

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Joint Application of)	
Southern Union Company d/b/a Missouri)	
Gas Energy, The Laclede Group, Inc., and)	
Laclede Gas Company for an Order)	
Authorizing the Sale, Transfer, and)	Case No. GM-2013-0254
Assignment of Certain Assets and)	
Liabilities from Southern Union Company)	
to Laclede Gas Company and, in)	
Connection Therewith, Certain other)	
Related Transactions)	

**RESPONSE TO LACLEDE’S MOTION TO
ENTER INTO INTEREST RATE SWAP AGREEMENTS**

COMES NOW the Missouri Office of the Public Counsel (OPC) and for its Response to Laclede Gas Company’s Motion to Enter Into Interest Rate Swap Agreements (Motion) states:

1. Laclede Gas Company (Laclede) and Southern Union Company d/b/a Missouri Gas Energy (MGE) initiated this case on January 14, 2013 by filing a Joint Application for an order authorizing the sale, transfer, and assignment of all MGE assets and liabilities from Southern Union to Laclede. The Applicants also seek the authority for Laclede to issue long-term debt and equity in an amount of up to \$975 million to finance the proposed acquisition. The Applicants seek to obtain all necessary regulatory approvals on or before June 30, 2013.

2. On February 4, 2013, Laclede filed its Motion of Laclede Gas Company for Leave to Enter Into Certain Interest Rate Swap Agreements and for Expedited Approval (“Motion”). Laclede’s Motion seeks Commission approval of Laclede’s

proposal “to enter into one or more interest rate swap agreements addressing a significant portion of the long-term indebtedness to be issued to fund the Transaction.” Laclede’s Motion did not include a copy of the interest rate swap agreement.

3. Laclede’s interest rate swap agreements are a gamble that future interest rates will be higher than current interest rates. By locking in a low interest rate now, Laclede hopes that if the acquisition transaction is approved by the Commission and closes in the third quarter of 2013, that under the swap agreement, the lender would owe Laclede the difference between the locked in rate and the then current rate. This would occur if the interest rate at the time of closing is higher than the locked-in interest rate. Conversely, if the acquisition transaction is approved by the Commission and the future interest rate at the time of closing is below the locked-in rate, Laclede would owe the lender the difference between the locked in rate and the rate at the time of closing.

4. OPC does not request an evidentiary hearing regarding Laclede’s Motion. Instead, OPC will convey to the Commission its reasons for not joining Staff (in stating that it has no objections to the Motion):

a. OPC is concerned with the rate impact that the swap agreement may have upon consumers. Laclede’s Motion did not include a copy of the swap agreement, and it does not explain what costs Laclede would or could incur, if any, that it would later seek to recover from ratepayers;

b. Laclede has not made consumer protection commitments regarding the proposed acquisition, such as the commitments made by MGE one year ago when it merged with Sigma Acquisition Corporation and Energy Transfer Equity, L.P.. In that case MGE committed, among other things, to “ensure that the retail

distribution rates for MGE ratepayers shall not increase as a result of the Transaction, and Southern Union agrees never to recommend...an increase to the cost of service for MGE as a result of the Transaction”¹;

c. Laclede’s Application does not explain whether Laclede would incur the debt even if Laclede’s application for acquisition authority were to be denied by the Commission, or whether Laclede would continue to seek to incur \$975 million in debt for other purposes even if either party were to back out of the transaction;

d. Laclede’s Application does not explain whether Laclede would seek to recover any costs associated with the swap agreement in the current Laclede rate case, Case Number GR-2013-0171. OPC is concerned that a request to include such costs during a shortened true-up phase would prevent the other parties from having sufficient time to properly address this important issue;

e. OPC is also concerned that there could be a negative consumer impact upon rates due to the fact that Laclede seeks to acquire the debt by leveraging Laclede’s regulated assets, yet Laclede also seeks to use its parent corporation’s capital structure to set rates in its current rate case; and

f. OPC has not taken a position regarding Laclede’s application to acquire MGE’s assets, and OPC’s position on the transaction will influence OPC’s position on whether Laclede should be granted financing authority.

WHEREFORE, the Office of the Public Counsel respectfully submits this response to Laclede’s Motion to Enter Into Interest Rate Swap Agreements.

¹ Case No. GM-2011-0412, Non-Unanimous Stipulation and Agreement, p. 10.

Respectfully submitted,

OFFICE OF THE PUBLIC COUNSEL

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, emailed or hand-delivered to all counsel of record this 11th day of February 2013.

/s/ Marc Poston
