

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Verified)
Application for Authority to Issue and Sell First)
Mortgage Bonds, Unsecured Debt and Preferred)
Stock, In Connection with a Universal Shelf) Case No. GF-2007-0220
Registration Statement, and to Issue a Common)
Stock and Receive Capital Contributions, all in a)
Total Amount Not to Exceed \$500 Million)

AFFIDAVIT OF MATTHEW J. BARNES

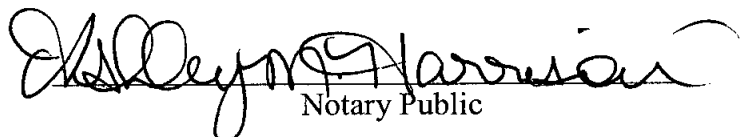
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Matthew J. Barnes, being of lawful age, on his oath states: that as he has participated in the preparation of the foregoing report, consisting of 5 pages to be presented in the above case, he has verified that the following Staff Memorandum to be true and accurate and that he has knowledge of the matters set forth in such report and that such matters are true to the best of his knowledge and belief.



Matthew J. Barnes

Subscribed and sworn to before me this 21st day of February 2007



Notary Public

ASHLEY M. HARRISON
Notary Public - State of Missouri
My Commission Expires August 31, 2010
Cole County
Commission #06698978



MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GF-2007-0220

FROM: Matt Barnes, Financial Analysis Department
Dan Redel, Internal Accounting

/s/ Matt Barnes 02/07/07
Project Coordinator/Date

/s/ Kevin Thompson 02/07/07
General Counsel's Office/Date

SUBJECT: Staff's Recommendation of Laclede Gas Company's Application for Authority to Issue and Sell First Mortgage Bonds, Unsecured Debt and Preferred Stock, in Connection with a Universal Shelf Registration Statement, and to Issue Common Stock and Receive Capital Contributions, all in a Total Amount Not to Exceed \$500 Million.

DATE: February 9, 2007

1. (a) **Type of Issue:** First Mortgage Bonds, Unsecured Debt, Preferred Stock and Common Stock.
- (b) **Amount:** Not to exceed \$500,000,000.
- (c) **Rate:** Not to exceed greater of 300 basis points above US Treasury rate for comparable maturity security or a rate that is consistent with similar securities of comparable credit quality and maturities issued by other issuers.
- (d) **Other Provisions:** Further terms and provisions including provisions for prepayment and redemption will be determined at the time of issuance.
2. **Proposed Date of Transaction:** The securities may be sold anytime up to three years from the date of Commission approval.
3. (a) **Statement of Purpose of the Issue:** The proceeds from the securities will be used for the following purposes: 1) to discharge or redeem previously issued bonds; 2) the finance or purchase, acquisition and construction of additional properties and facilities, as well as improvements to the Company's existing plant; 3) to improve or maintain service; 4) to discharge or lawfully refund all or a portion of the Company's outstanding short-term debt; 5) to reimburse moneys actually expended from income; and/or 6) to provide the financial resources required to meet the Company's other public utility obligations.

(b) **From a financial perspective, does Staff deem this purpose reasonable?**

Yes X No

4. **Type of Sale:** Negotiated or Competitive Bid

5. **Copies of executed instruments defining terms of the proposed securities:**

_____ (a) If such instruments have been previously filed with the Commission, a reference to the Case Number in which the instruments were furnished.

X (b) If such instruments have not been executed at the time of filing, a statement of the general terms and conditions to be contained in the instruments which are proposed to be executed.

_____ (c) If no such instruments are either executed or to be executed, a statement of how the securities are to be sold.

6. **Certified copy of resolution of the directors of applicant, or other legal documents authorizing the issuance of the securities reviewed:**

Yes X No

7. **Pro-forma Balance Sheet and Income Statement reviewed:**

Yes X No

8. **Capital expenditure schedule reviewed:**

Yes X No

9. **Journal entries are required to be filed by the Company to allow for the Fee Schedule to be applied:**

Yes X No

(Note: Fee schedule would not apply to the repayment of existing debt.)

10. **Recommendation of the Financial Analysis Department:**

X Grant by session order (see Comments)

_____ Conditional Approval granted pending receipt of definite terms of issuance (see Comments)

_____ Require additional and/or revised data before approval can be granted (see

Comments)

_____ Formal hearing required (see Comments)

_____ Recommend dismissal (see Comments)

COMMENTS:

Laclede Gas Company (Laclede or Company) is a public utility engaged in providing natural gas and natural gas distribution services to residential, commercial and industrial customers in the City of St. Louis, Missouri and the Missouri Counties of St. Louis, St. Charles, Jefferson, Franklin, Iron, St. Genevieve, St. Francois, Madison and Butler. Laclede has filed an Application with the Missouri Public Service Commission (Commission) to authorize issuance and sale of up to \$500,000,000 in First Mortgage Bonds, Unsecured Debt and Preferred Stock, in connection with a Universal Shelf Registration Statement, and to issue common stock and receive capital contributions. Laclede will use the proceeds to discharge or redeem previously issued bonds, improve or maintain service, to pay off short-term debt, and to pay for additions, improvements and extensions of the Company's plant.

