Financing Subsidiaries, as defined and described in Item 1.9 below. CILCORP, CILCO and CIGI will not engage in any financing transactions for which approval is sought herein unless, on a pro forma basis to take into account the amount and types of such financing and the application of the proceeds thereof, common equity as a percentage of capitalization (including short-term debt and current maturities of long-term debt) of each company is at least 30%.

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20 See Ameren Energy Fuels and Services Company, Holding Co. Act Release No. 27374.

21 Following the transfer of AmerenCIPS' generating assets to Ameren Energy Generating, Ameren Fuels entered into an identical agreement with Ameren Energy Resources Company, the indirect parent of Ameren Energy Generating.

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a. External Financing Transactions.  
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(a) CILCORP. After it is acquired by Ameren, CILCORP will not issue any additional equity securities, other than to Ameren. Subject to the limitations set forth below, CILCORP herein requests authorization to issue and sell from time to time during the Authorization Period short-term and long-term debt securities.

(i) Short-term Debt. As previously indicated, at December 31, 2001, CILCORP had \$35 million of committed bank lines and borrowings thereunder totaling \$20 million at an average interest rate of 2.3% per annum. The proceeds of short-term borrowings by CILCORP are used primarily to fund the operations of its non-utility subsidiaries. CILCORP requests authorization to issue and sell commercial paper and/or establish and make unsecured short-term borrowings (i.e., less than one year) under credit lines with banks or other institutional lenders from time to time during the Authorization Period, provided that the aggregate amount of borrowings by CILCORP at any time outstanding under all such credit facilities, when added to the amount of any direct short-term borrowings by CILCORP from Ameren (see Item 1.8.b.(a) below), will not exceed \$250 million. Subject to such limitations, CILCORP requests authorization to sell commercial paper, from time to time, in established domestic or foreign commercial paper markets. Such commercial paper would typically be sold to dealers at the discount rate per annum prevailing at the date of issuance for commercial paper of comparable quality and maturities sold to commercial paper dealers generally. It is expected that the dealers acquiring such commercial paper will reoffer it at a discount to corporate, institutional and, with respect to European commercial paper, individual investors. It is anticipated that such commercial paper will be reoffered to investors such as commercial banks, insurance companies, pension funds, investment trusts, foundations, colleges and universities, finance companies and nonfinancial corporations.

CILCORP also proposes to continue or to establish and maintain back-up

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credit lines with banks or other institutional lenders to support its commercial paper programs and other credit arrangements and/or borrowing facilities generally available to borrowers with comparable credit ratings as CILCORP deems appropriate in light of its needs and existing market conditions providing for revolving credit or other loans and having commitment periods not longer than the Authorization Period. Only the amounts drawn and outstanding under these agreements and facilities will be counted against the proposed limit on short-term debt. The effective cost of money on all external short-term borrowings by CILCORP will not exceed at the time of issuance the greater of (i) 300 basis points over the six-month London Interbank Offered Rate ("LIBOR"), or (ii) a gross spread over LIBOR that is consistent with similar securities of comparable credit quality and maturities issued by other companies.

(ii) Refinancing of CILCORP Senior Notes.  
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CILCORP requests authorization to issue, in one or more transactions from time to time during the Authorization Period, long-term notes for the purpose of refinancing or acquiring the CILCORP Senior Notes at or prior to their scheduled maturity. The principal amount of any new long-term notes issued will not exceed the unpaid principal amount of the CILCORP Senior Notes (currently \$475 million), plus any "make whole" premium required to be paid in connection

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with any prepayment and/or the premium, if any, that is paid in connection with any acquisition of the CILCORP Senior Notes in open market purchases. The maturity date of any new series of long-term notes will be not later than October 15, 2029, which is the maturity date of the longest of the two series of CILCORP Senior Notes. It is proposed that any new notes issued by CILCORP in a refinancing transaction bear interest at a rate not to exceed at the time of issuance the greater of (i) 500 basis points over the yield to maturity of a U.S. Treasury security having a remaining term equal to the average life of such new notes (or, if no such Treasury security is outstanding, then the yield to maturity of a 30-year U.S. Treasury Bond), or (ii) a gross spread over U.S. Treasuries that is consistent with similar securities of comparable credit quality and maturities issued by other companies.

Ameren requests authorization to guaranty any new CILCORP notes issued in a refinancing transaction or to issue a guarantee of the outstanding CILCORP Senior Notes in order to obtain a termination and release of the pledge of CILCO's common stock or for other corporate purposes.(22)

(b) CILCO and CIGI. Rule 52(a) exempts from the prior authorization requirements of the Act securities issued by any public utility company that have been approved by the state commission in the state in which such company is organized and doing business. In general, all securities issued by CILCO must be approved by the ICC, other than indebtedness with a final maturity of less than one year, renewable for a period of not more than two years. In contrast, because CIGI will not be regulated by the ICC as a public utility company under Illinois law, and because CIGI intends to relinquish its EWG status, securities issued by CIGI will generally not be exempt from the provisions of the Act.

The authority herein sought by CILCO excludes financings exempt under Rule 52(a). The proceeds of financings by CILCO and CIGI will be used for general corporate purposes, including funding of capital projects and working capital requirements. These financings may be made under instruments in place at the time of the Transaction or new agreements so long as any such instrument or

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agreement complies with the limitations described herein.

(i) Short-term Debt. CILCO and CIGI request authorization to issue commercial paper and/or establish and make unsecured short-term borrowings (i.e., less than one year) under credit lines with banks or other institutional lenders from time to time during the Authorization Period, provided that the aggregate amount of borrowings by CILCO at any time outstanding under all such credit facilities, when added to the amount of any direct short-term borrowings by CILCO from Ameren (see Item 1.8.b.(c) below), will not exceed \$250 million, and that the aggregate amount of borrowings by CIGI at any time outstanding under all such credit facilities, when added to the amount of any direct short-term borrowings by CIGI from Ameren (see Item 1.8.b.(b) below), will not exceed \$250 million. Subject to such limitations, CILCO and CIGI request authority to sell commercial paper, from

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22 It is proposed that the amount of any such guarantee not count against the authorized limits on guarantees that may be issued by Ameren pursuant to the Commission's order in File No. 70-9877 (supra, note 17).

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time to time, in established domestic or foreign commercial paper markets. Such commercial paper would typically be sold to dealers at the discount rate per annum prevailing at the date of issuance for commercial paper of comparable quality and maturities sold to commercial paper dealers generally. It is expected that the dealers acquiring such commercial paper will reoffer it at a discount to corporate, institutional and, with respect to European commercial paper, individual investors. It is anticipated that such commercial paper will be reoffered to investors such as commercial banks, insurance companies, pension funds, investment trusts, foundations, colleges and universities, finance companies and nonfinancial corporations.

CILCO and CIGI also propose to continue or to establish and maintain back-up credit lines with banks or other institutional lenders to support their commercial paper programs and other credit arrangements and/or borrowing facilities generally available to borrowers with comparable credit ratings as either company deems appropriate in light of its needs and existing market conditions providing for revolving credit or other loans and having commitment periods not longer than the Authorization Period. Only the amounts drawn and outstanding under these agreements and facilities will be counted against the proposed limit on short-term debt. The effective cost of money on all external short-term borrowings by CILCO and CIGI will not exceed at the time of issuance the greater of (i) 300 basis points over the six-month LIBOR, or (ii) a gross spread over LIBOR that is consistent with similar securities of comparable credit quality and maturities issued by other companies.

