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 Registration Statement, to Issue Common Stock and Receive Capital Contributions, to Issue and Accept Private Placement Securities, and to Enter Into Capital Leases, all in a Total Amount Not to Exceed $600 Million	)	Case No. GF-2009-0450

LACLEDE GAS COMPANY'S PREHEARING BRIEF

COMES NOW Laclede Gas Company ("Laclede" or "Company") and, pursuant to the Commission's March 30, 2010 Order Granting Continuance, and Amending Procedural Schedule, submits its Prehearing Brief in the above captioned case. For the Commission's convenience, the issues in this brief are presented in the same order as the List of Issues previously submitted by the parties.

ISSUE #1 What conditions can and should the Commission place on Laclede's financing authority?

Laclede believes that the Commission should continue the same financing conditions that currently govern the Company's issuance of stock, bonds and other evidences of indebtedness and that have been in effect for several years. Specifically, the Commission should continue to require that the total amount of long-term debt issued and outstanding at any given time be less than both:

(a) the value of Laclede's regulated rate base; and

(b) an amount equal to 65% of Laclede's capital structure.

(Direct Testimony of Lynn Rawlings, p. 3, lines 6-10; p. 8, lines 19-22; p. 19, lines 5-12) The evidence demonstrates that these conditions would effectively limit Laclede's long-term borrowings to approximately $275 Million. (Rawlings Direct, p. 4, lines 1-2, and p.

15, lines 8-9) The Commission should further require that Laclede conduct its financings in such a way so as to maintain an investment grade credit rating. (Rawlings Direct, p. 8, line 23, to p. 9, line 2; p. 15, lines 4-9)

Laclede submits that these existing conditions should be continued for several reasons:

- First, when combined with the Company's conservative stewardship of its financial resources, such conditions have proven to be completely effective in protecting ratepayers from any improvident financing activities. During the period in which these conditions have been in effect, the Company has maintained an "A" credit rating, a capital structure that is comprised of less than 50% debt, and an overall level of long-term debt and preferred stock that is more than $275 million below the value of its regulated rate base. (Rawlings Direct, p. 15, lines 4-9)
- Second, such conditions have afforded the Company the financing flexibility needed to obtain capital quickly and on favorable financing terms during periods of rapid change in the credit markets. The Company's ability to issue $80 million in First Mortgage Bonds in 2008 right before the interest rate on such instruments soared by nearly 250 basis points in less than a month is a prime example of the value of such flexibility. (Rawlings Direct, p. 10, line 12 to p. 11, line 5)
- Third, and even more importantly, the financing flexibility afforded by the Commission's existing conditions provides the Company with a greater ability to weather disruptions in the credit markets or external factors that can suddenly drive up the cash resources necessary to meet its public utility obligations; an attribute that is critical to ensuring safe and adequate service for utility customers; (Rawlings Direct, p. 12, line 18 to p. 13, line 12; p. 15, lines 13-21)

- Fourth, continuation of the Commission's existing conditions and the flexibility they provide is far more consistent with the Commission's traditional practice of permitting utility management to make such decisions, subject to subsequent prudence reviews. In contrast, the new conditions recommended by Staff would require that the Commission effectively pre-approve every financing decision that involves the issuance of long-term debt for any reason other than to support a current estimate of future capital expenditures. In addition to being potentially unworkable and detrimental to the interests of Laclede's customers, such an approach fundamentally confuses the proper role of the Commission and utility management. (Rawlings Direct, pp. 17-18)
- Fifth, in contrast to the new conditions recommended by Staff, the Commission's existing conditions are consistent with the statutes and rules governing utility financings in that they recognize that payment of unreimbursed capital expenditures is a legitimate and statutorily-authorized purpose for which long-term debt may be issued. The Commission's existing conditions are also far more consistent with the real nature and magnitude of the Company's longer-term financing obligations in that they do not artificially exclude regulatory assets that, while non-capital in nature, must still be financed over extended periods of time. (Rebuttal Testimony of Mark Waltermire, pp. 5-7)

Based on the testimony of the parties and further discussions between them, Staff and the Company have agreed that the Company should be permitted to raise capital through the private placement of debt, and have also effectively agreed on the conditions regarding capital leases. Both Staff and the Company recommend that the Commission authorize Laclede to convert its operating leases to capital leases and enter into new capital leases where consistent with Generally Accepted Accounting Principles (GAAP). The converted leases would not be counted toward the long-term debt cap. However, new leases that are capital leases according to GAAP would be counted as long-term debt financing. (Rebuttal Testimony of Zephania Marevangepo, p. 5, lines 7-21)