A review of Laclede's current and pro forma financial statements submitted with the Application indicates that the capital structure is that of an investment grade natural gas distribution utility as defined by Standard & Poor's Corporation. Laclede's current capital structure consists of 38.94% long-term debt, 23.12% short-term debt, 37.86% common equity, and 0.09% preferred stock (see Attachment A). In the pro forma financial statements Laclede has shown the effect of how the securities may be issued. Laclede has shown the effect of issuing \$275 million in First Mortgage Bonds, approximately \$225 million of additional paid-in-capital, the maturity of \$40 million of long-term debt, and the retirement of approximately \$207 million of short-term debt (see Attachment A).

A ratio analysis reveals that Laclede's Funds From Operations Interest Coverage is currently in the "A" range given Laclede's business profile of '3' as defined by Standard & Poor's. The pro forma Funds From Operations Interest Coverage are * _____ *x, * _____ *x, and * _____ *x for 2006, 2007, and 2008 respectively and are in the * "_____" * range. Laclede's Funds From Operations/Average Total Debt is currently in the "A" range. The pro forma Funds From Operations/Average Total Debt are * _____ *%, which is in the * "_____" * range, * _____ *%, which is in the * _____ * range, and * _____ *%, which is in the * "_____" * range for 2006, 2007, and 2008 respectively. The Company's Total Debt to Capital Ratio is currently in the "BBB" range at approximately 62.06%, which is in the "BBB" range. Laclede's pro forma Total Debt to Total Capital Ratio is expected to decrease to 50.54%, which is in the "AA" range. The decrease is due to the retirement of approximately \$207 million in short-term debt. The Commission previously approved a similar finance application in Case Nos. GF-2004-0025 and GF-2000-843.

Based on its analysis, the Staff is recommending approval of the Company's Application with the following conditions:

1. That the Company be authorized to issue and sell securities, and receive paid-in capital, pursuant to the terms and conditions described in the Application, in an aggregate amount not to exceed \$500 million at any time, or from time to time, through February 15, 2010, and that the Company shall not be authorized to use any portion of the \$500 million for any purpose other than for the exclusive benefit of Laclede Gas Company's regulated operations, as such purposes are specified in Section 393.200, and not for the other operations of The Laclede Group, Inc or any of its affiliates or unregulated activities.
2. That, if and when individual debt securities are issued under this Application, the Company will submit a verified report to the Commission's Internal Accounting Department documenting such issuance, the use of any associated proceeds and the applicability and measure of fees under Section 386.300.2.
3. That the Company shall also be required to file with the Commission all final terms and conditions on this financing including, but not limited to, the aggregate principal amount to be sold or borrowed, price information, estimated expenses, portion subject to the fee schedule and loan or indenture agreement concerning each issuance.
4. That if a fixed rate, the interest rate will not exceed a rate equal to the greater of 300 basis points above the yield on a United States Treasury security with a comparable maturity at the time of the issuance of the Debt or a rate that is consistent with similar securities of comparable credit quality and maturities issued by other issuers. If a variable rate, the basis for determining the interest rate will be defined at the time of issuance, along with any maximum or minimum interest rates that may be specified for that series; provided, however, that the initial interest rate will not exceed a rate equal to the greater of 300 basis points above the yield on a United States Treasury security with a maturity comparable to the period that the initial interest rate would be in effect, or a rate that is consistent with similar securities of comparable credit quality and maturities issued by other issuers.
5. That the Company shall submit to Staff and Public Counsel any information concerning communications with credit rating agencies concerning individual debt securities issued under this Application.
6. Laclede Gas Company's total long-term borrowings, including all instruments, shall at no time exceed Laclede Gas Company's regulated rate base.
7. That nothing in the Commission's order shall be considered a finding by the Commission of the value of these transactions for rate making purposes, and that the Commission reserves the right to consider the rate making treatment to be afforded these financing transactions and their results in cost of capital, in any later proceeding.
8. That the Company shall file with the Commission any information concerning use of the funds from the individual debt securities issued under this Application with regard to redemption of any outstanding long-term debt, other than at maturity, including, if applicable, Net Present Value calculations indicating the amount of interest cost savings.