(ii) Long-term Securities of CIGI. CIGI requests authorization to issue and sell from time to time during the Authorization Period long-term securities consisting of any combination of preferred stock or other forms of preferred securities and long-term debt ("Long-term Securities"), provided that the aggregate amount of all such securities at any time outstanding, when added to the amount of any direct long-term borrowings by CIGI from Ameren (see Item 1.8.b.(b) below), will not exceed \$500 million.

Preferred stock or other types of preferred securities may be issued in one or more series with such rights, preferences, and priorities as may be

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designated in the instrument creating each such series. All such securities will be redeemed no later than 50 years after the issuance thereof. The dividend rate on any series of preferred stock or other preferred securities will not exceed at the time of issuance the greater of (i) 700 basis points over the yield to maturity of a U.S. Treasury security having a remaining term equal or closest to the term of such securities (or, if no such Treasury security is outstanding, then the yield to maturity of a 30-year U.S. Treasury Bond), or (ii) a gross spread over U.S. Treasuries that is consistent with similar securities of comparable credit quality and maturities issued by other companies. Dividends or distributions on preferred stock or other preferred securities will be made periodically and to the extent funds are legally available for such purpose, but may be made subject to terms that allow the issuer to defer dividend payments or distributions for specified periods.

Long-term debt of a particular series (a) may be secured or unsecured, (b) will have a maturity ranging from one to 50 years, (c) will bear interest at a rate not to exceed at the time of issuance the greater of (i) 600 basis points over the yield to maturity of a U.S. Treasury security having a remaining term equal or closest to the average life of such series (or, if no such U.S.

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Treasury security is outstanding, then the yield to maturity of a 30-year U.S. Treasury Bond), or (ii) a gross spread over U.S. Treasuries that is consistent with similar securities of comparable credit quality and maturities issued by other companies, (d) may be subject to optional and/or mandatory redemption, in whole or in part, at par or at various premiums above the principal amount thereof, (e) may be entitled to mandatory or optional sinking fund provisions, (f) may provide for reset of the coupon pursuant to a remarketing or auction arrangement, and (g) may be called from existing investors by a third party. The maturity dates, interest rates, and redemption and sinking fund provisions, if any, with respect to the long-term debt of a particular series, will be established by negotiation or competitive bidding.

Except in accordance with a further order of the Commission in this proceeding, CILCORP and CIGI will not publicly issue any Long-term Securities unless such securities are rated at the investment grade level as established by at least one nationally recognized statistical rating organization, as that term is used in paragraphs (c)(2)(vi)(E), (F) and (H) of Rule 15c3-1 under the Securities Exchange Act of 1934. It is requested that the Commission reserve jurisdiction over CILCORP and CIGI in connection with any publicly issued Long-term Securities that are rated below investment grade.

(c) Interest Rate Hedging Transactions. To the extent not exempt under Rule 52(a), CILCORP, CILCO and CIGI request authorization to enter into interest rate hedging transactions with respect to outstanding indebtedness ("Interest Rate Hedges"), subject to certain limitations and restrictions, in order to reduce or manage the effective interest rate cost. In no case will the notional amount of any Interest Rate Hedge exceed the principal amount of the underlying debt instrument. Transactions will be entered into for a fixed or determinable period. Thus, the applicants will not engage in speculative transactions. Interest Rate Hedges would only be entered into with counterparties ("Approved Counterparties") whose senior debt ratings, or the senior debt ratings of any credit support providers who have guaranteed the obligations of such counterparties, as published by S&P, are equal to or greater than BBB, or an equivalent rating from Moody's or Fitch, Inc.

Interest Rate Hedges will involve the use of financial instruments commonly used in today's capital markets, such as interest rate swaps, caps,

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collars, floors, swaptions and structured notes (i.e., a debt instrument in which the principal and/or interest payments are indirectly linked to the value of an underlying asset or index), or transactions involving the purchase or sale, including short sales, of U.S. Treasury securities. The transactions would be for fixed periods and stated notional amounts. Fees, commissions and other amounts payable to the counterparty or exchange (excluding, however, the swap or option payments) in connection with an Interest Rate Hedge will not exceed those generally obtainable in competitive markets for parties of comparable credit quality.

In addition, CILCORP, CILCO and CIGI request authorization to enter into interest rate hedging transactions with respect to anticipated debt offerings (the "Anticipatory Hedges"), subject to certain limitations and restrictions. Such Anticipatory Hedges would only be entered into with Approved Counterparties, and would be utilized to fix the interest rate and/or limit the interest rate risk associated with any new issuance through (i) a forward sale

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of exchange-traded U.S. Treasury futures contracts, U.S. Treasury securities and/or a forward swap (each a "Forward Sale"), (ii) the purchase of put options on U.S. Treasury securities (a "Put Options Purchase"), (iii) a Put Options Purchase in combination with the sale of call options on U.S. Treasury securities (a "Zero Cost Collar"), (iv) transactions involving the purchase or sale, including short sales, of U.S. Treasury securities, or (v) some combination of a Forward Sale, Put Options Purchase, Zero Cost Collar and/or other derivative or cash transactions, including, but not limited to structured notes, caps and collars, appropriate for the Anticipatory Hedges.

Anticipatory Hedges may be executed on-exchange ("On-Exchange Trades") with brokers through the opening of futures and/or options positions traded on the Chicago Board of Trade, Chicago Mercantile Exchange or other financial exchange, the opening of over-the-counter positions with one or more counterparties ("Off-Exchange Trades"), or a combination of On-Exchange Trades and Off-Exchange Trades. CILCORP, CILCO and CIGI will determine the optimal structure of each Anticipatory Hedge transaction at the time of execution.

Each Interest Rate Hedge and Anticipatory Hedge will qualify for hedge accounting treatment under the current Financial Accounting Standards Board ("FASB") guidelines in effect and as determined at the time entered into. Further, the applicants will comply with the Statement of Financial Accounting Standards ("SFAS") 133 ("Accounting for Derivatives Instruments and Hedging Activities") and SFAS 138 ("Accounting for Certain Derivative Instruments and Certain Hedging Activities") or other standards relating to accounting for derivative transactions as are adopted and implemented by the FASB.(23)

b. Intrasystem Financing Transactions and Guarantees.  
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(a) Long-term and Short-term Securities of CILCORP. Ameren may from time to time during the Authorization Period acquire additional shares of CILCORP's common stock, make additional capital contributions or non-interest bearing cash advances to CILCORP, and/or make loans to CILCORP (and in connection therewith acquire unsecured promissory notes of CILCORP evidencing such loans) in order to enable CILCORP to fund additional investments in CILCO and its other existing subsidiaries, to redeem or retire the CILCORP Senior Notes, and to fund working capital.(24) CILCORP will not use the proceeds of any such financing by Ameren to acquire the securities of or other interest in any new company. Accordingly, CILCORP requests authority to issue, and Ameren

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requests authority to acquire, from time to time during the Authorization Period, (i) up to \$1 billion at any time outstanding of additional common stock and/or promissory notes having maturities of one year or more, and (ii) up to \$250 million at any time outstanding of promissory notes having maturities of less than one year. Any promissory note issued by CILCORP to Ameren evidencing a

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23 The authority sought for interest rate hedging transactions in this Application/Declaration is identical to the authorization previously granted to Ameren in File No. 70-9877, supra n. 17.

