

**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	)	Case No. GF-2009-0450
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	)	

**LACLEDE GAS COMPANY'S  
RESPONSE TO STAFF RECOMMENDATION  
AND ALTERNATIVE REQUEST FOR EXTENSION OF CURRENT  
FINANCING AUTHORITY PENDING THE HOLDING OF AN ON-THE-  
RECORD PRESENTATION OR EVIDENTIARY HEARING**

**COMES NOW** Laclede Gas Company ("Laclede" or "Company") and submits its Response to the Recommendation and Memorandum filed by the Staff of the Public Service Commission ("Staff") on December 29, 2009 in connection with the financing application filed by the Company in this case on June 30, 2009. In support thereof, Laclede states as follows:

1. On June 30, 2009, the Company filed a Verified Application in this case pursuant to Sections 393.190 and 393.200 RSMo, and 4 CSR 240-2.060 and 3.220 of the Commission's Rules in which it sought Commission authorization, for a three year period, to issue and sell first mortgage bonds, unsecured debt and preferred stock, to issue common stock and receive capital contributions, to issue and accept private placement investments, and to enter into capital leases, all in a total amount not to exceed \$600 million.

2. After multiple exchanges of information and several meetings between the Company and the Staff, the Staff issued its Recommendation and Memorandum on December 29, 2009 in which it recommended that the Commission grant Laclede's application subject to a number of conditions and modifications. Although Laclede does not necessarily agree with a number of the factual characterizations made by Staff in its Memorandum, it takes specific issue with five of the conditions proposed by Staff.

3. First, Laclede disagrees with Staff's recommendation that the Commission depart from its long-standing prior financing policies by imposing a \$100 million dollar cap on the cumulative amount of "long-term" debt that Laclede may issue during the three-year period covered by the requested authorization. At a minimum, Laclede believes it should be authorized to issue the level of long-term debt it believes is appropriate subject to the condition that the total amount of such debt outstanding at any point in time does not exceed an amount equal to: (a) 65% of Laclede's overall capital structure, or (b) the value of its regulated rate base, whichever is less. (See Exhibit 1, which includes the specific provisions setting forth these limitations, as approved by the Commission in Case Nos. GM-2001-342 and GF-2007-0220, respectively). Second, Laclede disagrees with Staff's recommendation that the Company's authority to enter into capital leases be limited to only those operating leases that Laclede may be required to reclassify as capital leases as a result of potential changes in financial accounting standards.<sup>1</sup> Instead, Laclede believes it should be given general authority to enter into

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<sup>1</sup>Today, Laclede utilizes operating leases for a variety of its utility assets, including vehicles, telephone switches, and other equipment with relatively shorter service lives. Because of changes being contemplated by the Financial Accounting Standards Board, Laclede may be required to treat these leases as capital leases for which Commission financing authorization may be required. The Staff has indicated that the Commission should authorize Laclede to be party to such leases, but the wording is unclear and could be interpreted to allow Laclede authority to

capital leases, provided that the total value of such capital leases is counted towards the limitation specified in (a) and (b) above. Finally, Laclede objects to Staff's recommendation that the Company not be permitted to issue preferred stock without first obtaining additional Commission authorization. Instead, Laclede believes that it should be able to issue preferred stock in the amounts it deems reasonable and appropriate, as it has been consistently authorized to do by the Commission in numerous other previous financing authority orders, provided that Laclede would also have has no objection if the total amount of such preferred stock outstanding at any given time is also counted towards the limitation specified in (a) and (b) above.<sup>2</sup> The basis for Laclede's alternative recommendation on each of these disputed issues is discussed below.

### **Background**

4. In the more distant past, the Commission routinely required that utilities submit individual financing applications to obtain authorization for each issuance of

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"only convert the existing operating leases to capital leases" if and when such an accounting change occurs. Laclede, however, believes that it should also be granted general authority to enter into this rather typical form of financing vehicle (in addition to the one-time conversion that may be required by a change in GAAP).