9. That the Commission's order in this proceeding shall remain effective for a three-year term from the effective date of the order. In seeking a renewal of the authority granted in this case, Laclede and Staff shall operate under the general time frames set forth for financing cases in the 2004 case management roundtable project.
10. That any benefits (including, but not limited to interest income, etc.) derived from securities proceeds during the time between when such proceeds are obtained by Laclede Gas Company and the time when such proceeds are actually put to use shall be used exclusively for the benefit of Laclede Gas Company regulated operations, and not for the other operations of The Laclede Group, Inc. or any of its affiliates or non-regulated activities.
11. That Laclede Gas Company shall make available to the Staff sufficient documentation to ensure that the funds acquired through issuance of securities under this Application, and any benefits (including, but not limited to interest income, etc.) derived on such funds as described in Recommendation No. 10, shall be used exclusively for the benefit of Laclede Gas Company regulated operations, and not for the other operations of The Laclede Group, Inc. or any of its affiliates or non-regulated activities.

The Staff respectfully requests that this matter be placed on the Commission's Agenda as soon as possible.

Attachments:

- A: Capitalization
- B: Standard and Poor's Business Profile Scores
- C: Funds From Operations Ratios

CC: Director - Utility Operations Division, Director - Utility Service Division, General Counsel, Manager - Financial Analysis Department, Mike Pendergast, Laclede Gas Company, Office of the Public Counsel

Laclede Gas Company
Actual and Pro Forma Capital Structure
as of September 30, 2006

Actual Capital Structure (000's)

Capital Component	Dollar Amount	Percentage of Capital
Common Equity	\$ 339,500	37.86%
Preferred Stock	\$ 787	0.09%
Long-Term Debt	\$ 349,200 *	38.94%
Short-Term Debt	\$ 207,300	23.12%
Total	<u><u>\$ 896,787</u></u>	<u><u>100.00%</u></u>

Pro Forma Capital Structure (000's)

Capital Component	Dollar Amount	Percentage of Capital
Common Equity	\$ 571,019	49.40%
Preferred Stock	\$ 787	0.07%
Long-Term Debt	\$ 584,200 *	50.54%
Short-Term Debt	\$ -	0.00%
Total	<u><u>\$ 1,156,006</u></u>	<u><u>100.00%</u></u>

Notes:

* Includes current-portion of long-term debt.

Source:

Verified Application of Laclede Gas Company

Standard and Poor's Revised Financial Guidelines

Funds from operations/interest coverage (x)

Business Profile		AA		A		BBB		BB	
	1	3	2.5	2.5	1.5	1.5	1		
	2	4	3	3	2	2	1		
Laclede Gas Company Business Profile 3		4.5	3.5	3.5	2.5	2.5	1.5	1.5	1
	4	5	4.2	4.2	3.5	3.5	2.5	2.5	1.5
	5	5.5	4.5	4.5	3.8	3.8	2.8	2.8	1.8
	6	6	5.2	5.2	4.2	4.2	3	3	2
	7	8	6.5	6.5	4.5	4.5	3.2	3.2	2.2
	8	10	7.5	7.5	5.5	5.5	3.5	3.5	2.5
	9			10	7	7	4	4	2.8
	10			11	8	8	5	5	3

Funds from operation/total debt (%)

Business Profile		AA		A		BBB		BB	
	1	20	15	15	10	10	5		
	2	25	20	20	12	12	8		
Laclede Gas Company Business Profile 3		30	25	25	15	15	10	10	5
	4	35	28	28	20	20	12	12	8
	5	40	30	30	22	22	15	15	10
	6	45	35	35	28	28	18	18	12
	7	55	45	45	30	30	20	20	15
	8	70	55	55	40	40	25	25	15
	9			65	45	45	30	30	20
	10			70	55	55	40	40	25

Total debt/total capital (%)

Business Profile		AA		A		BBB		BB	
	1	48	55	55	60	60	70		
	2	45	52	52	58	58	68		
Laclede Gas Company Business Profile 3		42	50	50	55	55	65	65	70
	4	38	45	45	52	52	62	62	68
	5	35	42	42	50	50	60	60	65
	6	32	40	40	48	48	58	58	62
	7	30	38	38	45	45	55	55	60
	8	25	35	35	42	42	52	52	58
	9			32	40	40	50	50	55
	10			25	35	35	48	48	52

Source:

Standard and Poor's Research: New Business Profile Scores Assigned for U.S. Utility and Power Companies;

**Lacled Gas Company
Funds From Operations Ratios**

	<u>2006</u> <u>Estimate</u>	<u>2007</u> <u>Estimate</u>	<u>2008</u> <u>Estimate</u>
Funds From Operations Interest Coverage	* ____ * x	* ____ * x	* ____ * x
Funds From Operations / Average Total Debt	* ____ *	* ____ *	* ____ *
Funds From Operations Interest Coverage*	* ____ * x	* ____ * x	* ____ * x
Funds From Operations / Average Total Debt*	* ____ *	* ____ *	* ____ *

Notes:

*Adjusted for interest related to:

Seasonal natural gas inventory purchases (liquidated annually)

Seasonal propane inventory purchases (partially liquidated annually)

Gas bill payment lags (liquidated monthly)

Funds From Operations includes the cash benefit of the Company's pension accounting

Source:

Response to Staff Data Request 0003.