24 By its terms, Rule 52(b) would not exempt any securities issued by CILCORP, and Rule 45(b)(7) would not exempt any guarantee by CILCORP of securities issued by its subsidiaries. In contrast, Rule 45(a)(4) would exempt cash capital contributions and open account advances without interest by Ameren to CILCORP.

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loan will be unsecured and will bear interest at a rate and have a maturity date designed to parallel the effective cost of capital and maturity date of a similar debt instrument issued by Ameren.

(b) Long-term and Short-term Securities of CIGI. Ameren requests authorization to make long-term and short-term loans to CIGI (and in connection therewith acquire promissory notes of CIGI evidencing such loans) in order to fund CIGI's capital improvements and working capital requirements. Accordingly, CIGI requests authority to issue, and Ameren requests authority to acquire, from time to time during the Authorization Period, (i) up to \$500 million at any time outstanding of promissory notes having maturities of one year or more, and (ii) up to \$250 million at any time outstanding of promissory notes having maturities of less than one year. Any promissory note issued by CIGI to Ameren evidencing a loan will be unsecured and will bear interest at a rate and have a maturity date designed to parallel the effective cost of capital and maturity date of a similar debt instrument issued by Ameren.

(c) Short-term Securities of CILCO. Ameren requests authorization to make short-term loans to CILCO (and in connection therewith acquire promissory notes of CILCO evidencing such loans) in order to fund CILCO's capital improvements and working capital requirements. Accordingly, CILCO requests authority to issue, and Ameren requests authority to acquire, from time to time during the Authorization Period, up to \$250 million at any time outstanding of promissory notes having maturities of less than one year. Any promissory note issued by CILCO to Ameren evidencing a loan will be unsecured and will bear interest at a rate and have a maturity date designed to parallel the effective cost of capital and maturity date of a similar debt instrument issued by Ameren.

(d) Guarantees Issued by CILCORP and Its Subsidiaries. CILCORP from time to time is called upon to provide guarantees and other forms of credit support with respect to the obligations of its subsidiaries. Currently, CILCORP has outstanding guarantees totaling \$4 million with respect to obligations of CESI under two gas marketing contracts. The subsidiaries of CILCO (CIGI, CILCO Exploration and Development Company and CILCO Energy Corporation) have guaranteed borrowings by CILCO under an existing \$100 million credit facility. CIM, a direct non-utility subsidiary of CILCORP, and CILCORP Lease Management Inc. ("CLM"), a subsidiary of CIM, have also provided guarantees with respect to

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certain obligations of their subsidiaries, as lessors, under various equipment and real estate leases. Currently, there are a total of six of these guarantees outstanding. Neither CIM nor CLM has ever been called upon to make a payment under any of these guarantees. The exposure of CIM and CLM under these guarantees is not quantifiable; however, the potential financial impact is considered immaterial in the aggregate.

To the extent required, CILCORP and its subsidiaries request authorization to maintain, renew and extend all guarantees and other forms of credit support that are outstanding at the time that the Transaction closes. In addition, CILCORP requests authorization to provide additional guarantees and other forms of credit support from time to time during the Authorization Period on behalf of or for the benefit of any of its subsidiaries, provided that the aggregate

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amount of all CILCORP guarantees at any time outstanding shall not exceed \$500 million. Credit support provided by CILCORP may be in the form of guarantees of indebtedness or of contractual obligations of its subsidiaries, agreements to indemnify, reimburse, or assume joint liability with respect to obligations of subsidiaries, capital maintenance or contribution agreements, or other forms of credit support (collectively, "Guarantees"). Any Guarantee outstanding on March 31, 2006 will expire or terminate in accordance with its terms.

In some cases, the obligations of a subsidiary of CILCORP that are guaranteed by CILCORP may not be susceptible of exact quantification. In such cases, CILCORP will determine its exposure under such Guarantee for purposes of measuring compliance with the \$500 million limit by appropriate means, including estimation of exposure based on loss experience or projected potential payment amounts. Any such estimates will be made in accordance with generally accepted accounting principles and will be reevaluated periodically.

### 1.9 Organization and Acquisition of Financing Subsidiaries.

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In connection with the issuance of any securities for which authorization is requested in Item 1.8 above, or (in the case of CILCO) pursuant to Rule 52(a), CILCORP, CILCO and CIGI request authorization to acquire, directly or indirectly, the common stock or other equity securities of one or more entities (each a "Financing Subsidiary") formed exclusively for the purpose of facilitating the issuance of long-term debt and/or preferred securities and the loan or other transfer of the proceeds thereof to the parent company of a Financing Subsidiary. The proceeds of any financing carried out through a Financing Subsidiary will be counted against the limits proposed in Item 1.8 for such securities issued by CILCORP or CIGI, as the case may be, and the terms, conditions and other limitations applicable to any securities issued by a Financing Subsidiary will conform to those proposed in Item 1.8 for the specified type of security (e.g., long-term debt, preferred securities, etc.). In connection with any such financing transactions, CILCORP or CIGI, as the case may be, may enter into one or more guarantees or other credit support agreements in favor of its Financing Subsidiary. (25) CILCORP, CILCO and CIGI also request authorization to enter into an expense agreement with its respective Financing Subsidiary, pursuant to which each such company would agree to pay all expenses of such Financing Subsidiary. No Financing Subsidiary shall acquire or dispose of, directly or indirectly, any interest in any "utility asset," as that term is defined under the Act.

CILCORP and CIGI also request authority to issue and sell to any Financing Subsidiary, at any time or from time to time in one or more series, unsecured

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debentures, unsecured promissory notes or other unsecured debt instruments (individually, a "Note" and, collectively, the "Notes") governed by an indenture or indentures or other documents, and the Financing Subsidiary will apply the proceeds of any external financing by such Financing Subsidiary plus the amount of any equity contribution made to it from time to time to purchase Notes. The terms (e.g., interest rate, maturity, amortization, prepayment terms, default provisions, etc.) of any such Notes would generally be designed to parallel the terms of the securities issued by the Financing Subsidiary to which the Notes

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25 Guarantees or other credit support provided by CILCO with respect to securities issued by any Financing Subsidiary will be exempt under Rules 52(a) and 45(b)(7) if the conditions of such rules are satisfied.

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relate. The principal amount of Notes issued to a Financing Subsidiary by its parent will not be counted against the limits proposed in Item 1.8 on securities issued by CILCORP or CIGI to third parties or to Ameren.(26)

Ameren represents that it has in place sufficient internal controls to enable it to monitor the creation and use of any Financing Subsidiary by CILCORP, CILCO and CIGI.(27) Any Financing Subsidiary organized pursuant to the authority granted by the Commission in this proceeding shall be organized only if, in management's opinion, the creation and utilization of such Financing Subsidiary, will likely result in tax savings, increased access to capital markets and/or lower cost of capital for CILCORP, CILCO or CIGI, as applicable.