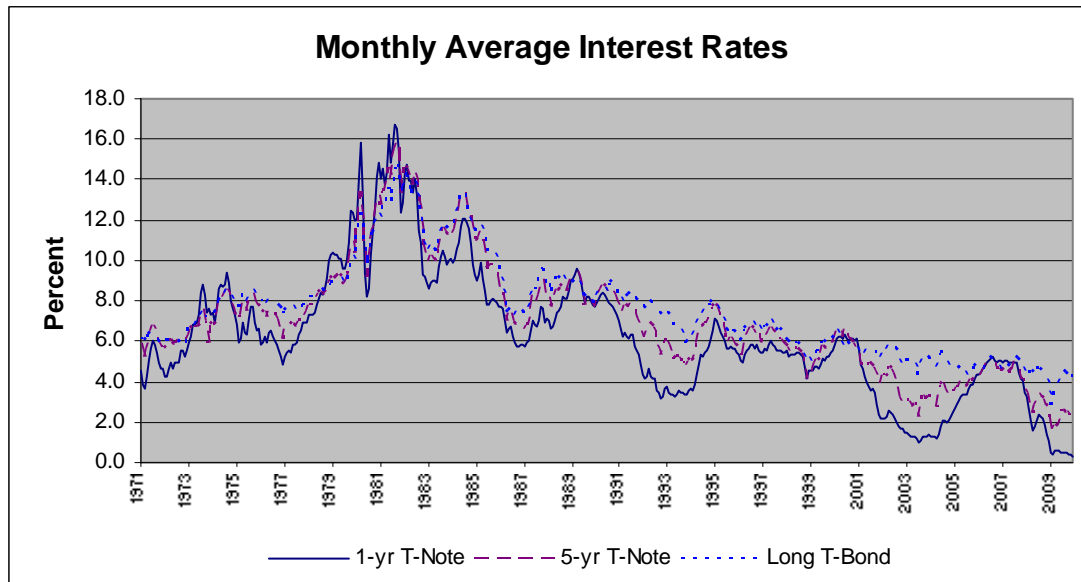
<sup>2</sup>Because of copyright concerns, Laclede also has reservations regarding Staff's recommendation in paragraph 8 of its Memorandum that Laclede file with the Commission any reports issued by credit rating agencies on Laclede, any debt issuances, or The Laclede Group. It would seem far more efficient and legally appropriate for the Staff to simply obtain its own access to the reports issued by such rating agencies so that it can receive whatever information Staff believes is appropriate, not only for Laclede but for other utilities as well. Such an approach would also avoid cluttering up EFIS with filings that may have no particular relevance to anything. Laclede also objects to the recommendation in paragraph 12 which would require Laclede to provide detailed evidence showing the amounts of long-term capital investments that have not been financed under the prior financing authority, the type of long-term securities they intend to issue and when the Company intends to issue such securities. As a practical matter, it is simply not possible under most circumstances to directly attribute a particular financing to a particular debt issuance or equity investment. As a result, Staff's recommendation is seeking information that cannot be ascertained.

equity securities or long-term debt. For the past ten years, however, Laclede, like many other Missouri utilities, has been authorized to issue debt, equity (including preferred stock) and other financing instruments over predefined periods of time subject only to an overall limit on the amount that Laclede could issue, as well as several other conditions designed to ensure that ratepayers would not be harmed by the exercise of such authority.

5. Such an approach continues to have a number of inherent benefits for the Company, its customers and the Commission. First, it provides the Company with the flexibility it requires to respond on a timely basis to external factors that can quickly alter the relative cost, availability and need for various forms of capital. By doing so, it enhances the Company's ability to take advantage of favorable pricing opportunities that may arise in the credit markets, including the ability to determine the mix of debt maturities that is best calibrated to benefit customers based on changing market conditions. It also allows Laclede to respond proactively to challenging credit environments (like that which has prevailed since 2007 and continues today) that can threaten its very access to certain forms of credit. Finally, such an approach relieves the Commission and its Staff of the need to separately evaluate and approve each financing decision – an exercise in efficiency that not only frees up Commission resources for other regulatory demands (that, according to the Staff, have recently reached “triage” levels), but also honors the long-standing dividing line between permissible regulation and impermissible management of utility business activities.

