



Commissioners

SHEILA LUMPE
Chair

M. DIANNE DRAINER
Vice Chair

CONNIE MURRAY

ROBERT G. SCHEMENAUER

KELVIN L. SIMMONS

Missouri Public Service Commission

POST OFFICE BOX 360
JEFFERSON CITY, MISSOURI 65102
573-751-3234
573-751-1847 (Fax Number)
<http://www.psc.state.mo.us>

July 31, 2000

BRIAN D. KINKADE
Executive Director

GORDON L. PERSINGER
Director, Research and Public Affairs

WESS A. HENDERSON
Director, Utility Operations

ROBERT SCHALLENBERG
Director, Utility Services

DONNA M. KOLILIS
Director, Administration

DALE HARDY ROBERTS
Secretary/Chief Regulatory Law Judge

DANA K. JOYCE
General Counsel

FILED³

JUL 31 2000

Missouri Public
Service Commission

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

RE: Case No. GF-2000-843

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of a **STAFF RECOMMENDATION**.

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

Robert Francon
Assistant General Counsel
(573) 751-6651
(573) 751-9285 (Fax)

Enclosure
cc: Counsel of Record

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED³

JUL 31 2000

Missouri Public
Service Commission

In the Matter of the Application of)
LACLEDE GAS COMPANY for an)
Order Authorizing LACLEDE GAS)
COMPANY to Issue and Sell First)
Mortgage Bonds, Unsecured Debt and)
Authorized but Unissued Common Stock)
of the Company in a Total Amount not to)
Exceed \$350,000,000 Together with)
Certain Rights to Accompany the)
Common Stock and Any Additional)
Shares of Common Stock as May be)
Required by the Exercise of Such Rights;)
All Pursuant to a Universal Shelf)
Registration Statement)

Case No. GF-2000-843

STAFF RECOMMENDATION

COMES NOW the Staff of the Public Service Commission of the State of Missouri ("Staff") and respectfully states as follows:

1. On June 23, 2000, Laclede Gas Company ("Laclede") filed a Verified Application to issue First Mortgage Bonds, Unsecured Debt and Common Stock in an amount not to exceed \$350,000,000 with the Missouri Public Service Commission ("Commission").
2. On July 3, 2000, Laclede filed a revised Motion for Expedited Treatment.
3. On July 10, 2000, Staff filed its Response to Motion for Expedited Treatment.
4. On July 17, 2000, the Missouri Public Service Commission ("Commission") issued an Order granting Laclede's Motion for Expedited Treatment and ordered Staff to file its Recommendation by August 10, 2000.

5. The Staff files the attached Memorandum, attached hereto as Appendix A, to comply with the Commission Order. Staff has reviewed Laclede's Application and recommends approval with the following conditions:

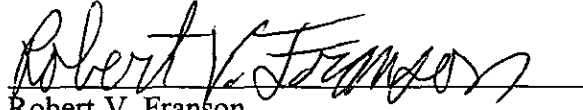
a. That the interest rate on any fixed rate security issued shall not exceed 300 basis points over the U.S. Treasury rate for a comparable maturity, and the interest rate on any variable rate security issued shall not have an initial interest rate that exceeds 300 basis points over the U.S. Treasury rate for a comparable maturity.

b. That nothing in the Order shall be considered a finding by the Commission of the reasonableness of the expenditures herein involved, the value for ratemaking purposes of the properties herein involved, or as an acquiescence in the value placed upon said properties by Laclede Gas 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.

WHEREFORE, Staff respectfully recommends that the Commission approve Laclede's Application subject to the conditions outlined in the "Recommendations" Section of the Memorandum.

Respectfully submitted,

DANA K. JOYCE
General Counsel

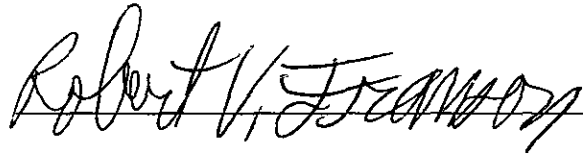


Robert V. Franson
Assistant General Counsel
Missouri Bar No. 34643

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-6651 (Telephone)
(573) 751-9285 (Fax)
e-mail: rfranson@mail.state.mo.us

Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 31ST day of July, 2000.



MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GF-2000-843, Laclede Gas Company

FROM: David P. Broadwater, Financial Analysis Department

SUBJECT: Staff Recommendation for Approval of Authorization for issuance and
Sale of First Mortgage Bonds, Unsecured Debt, and Common Stock

DATE: July 25, 2000

REVIEWED BY:

R.E. Schallerberg 7-31-00 *Thomas L. Schwann Jr.* 7/31/00
Director - Utility Services Division / Date General Counsel's Office / Date

1. (a) **Type of Issue:** First Mortgage Bonds, Unsecured Debt and Common Stock
(b) **Amount:** Not to exceed \$350,000,000
(c) **Rate:** Not to exceed 300 basis points above US Treasury rate for comparable maturity security
(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 prior to September 1, 2003 at the discretion of Company management.
3. (a) **Statement of Purpose of the Issue:** The proceeds from the securities will be used for the following purposes: 1) the discharge or lawful refunding of short-term debt; 2) the discharge or redemption of previously issued bonds; 3) the purchase, acquisition, and construction of additional properties and facilities, as well as improvement to the Company's existing plant; 4) the improvement or maintenance of service; 5) the reimbursement of moneys actually expended from income; and 6) the performance of 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, 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 \$350,000,000 in First Mortgage Bonds, unsecured debt and common stock. Laclede will use the proceeds, among other things, to pay off short-term debt, refinance existing long-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 34.17% long-term debt, 15.57% short-term debt, 49.94% common equity, and 0.32% preferred stock. In the pro forma financial statements Laclede has shown the effect of two different proposals in how the securities may be issued. In pro forma A, Laclede has shown the effect of issuing \$175 million in First Mortgage Bonds and approximately \$168 million common equity. In pro forma B, Laclede has shown the effect of issuing \$275 million in First Mortgage Bonds and approximately \$72 million in common equity (see Attachment).

A ratio analysis reveals that Laclede's Pre-Tax Interest Coverage is currently in the "A" range given Laclede's business position as defined by Standard & Poor's Corporation. Including the pro forma A adjustments, the ratio falls to the "BBB" range, and with the pro forma B adjustment the Pre-Tax Interest Coverage Ratio falls out of the investment grade range. The Company's Total Debt to Capital Ratio currently would fall into the "A" range as defined by Standard & Poor's Corporation, while on a pro forma basis, Laclede's Total Debt to Total Capital Ratio does not fall below "BBB" in either scenario the Company is proposing (See Attachment). The Company's pro forma financial statements did not make adjustments to reflect a full year of the Company's most recent rate increase that took effect December 24, 1999. Consequently, these ratios are showing the full effect of the increased cost associated with the proposed debt and equity financing but they are only showing approximately a quarter of the effect of the Company's \$11 million rate increase granted by the Commission. It should also be noted that the Company did not make any adjustments to reflect normalized weather.

The Company's request in this case is extremely significant in relation to Laclede's size. The Company's request to issue an additional \$350 million in capital represents an increase of more than 50% above the Company's current capitalization. The Company currently has approximately \$100 million of short-term debt that will be rolled into long-term debt. The Company also has a \$25 million series of long-term debt that will mature during the period of the shelf-registration. The

Company has indicated that they intend to issue debt and equity from this shelf registration in a manner that allows them to maintain an investment grade credit rating.

The Commission has traditionally imposed an interest rate cap on a company's issuances of debt. In this case, the Staff and the Company are proposing that the interest rate cap be set at 300 basis points above the level of U.S. Treasury securities of comparable maturity. The Staff and the Company have each done an analysis of the spread of utility bonds over U.S. Treasury securities and believe that a cap of 300 basis points above U.S. Treasury securities is appropriate at this time. However, during times of historically high interest rates, the spread of utility bonds over U.S. Treasury securities has exceeded 300 basis points, while during times of low interest rates the spread has been significantly lower than 300 basis points. If during the life of this shelf registration the interest rate Laclede would have to pay on debt exceeds 300 basis points over the U.S. Treasury rate, the Staff believes that Laclede would have the right to come before the Commission and ask for approval to exceed the cap.

It should be noted that the Company is also asking for the Commission to approve the issuance of Shareholder Rights along with any issuance of Common Stock. The Commission heard the Staff's concerns on Shareholder Rights in Case No. EF-2000-764 and Staff does not have any new concerns at this time. Therefore, Staff is proceeding with this Application consistent with the Commission's order in Case No. EF-2000-764.

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

- 1) That the interest rate on any fixed rate security issued shall not exceed 300 basis points over the U.S. Treasury rate for a comparable maturity, and the interest rate on any variable rate security issued shall not have an initial interest rate that exceeds 300 basis points over the U.S. Treasury rate for a comparable maturity.
- 2) That nothing in this Order shall be considered a finding of the Commission of the reasonableness of the expenditures herein involved, the value for ratemaking purposes of the properties herein involved, or as an acquiescence in the value placed upon said properties by Laclede Gas 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.

Attachment: Capitalization & Ratio Analysis

Copies: Director - Utility Operations Division
Director - Utility Service Division
General Counsel
Manager - Financial Analysis Department
Mike Pendergast, Laclede Gas Company
Gerald T. McNeive, Laclede Gas Company
Office of the Public Counsel

Service List for
Case No. GF-2000-843
July 31, 2000

Office of the Public Counsel
P.O. Box 7800
Jefferson City, MO 65102

Michael C. Pendergast
Laclede Gas Company
720 Olive Street, Room 1520
St. Louis, MO 63101