### 1.10 Payment of Dividends by CILCORP Out of Capital and Unearned Surplus. -----

Ameren will use the purchase method of accounting for the Transaction. Under this method of accounting, the Purchase Price will be assigned to the tangible and identifiable intangible assets acquired and liabilities assumed in the Transaction on the basis of their fair values on the date of the acquisition. Any premium (i.e., the excess of the Purchase Price over the fair values of the net assets acquired) will be recorded as goodwill. In this case, Ameren will "push down" the purchase accounting and establish a new basis of accounting for the stand-alone accounts of CILCORP.(28) As a result of the push-down of the purchase accounting to CILCORP, the current retained earnings of CILCORP (\$16.4 million at June 30, 2002), the traditional source for dividend payments, will be eliminated (i.e., recharacterized as additional paid-in capital). The Transaction and the acquisition of AES Medina together will create goodwill of approximately \$556 million, most of which will be reflected on

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26 "Mirror image" Notes issued by CILCO to any Financing Subsidiary will be exempt under Rule 52(a) if the conditions of Rule 52(a) are satisfied.

27 The creation of any Financing Subsidiary, issuance of securities through such entities, and the use of financing proceeds to make investments will be subject to a comprehensive set of formal internal controls that Ameren has adopted. These include delegation of authority limits on expenditures, board of director budget approvals and comparison of budgets against actual financial results on a monthly basis, daily reconciliations of disbursements from major



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accounts by the Treasurer's group, monthly review of financial statements of each legal entity in the Ameren system by Ameren's Accounting Manager, Controller and Vice President of Finance, external auditor review of financial statements for each legal entity filing reports under the Securities Exchange Act of 1934 on a quarterly basis, internal audits, and corporate compliance procedures that are applicable to all management employees.

28 Although Staff Accounting Bulletin (SAB) Topic 5-J does not require Ameren to "push down" the purchase accounting to CILCORP, because of the existence of substantial amounts of publicly-held debt of CILCORP, Ameren has nevertheless concluded that CILCORP's stand-alone financial statements would be more meaningful to the public debt holders if they reflected a new basis of accounting. However, the purchase accounting will not be pushed down to the stand-alone accounts of CILCO or its subsidiaries for financial reporting purposes to the Commission, for regulatory reporting to the ICC or FERC, or for any other purpose.

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CILCORP's balance sheet.(29) It is expected that, for accounting purposes, the goodwill recorded on CILCORP's books as a result of the Transaction will generally remain unchanged, but it will be reviewed for potential impairment on a regular basis in accordance with SFAS Nos. 141 and 142.

CILCORP requests authorization to declare and pay dividends on its common stock and/or redeem or repurchase its outstanding shares of common stock from time to time through the Authorization Period out of capital and unearned surplus (including revaluation reserve) to the extent permitted under applicable corporate law and the terms of any applicable covenants in its financing documents (including the CILCORP Indenture) in an amount equal to CILCORP's retained earnings at the time that the Transaction is consummated plus the amount, if any, recorded as an impairment to goodwill on the books of CILCORP in accordance with SFAS Nos. 141 and 142.(30)

### 1.11 Exemption of CILCORP and CILCO as Holding Companies.

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In its capacity as a holding company over CILCO and CIGI, CILCORP will continue to be entitled to an exemption pursuant to Section 3(a)(1) of the Act because CILCORP, CILCO and CIGI are all incorporated in Illinois, the state in which all of CILCO's and CIGI's public utility operations are conducted. Likewise, in its capacity as a holding company over CIGI, CILCO will be entitled to an exemption under Section 3(a)(1). Accordingly, CILCORP and CILCO request that the Commission issue an order exempting them from the registration requirements of Section 5 of the Act pursuant to Section 3(a)(1). Ameren, CILCORP and CILCO acknowledge that such order shall have no effect upon the status of CILCORP or CILCO as subsidiary companies of Ameren, a registered holding company. Thus, CILCORP and CILCO will continue to be subject to all provisions of the Act that would apply to them as subsidiary companies of a registered holding company.(31)

### 1.12 Reports Pursuant to Rule 24.

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CILCORP, CILCO and CIGI propose to file certificates of notification pursuant to Rule 24 that report each of the financing transactions carried out in accordance with the terms and conditions of and for the purposes represented in Item 1.8 of this Application/Declaration. Such certificates of notification

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would be filed within 60 days after the end of each of the first three calendar

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29 CILCORP's existing goodwill, which was created when it was acquired by AES (\$579 million at December 31, 2001), will be eliminated and replaced by the goodwill created in the Transaction.

30 The Commission granted substantially identical authority in connection with the acquisition of Powergen plc by E.ON AG. See E.ON AG, et al., Holding Co. Act Release No. 27539 (June 14, 2002).

31 The Commission has granted exemptions under Section 3(a)(1) to second-tier holding companies under similar circumstances in several recent merger cases. See, e.g., CP&L Energy, Inc., Holding Co. Act Release No. 27284 (Nov. 27, 2000); National Grid Group plc, et al., Holding Co. Act Release No. 27490 (Jan. 16, 2002).

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quarters, and 90 days after the end of the last calendar quarter, in which transactions occur. The Rule 24 certificates will contain the following information for the reporting period:

(a) the type of securities issued (e.g., common stock, long-term debt, short-term debt, etc.) and the amount of consideration received;

(b) the principal terms thereof (e.g., interest rate, maturity, dividend rate, sinking fund provisions, etc.);

(c) if payment of any debt securities may be accelerated by the holders thereof by reason of a default by any associate company of the issuer under any obligation of such associate company (i.e., a cross default), the identity of such associate company and the nature of obligation of the associate company to which the cross default relates;

(d) the amount and purpose of any Guarantee issued by CILCORP;

(e) the notional amount and principal terms of any Interest Rate Hedge or Anticipatory Hedge entered into during the quarter and the identity of the parties to such instruments;

(f) with respect to each Financing Subsidiary that has been formed, a representation that the financial statements of the parent company of the Financing Subsidiary shall account for the Financing Subsidiary in accordance with generally accepted accounting principles and further, with respect to each such entity, (i) the name of the Financing Subsidiary, (ii) the amount invested by the parent company in such Financing Subsidiary; (iii) the balance sheet account where the investment and the cost of the investment are booked; (iv) the form of organization (e.g., corporation, limited partnership, trust, etc.) of such Financing Subsidiary; (v) the percentage owned by the parent company; and (vi) if any equity interests in the Financing Subsidiary are sold in a non-public offering, the identity of the purchasers; and

(h) consolidated balance sheets of CILCORP, CILCO and CIGI as of the end of the calendar quarter, which may be incorporated by reference to filings, if any, by such companies under the Securities Act of 1933 or Securities Exchange Act of 1934.