6. It is difficult to overstate how critical it is to maintain the flexibility provided by the current approach. Consider the potential need to respond to changes in the absolute and relative cost of the “long-term” debt instruments (i.e. those with

maturities of one year or more) that require financing authorization from this Commission. Currently, rates for long-term debt with shorter maturities (one- to five-year maturities) are low, due largely to current federal fiscal policies, but that has not always been the case.<sup>3</sup>

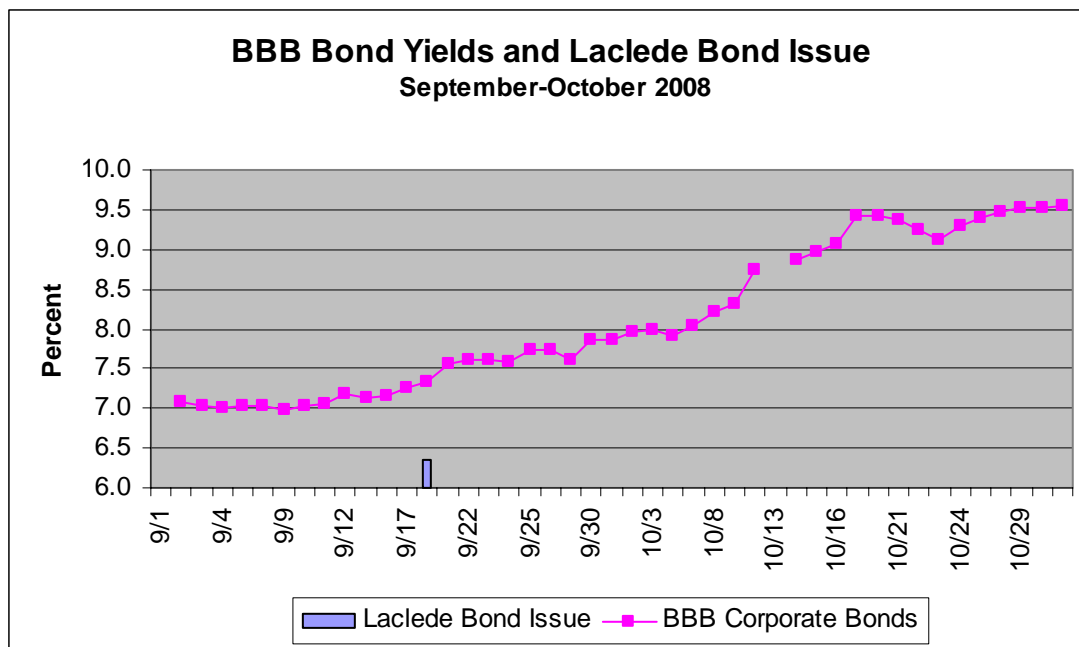


7. To the contrary, as the above graph shows, U.S. Treasury securities yields of all maturities (on which the cost of Laclede's debt would be based) have fluctuated widely over the years. Treasury rates have declined below 6% in more recent periods, after having exceeded 9% for nearly a decade in the 70's and 80's, with a peak approaching and even exceeding 16% in 1981. Increases and decreases in the cost of corporate debt instruments such as Laclede must issue can be just as significant and

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<sup>3</sup>The graph presented above utilizes historical rates for one-year treasury notes, five-year treasury notes, and long-term treasury bonds, as taken from the [Federal Reserve Statistical Release H.15 Selected Interest Rates](http://www.federalreserve.gov/releases/h15/) ([www.federalreserve.gov/releases/h15/](http://www.federalreserve.gov/releases/h15/)). Although these "risk free" instruments understate the cost of debt that a utility like Laclede would have to pay, they are highly indicative of how interest rates for debt instruments of various durations have changed over time and therefore provide a good surrogate for any analysis of interest rate variability.

volatile. Movements in the yields of bonds at the time Laclede last issued long-term debt in 2008 illustrate how quickly these yields can change, independently of the Treasury markets. As the graph presented below shows, within just weeks of the time Laclede completed its debt issuance in September 2008, the yield on BBB corporate bonds had increased by an astounding 250 basis points! Given the \$80 million value of the financing, this would have represented an additional annual cost of nearly \$2 million over the 30-year duration of the bonds had Laclede waited.<sup>4</sup>



Fortunately, the current approach to financing authorizations provides utilities, like Laclede, with the ability to take these absolute and relative cost trends into account – and make appropriate and timely adjustments – when determining what mix of debt securities

<sup>4</sup>Although Laclede’s bonds currently carry an “A” rating, comparable historical data for A-rated corporate bonds is not readily available. Yield trends for BBB bonds, however, should be indicative of yield trends for A-rated bonds. The graph provided utilizes data on the Moody’s BBB Corporate Bond Index from the [Federal Reserve Statistical Release H.15 Selected Interest Rates](http://www.federalreserve.gov/releases/h15/) ([www.federalreserve.gov/releases/h15/](http://www.federalreserve.gov/releases/h15/)).

is best designed to meet the capital needs of the business and achieve favorable results for their customers.

