

## MEMORANDUM

TO: Missouri Public Service Commission  
Official Case File Case No. GF-2013-0085

FROM: Zephania Marevangeo, Financial Analysis Department

/s/ Zephania Marevangeo 09/24/12      /s/ Bob Berlin 09/24/12  
Project Coordinator/Date      General Counsel's Office/Date

SUBJECT: Staff's Recommendation concerning Laclede Gas Company's Verified Application for a Two Year Extension of the Financing Authority Granted in Case No. GF-2009-0450 Subject to the Same Terms and Conditions Previously Approved by the Commission.

DATE: September 24, 2012

1.
  - (a) **Type of Issue:** First Mortgage Bonds, Unsecured Debt, Preferred Stock, Common Stock, Capital Contributions and Private Placements.
  - (b) **Amount:** Total not to exceed \$518,000,000 of long-term indebtedness. Approximately \$513.8 million is remaining under the current authorization.
  - (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:** If the two year extension is granted, the securities may be sold anytime through June 30, 2015.
3.
  - (a) **Statement of Purpose of the Issuances:** The proceeds from the securities will be used for the following purposes: 1) to discharge or redeem previously issued securities; 2) to finance the 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, assuming the Commission orders compliance with all proposed listed conditions.

**\*\* Denotes Highly Confidential Information \*\***

**NP**

Appendix A

4. **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.

☒ (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.

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

Yes ☒ No

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

Yes ☒ No

7. **Capital expenditure schedule reviewed:**

Yes ☒ No

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

Yes ☒ No

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

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

☐ 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.

On June 30, 2009, Laclede filed, in Case No. GF-2009-0450, pursuant to Sections 393.190 and 393.200 RSMo, and Commission Rules 4 CSR 240-2.060 and 3.220, an Application with the Commission 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, issue or accept private placement securities, and to enter into capital leases, all in a total amount not to exceed \$600 million. Laclede claimed that it would 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.

For reasons provided in Staff's memorandum, testimony, and briefs filed in Case No. GF-2009-0450, the Staff recommended the Commission limit Laclede's authority to issue public or private debt of one year or greater to an amount of \$100 million because Staff's analysis showed that Laclede had not demonstrated capital needs consistent with its requested financing authority of \$600 million. Under the Report and Order issued in Case No. GF-2009-0450 on June 16, 2010, the Commission granted Laclede a total financing authority of \$518 million (inclusive of common equity and preferred stock) and denied the remainder. The Commission conditioned such authorization on a long-term debt limit at the value of Laclede's rate base or 65% of Laclede's total capitalization, whichever is less.

On August 21, 2012, Laclede filed a Verified Application for a two year extension of the financing authority granted in Case No. GF-2009-0450 subject to the same terms and conditions previously approved by the Commission.

Laclede maintains that if the Commission were to update its requested financing authority consistent with the purposes allowed in Case No. GF-2009-0450, it could support a total requested authority of **\*\* \$642 million \*\***. Exhibit 3 attached to Laclede's application in this case (GF-2013-0085) provides supporting details of this total amount; **\*\* \$250 million \*\*** for the acquisition of property, the construction, completion, extension or improvement of its plant or system, **\*\* \$105 million \*\*** for improvement or maintenance of its service and **\*\* \$332 million \*\*** for reimbursement of moneys actually expended for any of the aforesaid purposes. The Staff takes no position on whether Laclede could or could not support a total authority of **\*\* \$642 million \*\*** because that is not the relief sought by Laclede in this docket.

In this case, Laclede requests a two-year extension of the previous authority granted in GF-2009-0450. That authority has approximately \$513.8 million remaining of the original \$518 million granted. In other words, Laclede has used only \$4.2 million of the financing authority granted in GF-2009-0450. In view of the fact that experience has proven that

Laclede's current financing authority was well above Laclede's actual needs, Staff has continuing concerns regarding exposure from such a large financing authority for no clear identifiable needs. Staff acknowledges that a majority of the previous financing authority was determined by the Commission's interpretation of Section 393.200, RSMo in that case. Therefore though Staff preserves its arguments and positions in GF-2009-0450, Staff defers to the Commission's decision set out in that case. However, because Staff maintains concerns about the risk exposure of a larger than necessary financing authority, Staff recommends the two-year extension be approved with an additional monitoring safeguard.

Staff suggests the Commission further condition the two year extension on requiring Laclede to provide Staff 30-day notice explaining the intended use of the proceeds from the anticipated financing before closing on any financing transaction issued under the Commission's financing authority.

Staff believes this additional condition is justified because of the added risks imposed on Laclede by its association with its unregulated affiliates. The excerpt below highlights these risks. It is from The Laclede Group Inc.'s credit rating summary reported in an April 4, 2012 S&P Capital IQ report:

LG's unregulated businesses are riskier than the regulated operations due to greater variability in cash flow generation. We view the unregulated operations as negative for credit because of this potential volatility. Laclede Energy Resources Inc. (LER) provides gas-marketing services to large industrial and wholesale clients. LER's financial performance can vary dramatically with changes in commodity prices and price volatility, effectiveness of the company's hedging program, and competition. We expect LER to generate lower cash flow in 2012 primarily due to less volatile natural gas prices. In our view, a considerably higher proportion of nonregulated cash flows would weaken the company's business risk profile.

Therefore, based on the reasons stated above and in recognition of the Commission's decision set out in its report and order in Case No. GF-2009-0450, the Staff recommends the Commission approve the Company's *Verified Application for a Two Year Extension of the Financing Authority Granted in Case No. GF-2009-0450 Subject to the Same Terms and Conditions Previously Approved by the Commission* and that the Commission's approval be subject to the additional condition requiring Laclede to provide Staff 30-day notice explaining the intended use of the proceeds from the anticipated financing before Laclede closes on any financing transaction issued under the Commission's financing authority.

Staff will continue to monitor the Company for compliance with the conditions ordered by the Commission and continue to monitor the purposes for which any long-term debt financing will be used.

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

**BEFORE THE PUBLIC SERVICE COMMISSION**

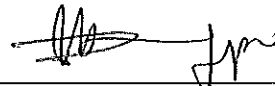
**OF THE STATE OF MISSOURI**

In the Matter of Laclede Gas Company's )  
Verified Application for a Two Year ) File No. GF-2013-0085  
Extension of the Financing Authority )  
Granted in Case No. GF-2009-0450 Subject )  
to the Same Terms and Conditions )  
Previously Approved by the Commission.. )

**AFFIDAVIT OF ZEPHANIA MAREVANGEPO**

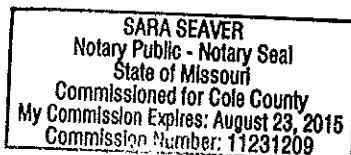
STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

Zephania Marevangepo, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.



ZEPHANIA MAREVANGEPO

Subscribed and sworn to before me this 24<sup>th</sup> day of September, 2012.



Notary Public