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ITEM 2. FEES, COMMISSIONS AND EXPENSES.  
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It is estimated that the fees, commissions and expenses paid or incurred, or to be paid or incurred, directly or indirectly, in connection with the Transaction will not exceed \$14 million, assuming that the Transaction closes, as follows

Investment bankers fees and expenses.....	\$8,000,000
Consultants fees and expenses.....	\$1,000,000
Accountants fees.....	\$1,000,000
Legal fees and expenses.....	\$3,500,000
Other.....	\$500,000
	-----
TOTAL.....	\$14,000,000

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Total fees, commissions and expenses incurred or to be incurred by CILCORP, CILCO or CIGI in connection with the issuance of securities to any non-associate company, including underwriting fees, registration fees under the Securities Act of 1933, dealer discounts, commitment fees, compensating balances, fees for obtaining letters of credit, rating agency fees, and other fees and costs customarily incurred in connection with the issuance of such securities or obtaining third-party credit support, will not exceed 6% of the amount of any specific financing transaction.(32)

ITEM 3. APPLICABLE STATUTORY PROVISIONS.  
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3.1 General Overview of Applicable Statutory Provisions. The following sections of the Act and the Commission's rules thereunder are or may be directly or indirectly applicable to the proposed Transaction:

APPLICABLE SECTIONS OF THE ACT AND DESCRIPTION OF TRANSACTION.  
RULES.

Section 3(a)(1)	Exemption of CILCORP and CILCO as holding companies.
Sections 6(a) and 7	Issuance of securities, directly or indirectly through a Financing Subsidiary, by CILCORP, CILCO and CIGI after becoming subsidiaries of Ameren; issuance of Notes by CILCORP, CILCO or CIGI to any Financing Subsidiary.
Sections 6(a), 7, 9(a), 10, 12(b) and 12(f); Rule 45	Issuance of short-term and long-term notes to Ameren by CILCORP and GIGI and issuance of short-term notes to Ameren by CILCO.

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Sections 9(a), 10(a), (b), (c) and (f), 11(b) (1); Rule 51	Acquisition by Ameren of common stock of CILCORP.
Sections 9(a), 10 and 12(b)	Acquisition of common stock or other equity securities of Financing Subsidiaries by CILCORP, CILCO and CIGI.
Section 12(b); Rule 45	Issuance of Guarantees by CILCORP; issuance of guarantees and other forms of credit support by CILCORP, CILCO or

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32 This is the same limitation on fees, commissions and expenses approved by the Commission in File No. 70-9877 in connection the issuance of equity and debt securities by Ameren, supra note 17.

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	CIGI in respect of securities issued by any Financing Subsidiary; guarantee of new CILCORP notes by Ameren in lieu of pledge of CILCO stock and/or of CILCORP Senior Notes in order to obtain termination of existing stock pledge.
Sections 12(b) and 12(d)	Contribution of generating assets by CILCO to CIGI if completed subsequent to closing of the Transaction.
Section 12(c); Rules 26(c) and 46	Payment of dividends by CILCORP out of capital and unearned surplus.
Sections 8, 9(c) (3), 11(b) (1)	Retention by Ameren of the gas utility properties of CILCO as part of additional public utility system; retention of non-utility subsidiaries and investments of CILCORP.
Section 11(b) (2)	Retention of CIGI as a subsidiary of CILCO.
Section 13(b); Rules 87, 90 - 91	Approval of the services to be provided by Ameren Fuel to CILCO and CIGI and by CILCO and CIGI to associate companies.
Section 32(h); Rule 54.	Generally applicable to all of the above transactions.

As set forth more fully below, the Transaction complies with all of the applicable provisions of Section 10 of the Act and should be approved by the

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Commission. Specifically, the Commission should find that:

- o the consideration to be paid in the Transaction is fair and reasonable;
- o the Transaction will not create detrimental interlocking relations or concentration of control;
- o the Transaction will not result in an unduly complicated capital structure for the Ameren system;
- o the Transaction is in the public interest and the interests of investors and consumers;

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- o the Transaction is consistent with Section 8 of the Act and not detrimental to carrying out the provisions of Section 11;
- o the Transaction will tend toward the economical and efficient development of an integrated electric utility system; and
- o the Transaction will comply with all applicable state laws.

3.2 Compliance with Section 10(b).

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Section 10(b) provides that, if the requirements of Section 10(f) are satisfied, the Commission shall approve an acquisition under Section 9(a) unless the Commission finds that:

- (1) such acquisition will tend towards interlocking relations or the concentration of control of public-utility companies, of a kind or to an extent detrimental to the public interest or the interests of investors or consumers;
- (2) in case of the acquisition of securities or utility assets, the consideration, including all fees, commissions, and other remuneration, to whomsoever paid, to be given, directly or indirectly, in connection with such acquisition is not reasonable or does not bear a fair relation to the sums invested in or the earning capacity of the utility assets to be acquired or the utility assets underlying the securities to be acquired; or
- (3) such acquisition will unduly complicate the capital structure of the holding-company system of the applicant or will be detrimental to the public interest or the interests of investors or consumers or the proper functioning of such holding-company system.

a. Section 10(b) (1).

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The standards of Section 10(b) (1) are satisfied because the proposed Transaction will not "tend towards interlocking relations or the concentration of control of public-utility companies, of a kind or to an extent

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detrimental to the public interest or the interests of investors or consumers." By its nature, any merger results in new links between previously unrelated companies. The Commission has recognized, however, that such interlocking relationships are permissible in the interest of efficiencies and economies. See *Northeast Utilities*, 50 S.E.C. 427, 443 (1990) ("*Northeast Utilities*"), as modified, 50 S.E.C. 511 (1991), *aff'd sub nom. City of Holyoke v. SEC*, 972 F.2d 358 (D.C. Cir. 1992) (finding that interlocking relationships are necessary to integrate the two merging entities). The links that will be established as a result of the Transaction are not the types of interlocking relationships targeted by Section 10(b)(1), which was primarily aimed at preventing utility mergers unrelated to operating economies.(33) As described elsewhere in this

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33 See Section 1(b)(4) of the Act (finding that the public interest and interests of consumers and investors are adversely affected "when the growth and extension of holding companies bears no relation to the economy of management and operation or the integration and coordination of related operating properties . . . .").

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Application/Declaration, the Transaction will achieve various operating synergies. Among other things, CILCO and CIGI will enter into contractual arrangements with other Ameren system companies under which various administrative and management services will be provided. Because substantial benefits will accrue to the public, investors and consumers from the affiliation of Ameren and CILCORP, whatever interlocking relationships may arise from the combination are not detrimental.

In applying Section 10(b)(1) to a utility acquisition, the Commission must further determine whether such acquisition will result in "the type of structures and combinations at which the Act was specifically directed." *Vermont Yankee Nuclear Power Corp.*, 43 S.E.C. 693, 700 (1968). The Transaction will not create a "huge, complex and irrational system" but, rather, will afford the opportunity to achieve economies of scale and efficiencies for the benefit of investors and consumers. See *American Electric Power Company, Inc.*, 46 S.E.C. 1299, 1307 (1978) ("*AEP*"). The Transaction will combine the strengths of the companies, enabling them to offer customers a broader array of energy products and services more efficiently and cost-effectively than either could alone, and at the same time create a larger and more diverse asset and customer base with enhanced opportunities for operating efficiencies and risk diversification.