8. Another external factor driving the need to maintain such flexibility is a change in working capital requirements that Laclede and other LDCs face as a result of fundamental changes in their businesses and the natural gas marketplace. For example, Laclede has always been required to purchase and pay for gas supplies in advance of when it receives payment for such supplies from its customers. The cost of procuring such supplies, however, has increased several-fold over more recent years. So too has the magnitude of upward spikes in natural gas prices which can impose particularly heavy cash demands over short periods of time, as evidenced by comparing the peak monthly NYMEX price of nearly \$4.00 per MMBtu in 1997 to the peak monthly NYMEX price of over \$13.00 per MMBtu in the summer of 2008. While a portion of this volatility can be, and has been, addressed through hedging programs in order to stabilize the customer's exposure to those costs, the cash requirements of these programs may extend beyond the current heating season (for up to three years). All of this simply reconfirms the need to maintain the financing flexibility necessary to issue various layers of debt or equity on a timely basis so that the Company's overall funding portfolio can support such cash requirements.

9. Finally, the possibility that disruptions in the credit market may make certain forms of debt completely unavailable is another factor that argues for such flexibility. Certainly the credit events that began in 2007 indicate that this is not an idle concern, as even utilities regulated by this Commission effectively found themselves shut out of certain portions of the commercial paper market and facing significantly higher

costs in the markets for other debt instruments. Although Laclede has, to date, managed to retain sufficient access to the credit markets – in part because of its careful stewardship of its financial portfolio – the possibility that future credit market disruptions that might be severe enough to eliminate even its access to certain forms of credit cannot be dismissed and, once again, argues for not only maintaining the financing flexibility inherent in the existing approach but also enhancing it by authorizing additional forms of funding. Reference is again made to Laclede’s issuance of bonds in September 2008, which was able to be completed quickly after credit markets had just begun to falter, and before access to bond markets became more severely restricted.

#### **Staff Proposed Limitations on Financing Flexibility**

10. During the course of its discussions with the Commission Staff, Laclede pointed out all of these external factors and why they warranted a continuation of the current approach to financing authorizations. Indeed, Laclede provided a variety of scenarios to the Staff which showed how various changes in the credit or natural gas markets could necessitate the issuance of debt instruments with maturities greater than one year in amounts significantly greater than the amount Staff has recommended in this case. Despite the Company’s provision of such information, however, the Staff has chosen to recommend a new approach that would radically reduce, if not completely eliminate, the financing flexibility provided by the current approach.

11. Specifically, in place of the current, more flexible approach, the Staff has recommended that any financing authority granted by the Commission in this case: (a) limit the amount of long-term debt that the Company can issue to no more than \$100 million over the next three years; (b) prohibit the issuance of any preferred stock; and (c)



limit the use of capital leases solely to those existing operating leases that may need to be reclassified as capital leases as a result of a future change in financial accounting rules. Since the \$100 million in long-term debt recommended by Staff is less than Laclede's planned capital expenditures and maturing long-term debt over the next three years, Staff's proposed limitations would effectively preclude the Company from issuing long-debt or preferred stock as a means of responding to the kind of external changes in market conditions described above – at least without going through a potentially lengthy, entirely new approval process.

### **Why Staff Proposed Limitations are Unjustified and Counterproductive**

12. Laclede respectfully submits that there is no tenable reason that would justify such a radical departure from the existing approach. Certainly, there is nothing to suggest that Laclede has somehow misused the financing flexibility afforded by its current financing authority. To the contrary, the Staff itself indicates at page 7 of its Memorandum that Laclede has only issued \$80 million in long-term debt under its existing \$500 million financing authorization – a fact that points out how conservative and prudent Laclede has been in exercising its authority.

