

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held at its office
in Jefferson City on the 30th
day of October, 1992.

In the matter of Union Electric Company for an order)
authorizing the issue and sale of up to \$500,000,000)
principal amount of First Mortgage Bonds for the purpose) Case No. EF-93-126
of discharging outstanding long term debt.)
)

ORDER APPROVING FINANCING

On October 2, 1992, Union Electric Company (UE) filed an Application in this case requesting authority to issue and sell up to \$500 million in principal amount of First Mortgage Bonds (Bonds) in order to discharge existing fixed rate long term debt obligations. On October 26, 1992 a Supplemental Application with attached exhibits was filed. UE seeks this authority pursuant to Sections 393.180 and 393.200, R.S.Mo. 1986. On October 27, 1992, the Commission's Staff (Staff) filed a memorandum in this case recommending approval of this request subject to certain conditions.

The Commission, upon consideration of the verified Application and the Supplemental Application, the exhibits offered in support of the Application as supplemented, and the recommendation of its Staff, determines that a hearing is unnecessary to resolve the matters at issue herein and finds and concludes as follows.

UE is a Missouri corporation with its executive offices at 1901 Chouteau Avenue, St. Louis, Missouri 63103, and provides electric, gas, steam heating and water utility service within this state as a public utility subject to the jurisdiction of this Commission pursuant to Chapters 386 and 393, R.S.Mo. 1986, as amended.

UE seeks to issue from time to time, in several transactions, up to \$800 million in aggregate principal of Bonds in multiple series at prices and on

terms to be determined at the time of the sale depending upon the then-prevailing market conditions. UE has already obtained authority from the Commission by order dated March 13, 1992, as supplemented by order dated May 29, 1992 in Case No. EF-92-186 to issue \$300 million of Bonds. As such, UE only seeks authority to issue an additional \$500 million of Bonds in this case. The price to be paid to UE for the various series of Bonds will not be less than 98 percent nor more than 102 percent of the principal amount thereof. The terms of maturity for the various series of Bonds are anticipated to be between five and 30 years while the interest rate applicable to each series of Bonds will not exceed 8.25 percent. One or more series of the Bonds may include terms providing that they will not be redeemable at all for a certain period of time or that the series will not be redeemable for a certain period of time if moneys for such redemption are obtained by UE, directly or indirectly, from or in anticipation of borrowings by or for the account of UE at an effective interest cost equal to or less than the effective interest cost to UE of the series, but in no event shall the term of such a "no-call" provision exceed 15 years.

The various series of these Bonds will be offered to the public or privately placed or a combination of both through commercial or investment banking firms or groups of firms selected through negotiation and/or competitive bidding. Sales of the series of Bonds could be through underwriters or dealers, directly to a limited number of purchasers or to a single purchaser or through agents designated by UE. Compensation to be paid for underwriting or privately placing the Bonds will be determined in the light of financial market conditions. The Bonds will be issued under the Indenture of Mortgage and Deed of Trust dated June 15, 1937, as amended, between UE and Boatmen's Trust Company, as Trustee, as supplemented by one or more supplemental indentures relating to these Bonds.

UE proposes to issue these Bonds under "shelf-registrations" to be filed with the Securities and Exchange Commission, the duration of which will be

approximately two years. In order to allow flexibility to take advantage of prevailing market conditions, UE requests that the order in this proceeding remain in effect for a term of two years from its issuance.

UE proposes to use the proceeds from the issuance and sale of these Bonds to discharge outstanding obligations with higher interest rates, including redemption premiums, and thereby reduce costs as a result of declining long term interest rates. In addition, UE may seek to extend the existing maturity of outstanding long term indebtedness. UE proposes to commence issuing series of Bonds as the financial market conditions warrant. However, due to timing constraints such as notice requirements to redeem outstanding First Mortgage Bonds, UE may not be able to immediately use the proceeds of an issuance of these Bonds to discharge outstanding First Mortgage Bonds. In such event, the proceeds from the issuance of these Bonds will be added to UE's general funds and temporarily utilized before being used to retire or redeem existing First Mortgage Bonds.

UE states that no fee would be required for this financing pursuant to Section 386.300, R.S.Mo. 1986, because these Bonds will be used to repay and discharge outstanding long term debt.

Staff recommends approval of this request since the Bonds are to be used to discharge current long term obligations of UE with net interest savings. Staff states that there will be little impact on UE's capital structure ratios. Staff notes that the pro forma ratio of long term debt after giving effect to the issuance of the total \$800 million in new Bonds will be 46.1 percent compared to 45.9 percent as of July 31, 1992. Also, Staff states that interest coverage tests should not be adversely impacted by issuance of the debt and should improve as existing higher cost debt is replaced by lower cost debt. Staff believes that the "shelf-registration" duration period of two years will allow UE the flexibility to take advantage of prevailing market conditions for two reasons: (1) by issuing the debt over a period of time and in several different series of issues

with varying maturities, it prevents the "flooding" of the bond market at one time; and (2) issuing debt with varying maturities reduces the reinvestment or reissuance risk of UE by staggering the times the various principal amounts mature.