CILCO is a relatively small utility company, with only about 201,000 electric and 204,000 retail gas customers. Thus, the indirect acquisition of CILCO will add only modestly to the size of the present Ameren system, which serves 1.5 million electric and 300,000 retail gas customers in two States, Missouri and Illinois. If approved, the Ameren system will serve approximately 1.7 million electric customers and 500,000 retail gas customers in the same two States. The acquisition of CILCORP will add about 1,200 MW of generating capacity to the 12,600 MW of generating capacity that Ameren already owns or controls. On a pro forma basis, as of December 31, 2001, Ameren will have consolidated assets of about \$12.5 billion, including net utility plant of approximately \$9.6 billion. For the twelve months ended December 31, 2001, pro forma combined operating revenues will total approximately \$5.3 billion.

The following table compares Ameren after the Transaction to other

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registered holding company systems that compete with Ameren in the midwest and central U.S. power markets in terms of total assets, operating revenues and electric customers (all data as of and for the year ended December 31, 2001):

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System	Total Assets (\$ Millions)	Operating Revenues (\$ Millions)	Utility Customers - Electric (E)/Gas (G)
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Exelon Corp.	\$34,860	\$15,140	E - 5.1 million G - .44 million
FirstEnergy	\$37,351	\$7,999	E - 4.3 million
American Electric Power Co.	\$47,281	\$61,257	E - 4.9 million
Xcel Corp.	\$28,735	\$15,028	E - 3.2 million G - 1.7 million
Entergy Corp.	\$25,910	\$9,621	E - 2.6 million G - .24 million
Cinergy Corp.	\$12,300	\$12,923	E - 1.5 million G - .5 million
Ameren (pro forma)	\$12,516	\$5,310	E - 1.7 million G - .5 million

As the foregoing table shows, even after the Transaction, the Ameren system will be substantially smaller than Exelon Corp., which is the largest utility, by far, in Illinois, as well as American Electric Power Company, Xcel Corp., FirstEnergy and Entergy Corp., which operate in adjoining States. In any case, the Commission has rejected an interpretation of Section 10(b)(1) that would impose per se limits on the post-merger size of a registered holding company. Instead, the Commission assesses the size of the resulting system with reference to the economic efficiencies that can be achieved through the integration and coordination of utility operations. In AEP, the Commission noted that, although the framers of the Act were concerned about "the evils of bigness, they were also aware that the combination of isolated local utilities into an integrated system afforded opportunities for economies of scale, the elimination of duplicate facilities and activities, the sharing of production capacity and reserves and generally more efficient operations... [and] [t]hey wished to preserve these opportunities." AEP, 46 S.E.C. at 1309. By virtue of the Transaction, Ameren will be in a position to realize precisely these types of benefits. Among other things, the Transaction is expected to yield operating cost savings, corporate and administrative and purchasing savings, and fuel cost savings, among others. These expected economies and efficiencies from the combined utility operations are described in greater detail in Item 3.3 below.

Finally, Section 10(b)(1) also requires the Commission to consider possible anticompetitive effects of a proposed combination. See *Municipal Electric Association of Massachusetts v. SEC*, 413 F.2d 1052 (D.C. Cir. 1969). As the Commission noted in *Northeast Utilities*, the "antitrust ramifications of an acquisition must be considered in light of the fact that public utilities are regulated monopolies and that federal and state administrative agencies regulate the rates charged to customers." *Northeast Utilities*, 50 S.E.C. at 445 (citing *AEP*, 46 S.E.C. at 1324 - 25). In this case, Ameren and AES will file Notification and Report Forms with the Department of Justice ("DOJ") and the Federal Trade Commission ("FTC") pursuant to the HSR Act describing the effects of the Transaction on competition in the relevant market. The competitive impact of the Transaction on wholesale power markets will also be considered by the FERC, which will include analyses required under the FERC's Order No. 592 (hereinafter, the "Merger Policy Statement") (34) and Order No. 642. (35) Specifically, the FERC will consider the effects of combining Ameren's and CILCORP's generation assets (horizontal market power), the effects of combining generation and transmission assets (one aspect of vertical market power), and the effects of combining electric and natural gas assets. To mitigate concerns about the potential for increased market power that otherwise might be suggested by the analyses used, Ameren is proposing to the FERC, as a condition of merger approval, to implement certain transmission upgrades at a cost of approximately \$18 million that will allow increased power flows in an around the area traversed by its transmission system. These include construction of a new 12.5-mile 138 kV line interconnecting with CWLP to increase import capability to CWLP, rebuilding approximately 50 miles of an existing 138 kV line to increase import capability to CILCO, and upgrades/changes to certain substation equipment. The purpose of these transmission improvements is to eliminate transmission congestion in central Illinois and thereby increase the available transfer capability.

The Commission has found, and the courts have agreed, that it may appropriately rely upon the FERC with respect to such matters. See *City of Holyoke v. SEC*, 972 F.2d at 363-64, quoting *Wisconsin's Environmental Decade v. SEC*, 882 F.2d 523, 527 (D.C. Cir. 1989). For these reasons, the proposed Transaction will not "tend toward interlocking relations or the concentration of control of public-utility companies, of a kind or to the extent detrimental to the public interest or the interests of investors or customers."

b. Section 10(b)(2).  
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Section 10(b)(2) of the Act precludes approval of an acquisition if the consideration to be paid in connection with the transaction, including all fees, commissions and other remuneration, is "not reasonable or does not bear a fair relation to the sums invested in or the earning capacity of the utility assets to be acquired or the utility assets underlying the securities to be acquired." The Commission has found "persuasive evidence" that the standards

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34 See *Inquiry Concerning Merger Policy under the Federal Power Act: Policy Statement*, Order No. 592, III FERC Stats. & Regs. P. 31,044 (1996), reconsideration denied, Order No. 592-A, 79 FERC P. 61,321 (1997) (codified at 18 C.F.R.ss. 2.26).

35 See *Revised Filing Requirements Under Part 33 of the Commission's Regulations*, Order No. 642, III FERC Stats. & Regs. P. 31,111 (2000), reh'g



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denied, Order No. 642-A, 94 FERC P. 61,289 (2001).

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of Section 10(b)(2) are satisfied where, as here, the agreed consideration for an acquisition is the result of arms-length negotiations between the managements of the companies involved, supported by an opinion of a financial advisor. See Entergy Corp., 51 S.E.C. 869 at 879 (1993); Southern Company, Holding Co. Act Release No. 24579 (Feb. 12, 1988).

There is no basis for the Commission to question the fairness of the consideration to be paid to AES for CILCORP's common stock. AES announced its decision to sell CILCORP on November 13, 2001, and thereafter solicited expressions of interest from several potential purchasers. On February 19, 2002, AES disclosed that it had narrowed the list of potential purchasers to seven, including Ameren, and conducted further negotiations with them over price and other terms. Ameren was selected as the successful bidder at the conclusion of this auction process.

There is also no basis for the Commission to conclude that the consideration to be paid for CILCORP does not bear a fair relation to the earning capacity of CILCORP's utility assets. In this case, Ameren requested its financial advisor, Goldman, Sachs & Co. ("Goldman Sachs"), to provide an opinion as to the fairness from a financial point of view to Ameren of the consideration to be paid for CILCORP (including the membership interests in AES Medina Valley Cogen, L.L.C.). On April 28, 2002, Goldman Sachs provided its opinion addressed to the Board of Directors of Ameren to the effect that, as of that date and based upon and subject to the matters and assumptions set forth therein, the Consideration (as defined in the opinion) to be paid by Ameren for CILCORP (including the membership interests in AES Medina Valley Cogen, L.L.C.) pursuant to the relevant agreements "is fair from a financial point of view to [Ameren]." Goldman Sachs' fairness opinion is filed herewith as Exhibit J.