A. What amount of long-term debt should be authorized under the Commission's authority?

As previously discussed, Laclede should be authorized to issue long-term debt in amounts that it believes are reasonable and in the best interests of its customers, provided that such amounts do not violate the currently approved conditions described above. A table summarizing the parties' views on the major issues in this case is attached hereto as Exhibit 1. The amounts suggested by the Company include unreimbursed capital expenditures described in the statute that covers financing authority (Section 393.200 RSMo), referenced by Commission rules (4 CSR 240-3.220(G)), and included in the Company's Application in this case (Paragraph 10 of, and Exhibit 3 to, the Company's Application filed June 30, 2009) On the other hand, Staff allowed nothing in financing authority for this well-established financing category. (Waltermire Rebuttal, p. 6, line 13 to p. 7, line 5)

The restrictions on long-term debt that have been historically recommended by the Staff, agreed to by the Company, and adopted by the Commission, provide reasonable and adequate protection against imprudent financing actions by the Company while still affording the Company with enough flexibility to be able to take appropriate advantage of market opportunities that are in the best interest of Laclede and its customers. The Staff's new position creates an imbalance by needlessly overemphasizing regulatory protections and needlessly underemphasizing financing flexibility. Laclede believes that the Staff's recommendation to constrict long-term debt authority does not provide any meaningful additional protections over those currently in place, while creating a potential for harm caused by lost opportunities. (Rawlings Direct, p. 19; Waltermire Rebuttal, p. 2, line 9 to p. 3, line 19)

B. Should Laclede be allowed to issue preferred stock within the debt limit or above the debt limit?

Upon further review of this issue, Laclede and Staff are in general agreement that the Company should be permitted to issue preferred stock at its discretion, provided that funds raised by such issuances be counted toward the long-term debt limitation. (Marevangepo Rebuttal, p. 5, lines 1-5; Rawlings Direct, p. 6, line 18 to p. 7, line 2)

C. What information should be considered appropriate for purposes of determining a reasonable amount of financing authority?

The information considered by the Commission in determining a reasonable amount of financing authority should include: (a) the quality of the utility's track record in exercising its financing authority under existing conditions approved by the Commission; (b) the statutory purposes for which securities may be issued, including the payment of unreimbursed capital expenditures, repayment of short-term debt; and support of future capital expenditures; (c) the need and advisability of providing utilities with a measure of flexibility to respond to changing market conditions and cash requirements; (d) the impact of any limitations on the proper roles that the Commission and utility management should play in making financing decisions; and any other considerations discussed in the testimony submitted by Laclede in this proceeding.

ISSUE #2 Can and should the Company be required to file with the Commission any credit agency reports issued on the Company, on its debt issuances, or on the Laclede Group?

Laclede should not be required to file credit agency reports to the extent such action would potentially require the Company to violate copyright laws and burden the Company and Commission with unnecessary filings. Rather, if Staff seeks such information, Staff should register with a rating agency to obtain the reports for itself. (Rawlings Direct, p. 19, line 22 to p. 20, line 10)

WHEREFORE, for the foregoing reasons, Laclede Gas Company respectfully requests that the Commission accept for its consideration this Prehearing Brief.

Respectfully submitted,

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Certificate of Service

The undersigned certifies that a true and correct copy of the foregoing pleading was served on the parties to this case on this 13th day of April, 2010, by hand-delivery, e-mail, fax, or by United States mail, postage prepaid.

/s/ Gerry Lynch

EXHIBIT 1

SUBJECT OF **<u>FINANCING AUTHORITY</u>**	**<u>LACLEDE</u>**	**<u>STAFF</u>**
Covers three year estimate of forward-looking capital expenditures.	**YES**	**YES**
Covers renewal of expiring long-term debt issuances.	**YES**	**YES**
Applies Funds From Operations to reduce short-term debt.	**YES**	**NO** (but expresses serious concern over short-term debt levels)
Covers five years of prior unreimbursed capital expenditures as provided in Section 393.200 RSMo and Rule 3.220(G).	**YES**	**NO**
Allows for longer-term financing of longer-term regulatory assets that are part of rate base.	**YES**	**NO**
Recommends a reasonable buffer to provide financing flexibility so as not to handicap utility and disadvantage customers.	**YES**	**NO**
Ensures long-term debt never exceeds rate base, i.e. there are always assets to support long-term debt.	**YES**	**PROBABLY**
Ensures long-term debt is always less than 65% of total capitalization.	**YES**	**YES** (not covered in financing case, but covered by stipulation approved in GM-2001-0342)