Staff requests that the Commission include in its order the following conditions:

- (1) that the order provide for the sale of up to \$500 million of Bonds for the purpose of discharging outstanding long term debt;
- (2) that the interest rate applicable to each series of the new Bonds will not exceed 8.25 percent;
- (3) that the prices to be paid to UE for the various series of new Bonds will not be less than 98 percent nor more than 102 percent of the principal amount thereof;
- (4) that one or more series of the new Bonds may have a "no-call" provision but in no event shall the term of such a "no-call" provision exceed 15 years;
- (5) that the terms of maturity for the various series of the new Bonds be between five and 30 years but in no event shall they exceed 30 years; and
- (6) that the Commission's order remain effective for two years from its issuance.

The Commission determines that the requested financing should be authorized since these Bonds will be issued to reduce net interest costs to UE. Pursuant to Staff's request, the Commission finds that UE has requested approval of this financing to refinance outstanding fixed rate long term debt obligations or to extend the existing maturity of outstanding long term indebtedness. The Commission is of the opinion that the money to be procured by the issuance of these Bonds is reasonably required for the purposes specified herein and that

such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income. Therefore, the Commission will authorize the requested financing as requested by UE's Application as supplemented with attached exhibits.

The Commission further finds that no fee will be required pursuant to Section 386.300, R.S.Mo. 1986, because the Bonds authorized herein will be used to discharge outstanding indebtedness. To the extent any of the funds generated by the financing authorized herein are used for purposes other than the discharge of outstanding indebtedness, that portion of the proceeds will be subject to the fees authorized by Section 386.300.

IT IS THEREFORE ORDERED:

1. That Union Electric Company be authorized hereby to issue and sell up to five hundred million dollars (\$500,000,000) in aggregate principal amount of First Mortgage Bonds under and to be secured by its Indenture of Mortgage and Deed of Trust dated June 15, 1937, as amended May 1, 1941, April 1, 1971, February 1, 1974 and July 7, 1980, and an indenture or indentures supplemental thereto.

2. That Union Electric Company execute and deliver a supplemental indenture or supplemental indentures creating such First Mortgage Bonds and setting forth the terms thereof in the form as submitted in this proceeding as Union Electric Company's Exhibit 3, with such changes as are necessary to reflect the final provisions of the financing transactions.

3. That the issuance of these First Mortgage Bonds and proceeds realized therefrom shall be used for the purposes specified herein and no other except to pay out of the gross proceeds from the sale of these First Mortgage Bonds the reasonable expenses incurred in connection with the issuance and sale thereof.

4. That any refunding of any fixed rate long term debt obligations may be transacted if doing so will result in a net interest savings for Union Electric Company calculated using generally accepted accounting practices as the basis for analysis.

5. That the interest rate applicable to each series of the First Mortgage Bonds authorized to be issued herein shall not exceed 8.25 percent.

6. That the prices to be paid to Union Electric Company for the various series of First Mortgage Bonds authorized to be issued herein shall not be less than 98 percent nor more than 102 percent of the principal amount thereof.

7. That one or more series of the First Mortgage Bonds authorized to be issued herein may have a "no-call" provision but in no event shall the term of such a "no-call" provision exceed fifteen (15) years.

8. That the terms of maturity for the various series of the First Mortgage Bonds authorized to be issued herein shall be between five (5) and thirty (30) years but in no event shall they exceed thirty (30) years.

9. That this order shall remain in effect for two (2) years from its issuance.

10. That Union Electric Company be authorized hereby to execute, deliver and perform the necessary agreements relative to the financing herein authorized.

11. That Union Electric Company be authorized hereby to do all things not contrary to law or to the rules and regulations of the Commission, necessary to the performance of the acts specifically authorized in this order, including the execution of such other agreements and documents as are reasonably necessary to the furtherance of the financing authorized herein.

12. That Union Electric Company be directed hereby to submit the final terms and conditions associated with each individual issuance of these First

Mortgage Bonds to the Commission's Financial Analysis Department to allow the timely and ongoing review of the appropriateness of each issuance.

13. That nothing in this order shall be considered a finding of the Commission of the value for ratemaking purposes of the properties herein involved, or as an acquiescence in the value placed upon said properties by Union Electric Company. Furthermore, the Commission reserves the right to consider the ratemaking treatment to be afforded these financing transactions, and their resulting cost of capital, in any later proceeding.

14. That Union Electric Company be directed hereby to submit within sixty (60) days from the closing on the sale of each series of these First Mortgage Bonds to the Commission's Internal Accounting Department a report verified by the appropriate official of Union Electric Company reflecting the journal entries recorded relating to the use and application of the proceeds from the issuance of these notes.

15. That this order shall become effective on the 3rd day of November, 1992.

BY THE COMMISSION

Brent Stewart

Brent Stewart
Executive Secretary

(S E A L)

McClure, Chm., Mueller, Rauch,
Perkins and Kincheloe, CC., concur.