Another consideration under Section 10(b)(2) is the overall fees, commissions and expenses to be incurred in connection with the Transaction. Ameren believes that the transaction costs are reasonable and fair in light of the size and complexity of the proposed Transaction, and that the anticipated benefits of the Transaction to the public, investors and consumers are consistent with recent precedents and meet the standards of Section 10(b)(2). The total estimated fees and expenses, approximately \$14 million (see Item 2 - Fees, Commissions and Expenses), are about 1% of the Purchase Price under the Stock Purchase Agreement. This is consistent with (and in fact generally lower than) percentages previously approved by the Commission. See, e.g., Entergy Corp., 51 S.E.C. at 881, n. 63 (fees and expenses of \$38 million, representing approximately 2% of the value of the consideration paid to the shareholders of Gulf States Utilities); Northeast Utilities, Holding Co. Act Release No. 25548 (June 3, 1992) (fees and expenses of approximately 2% of the value of the assets to be acquired); and American Electric Power Company, Inc., et al., Holding Company Act Release No. 27186 (June 14, 2000), n. 40 (total fees, commissions and expenses of approximately \$72.7 million, representing 1.1% of the value of the total consideration paid by American Electric Power to the shareholders of Central and South West Corp.).

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c. Section 10(b)(3).

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Section 10(b)(3) requires the Commission to determine whether the Transaction will "unduly complicate the capital structure" or be "detrimental to the public interest or the interest of investors or consumers or the proper functioning" of the Ameren system.

The capital structure of the Ameren system will not change materially as a result of the Transaction. In the Transaction, Ameren will acquire 100% of the outstanding common stock of CILCORP for cash. Hence, the transaction will not create any publicly-held minority stock interest in any public utility company. The existing debt securities and preferred stock of CILCORP and CILCO will remain outstanding as obligations of those companies.

The continued existence of CILCORP as a secondary holding company following the Transaction will not unduly complicate Ameren's capital structure. In this regard, the Commission has permitted other registered holding companies to retain secondary holding companies in order to preserve tax advantages and/or existing structural and financial benefits. See e.g., American Electric Power Company, Inc., Holding Co. Act Release No. 27186, June 14, 2000); Energy East Corp., Holding Co. Act Release No. 27224 (August 31, 2000); NiSource Inc., Holding Co. Act Release No. 27263 (Oct. 30, 2000); and CP&L Energy, Inc., et al., Holding Co. Act Release No. 27284 (Nov. 27, 2000).

There are significant financial disincentives to eliminating CILCORP as a secondary holding company at this time. Specifically, in order to eliminate CILCORP as a subsidiary, Ameren would either have to prepay the CILCORP Senior Notes, or, alternatively, assume the CILCORP Senior Notes by means of a merger or otherwise. As previously indicated, any prepayment or redemption of the CILCORP Senior Notes would require payment of a yield maintenance, or "make whole," premium which, at current interest rates, would approximate \$175 million. If, on the other hand, CILCORP were to be merged into Ameren, the CILCORP Senior Notes would not have to be prepaid but would, by operation of law, become the direct obligations of Ameren. In this regard, however, the indenture under which the CILCORP Senior Notes were issued (the "CILCORP Indenture") includes limitations on future activities and other covenants that are far more onerous and restrictive than those in Ameren's existing debt instruments. For example, the CILCORP Indenture provides (in section 10.04 thereof) that future indebtedness of CILCORP and any subsidiary cannot be secured without the same property also securing the CILCORP Senior Notes, with certain exceptions. If CILCORP were merged into Ameren, this limitation would apply to future secured debt issued not only by Ameren, but AmerenUE and AmerenCIPS as well. This would be unacceptable from a business perspective. Under section 10.06, CILCORP and its subsidiaries cannot incur certain new debt unless CILCORP receives the written confirmation from certain ratings agencies that the issuance of such debt would not result in a ratings downgrade from the then-existing rating on the CILCORP Senior Notes. If CILCORP were merged into Ameren, this ratings affirmation covenant would apply to any debt issued by Ameren or any subsidiary of Ameren. Further, if the current rating for the CILCORP Senior Notes is raised as a result of the Transaction, then the higher rating becomes the "floor" for purposes of future ratings affirmations. Under section 10.07 of the CILCORP Indenture, CILCORP can only engage in businesses in

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addition to (i) those businesses in which it and its subsidiaries were engaged at the time the CILCORP Senior Notes were issued and (ii) other businesses that are deemed to be necessary, useful or desirable in connection with such existing businesses, if, prior to entering into any such additional business, CILCORP obtains the written confirmation of the ratings agencies that a ratings downgrade will not result.

There are other limitations and restrictions under the CILCORP Indenture that Ameren would find unacceptable if they were to apply to Ameren and its subsidiaries. In this regard, it should be kept in mind that the CILCORP Senior Notes were issued as part of a highly leveraged transaction in which CILCORP became a wholly-owned subsidiary of AES, and consequently the covenants in the CILCORP Indenture reflect that status. In contrast, Ameren is a publicly-held company that has a substantially higher credit rating than either AES or CILCORP. Thus, while the limitations under the CILCORP Indenture may have been appropriate for CILCORP at the time the CILCORP Senior Notes were issued, they would not be appropriate for Ameren.

In any event, leaving the CILCORP Senior Notes in place will not negatively affect CILCO's capital structure or be detrimental to investors. CILCO's common equity ratio has averaged around a minimum of 45% both before and after the issuance of the CILCORP Senior Notes. Also, CILCO's operating cash flow has been sufficient to cover the debt service requirements on the CILCORP Senior Notes, a trend that Ameren expects to continue. By becoming part of the Ameren system, CILCO's credit ratings may improve, thus providing CILCO with better access to capital. Further, CILCORP and CILCO will have additional access to short-term and long-term funding through their ability to borrow from Ameren.

Set forth below are summaries of the capital structures of Ameren and CILCORP as of December 31, 2001, and the pro forma consolidated capital structure of Ameren (assuming the Transaction had been consummated on December 31, 2001 and acquisition of AES Medina Valley (No. 4) L.L.C. had been consummated on June 30, 2002):

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### Ameren and CILCORP Historical Consolidated Capital Structures

(dollars in millions)

		Ameren -----		CILCORP -----	
Common stock equity	\$3,349	47%		\$515	38%
Preferred securities	235	3%		41	3%
Long-term debt	2,835	39%		718	54%
Short-term debt, incl. current portion	780	11%		64	5%
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Total	\$7,199	100%	\$1,338	100%
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Ameren Pro Forma Consolidated Capital Structure  
(dollars in millions) (unaudited)

Common stock equity	\$3,889	45%
Preferred securities	276	3%
Long-term debt	3,653	42%
Short-term debt, incl. current portion	845	10%
	-----	-----
Total	\$8,663	100.0%

As the foregoing shows, Ameren's pro forma consolidated common equity to total capitalization ratio of 45% will comfortably exceed the "traditionally acceptable 30% level." (36) See Northeast Utilities, 50 S.E.C. at 440, n. 47. Moreover, the Transaction will have no effect on the capitalization of AmerenUE, AmerenCIPS, CILCO or CIGI. Common equity as a percentage of capitalization of each of these companies is and will remain well over 30%.

Section 10(b)(3) also requires the Commission to determine whether the proposed combination will be detrimental to the public interest, the interests of investors or consumers or the proper functioning of the combined Ameren system. The proposed transaction between Ameren and CILCORP is entirely

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36 Under section 7(d)(1) of the Act, the Commission generally has required a registered holding company system and its public-utility subsidiaries to maintain a 65/30 debt/common equity ratio, the balance generally being preferred equity. Such debt/equity capitalization requirement was included in Rule 52, as originally adopted, as applied to securities issued by public-utility subsidiaries, but was eliminated in 1992.

consistent with the proper functioning of a registered holding company system. Ameren's and CILCORP's utility operations are contiguous and interconnected. The Transaction will result in substantial, otherwise unavailable, savings and benefits to the public and to consumers and investors of both companies. Moreover, the Transaction is subject to approval by the ICC and the FERC, which will ensure that the interests of customers will be adequately protected. The FERC approval will also confirm that the Transaction will have no adverse effect on competition. For these reasons, Ameren believes that the Transaction will be in the public interest and the interest of investors and consumers and will not be detrimental to the proper functioning of the resulting holding company system.

3.3 Section 10(c).

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Section 10(c) of the Act provides that, notwithstanding the provisions of Section 10(b), the Commission shall not approve:

- (1) an acquisition of securities or utility assets, or of any other interest, which is unlawful under the provisions of section 8 or is detrimental to the carrying out of the provisions of section 11; or
- (2) the acquisition of securities or utility assets of a public utility or holding company unless the Commission finds that such acquisition will serve the public interest by tending towards the economical and the efficient development of an integrated public utility system.

a. Section 10(c)(1).

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(a) The Transaction will be lawful under Section 8.  
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Section 10(c)(1) first requires that the Transaction be lawful under Section 8. That section was intended to prevent holding companies, by the use of separate subsidiaries, from circumventing state restrictions on common ownership of gas and electric operations. The Transaction will not result in any new situation of common ownership of so-called "combination" systems within a given state. CILCO already provides electric and gas service in overlapping areas of Illinois. Moreover, the ICC has jurisdiction over the Transaction. Accordingly, the Transaction does not raise any issue under Section 8.

(b) The Transaction will not be detrimental to carrying out the  
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provisions of Section 11.  
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Section 10(c)(1) also requires that the Transaction not be "detrimental to the carrying out of the provisions of section 11." Section 11(b)(1), in turn, directs the Commission generally to limit a registered holding company "to a single integrated public-utility system," either electric or gas. An exception to this requirement, as discussed below, is provided in Section 11(b)(1)(A) - (C) (the "ABC clauses"), which permits a registered holding company to retain one or more additional (i.e., secondary) integrated public-utility systems if the system satisfies the criteria of the ABC clauses. In the 1997 Merger Order, the Commission determined that Ameren's

primary system, comprised of the electric utility facilities of AmerenUE and AmerenCIPS, constitutes an integrated electric utility system; and that the gas utility properties of AmerenUE and AmerenCIPS together constitute an integrated gas utility system that is retainable under the standards of Section 11(b)(1). At issue in this proceeding is whether Ameren's acquisition of CILCORP, whose principal subsidiary (CILCO) currently operates as both an electric and gas utility in substantially the same area of Illinois, will result in a system that is "detrimental to the carrying out of the provisions of section 11."

As explained more fully below, the combination of the electric utility

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operations of AmerenUE, AmerenCIPS, and CILCO (including CIGI following the transfer of CILCO's generation assets to that company) will result in a single, integrated electric utility system. In addition, the combination of CILCO's gas utility properties with those of AmerenUE and AmerenCIPS will comprise an integrated gas utility system that may be retained by Ameren as an additional system under the ABC clauses of Section 11(b)(1). These standards are addressed below.

### (i) Integration of Electric Operations.

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The threshold question is whether the electric utility properties of CILCO can be combined with those of AmerenUE and AmerenCIPS to form a single "integrated public-utility system," which, as applied to electric utility companies, is defined in Section 2(a)(29)(A) to mean:

a system consisting of one or more units of generating plants and/or transmission lines and/or distributing facilities, whose utility assets, whether owned by one or more electric utility companies, are physically interconnected or capable of physical interconnection and which under normal conditions may be economically operated as a single interconnected and coordinated system confined in its operations to a single area or region, in one or more States, not so large as to impair (considering the state of the art and the area or region affected) the advantages of localized management, efficient operation, and the effectiveness of regulation.

Reading the statutory definition closely, there are four distinct and separate components of integration, as applied to an electric system: physical interconnection; coordination; limitation to a single area or region; and no impairment of localized management, efficient operation, and the effectiveness of regulation. See *National Rural Electric Cooperative Ass'n v. Securities and Exchange Commission*, 276 F.3d 609 at \_\_\_ (D.C. Cir. 2002). The Transaction satisfies each of these tests.

A. Interconnection. The first requirement for an integrated electric utility system is that the electric generation and/or transmission and/or distribution facilities comprising the system be "physically interconnected or capable of physical interconnection." As previously noted, the electric service areas of AmerenCIPS and CILCO in Illinois are adjacent and physically interconnected by a 345 kV line. Under traditional analysis, this

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fact alone satisfies the interconnection requirement. See e.g., *Energy East, et al.*, Holding Company Act Release No. 27546 (June 27, 2002).

B. Coordination. Historically, the Commission has interpreted the requirement that an integrated electric system be economically operated under normal conditions as a single interconnected and coordinated system "to refer to the physical operation of utility assets as a system in which, among other things, the generation and/or flow of current within the system may be centrally controlled and allocated as need or economy directs." See, e.g., *Conectiv, Inc.*, Holding Co. Act Release No. 26832 (Feb. 25, 1998), citing *The North American Company*, 11 S.E.C. 194, 242 (1942), *aff'd*, 133 F.2d 148 (2d Cir. 1943), *aff'd on constitutional issues*, 327 U.S. 686 (1946). The Commission has noted that, through this standard, "Congress intended that the utility properties be so connected and operated that there is coordination among all parts, and that those parts bear an integral operating relationship to one

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another." See *Cities Service Co.*, 14 S.E.C. 28 at 55 (1943). Traditionally, the most obvious indicia of "coordinated operations" was the ability to jointly dispatch all system generating units automatically on an economic basis in order to achieve the lowest overall cost of electricity. However, in recent cases, the Commission has recognized that joint economic dispatch is not per se a requirement for a finding of coordinated operations. See e.g., *American Electric Power Company, Inc., Holding Co.* Act Release No. 27186 (June 14, 2000); *Exelon Corporation, Holding Co.* Act Release No. 27256 (Oct. 19, 2000); and *CP&L Energy, Inc., Holding Co.* Act Release No. 27284 (Nov. 27, 2000).

In connection with the formation of Ameren in 1997, AmerenUE and AmerenCIPS entered into a Joint Dispatch Agreement ("JDA"), which was amended in 2000 in order to add Ameren Energy Generating upon the transfer of AmerenCI