13. Moreover, as Staff knows, Laclede has substantially exceeded *all* of the safeguards that the Staff itself has previously recommended to ensure that ratepayers are not adversely affected by Laclede's exercise of its authority to issue long-term debt. Staff references one of these safeguards in its Memorandum – namely the requirement that the total amount of long-term debt carried by Laclede make up no more than 65% of the Company's capital structure. In fact, Laclede's total, outstanding long-term debt today comprises only 43% of its capital structure. Similarly, the Staff has previously

proposed, as an additional safeguard, the requirement that the total amount of long-term debt carried by Laclede not exceed the value of its regulated rate base. *See e.g.* Staff's Recommendation in Case No. GF-2007-0220. As Laclede demonstrated to Staff in this case, the Company has also substantially exceeded that requirement as evidenced by the fact that its outstanding long-term debt is currently some \$279 million below the value of its regulated rate base.

14. Given this history, there is simply no justification for suddenly limiting the financing flexibility that the Company has previously been afforded in this area, as Staff has proposed to do in this case.<sup>5</sup> Indeed, Staff's proposed limitations are a solution in search of a problem and a counterproductive one at that. By eroding Laclede's ability to respond to changing market conditions on a timely basis, Staff's limitations may very well result in higher costs for Laclede's customers over both the near term and the long term as opportunities to lock in favorable rates are delayed or missed entirely. Moreover, implementation of the restrictions proposed by Staff would impair the Company's ability to deal effectively with such market movements, and to raise funds in the event its cash requirements suddenly increase or credit markets are once again disrupted. This action

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<sup>5</sup>Ironically, in its Memorandum, the Staff characterizes Laclede's conservative approach to issuing long-term debt under its existing authority as a matter of "concern" that presumably justifies the limitations it has proposed. It is exceedingly difficult to understand, however, how evidence of a utility's historically prudent and conservative approach to issuing long-term debt can be deemed supportive of the need to place additional limitations on the exercise of such authority. It is equally difficult to understand why Staff would believe that its proposed limitations are justified because Laclede did not bring its seasonal short-term debt levels down to zero over the past several years. All that demonstrates is the validity of Laclede's contention that it and other gas utilities confront an environment today where the cash requirements of procuring gas supplies and hedging instruments have grown exponentially – a factor that argues for greater, not less, flexibility. Indeed, it is amazing that Staff would profess uncertainty as to why Laclede did not bring its short-term debt levels back to zero in the last several years, given the information that Laclede provided to Staff showing, among other things, the hundreds of millions of dollars in margin calls that Laclede has paid, in addition to the cost of physical gas supplies, over the same period of time.

will likely be viewed negatively by credit rating agencies and others as subjecting Laclede to additional financial risk – a factor that would likewise increase the Company’s cost of capital to the detriment of customers.

15. The approach recommended by Staff would also eviscerate the regulatory efficiencies inherent in the current approach by requiring that the Staff review, and the Commission approve, each and every issuance of debt or preferred stock that is proposed to be made for some reason other than to fund projected capital expenditures. Staff Counsel recently advised the Commission that because of the multitude of rate case filings before the Commission, the Staff had been forced to operate in a “triage” mode when performing its regulatory and auditing duties. (See Staff comments in December 15, 2009 remand discussion in Case No. GR-2006-0387). If Staff’s resources are indeed stretched to a point where only the most serious regulatory matters can receive its attention, Laclede submits that it is a singularly inopportune time for the Staff to be undertaking even more review responsibilities, particularly in areas that have shown absolutely no need for additional Staff scrutiny.

16. Finally, the limitations suggested by Staff are inappropriate because they contemplate a review process that is fundamentally inconsistent with the Commission’s duty to regulate, but not manage, the utilities subject to its jurisdiction. As Missouri courts have long recognized, the Commission’s authority to regulate certain aspects of a public utility’s operations and practices does not include the right to dictate the manner in which the company conducts its business. As the Missouri Supreme Court observed in *State ex rel. City of St. Joseph v. Public Service Commission*, 30 S.W.2d 8 (Mo. banc 1930):

The holding company's ownership of the property includes the right to control and manage it, subject, of course, to state regulation through the Public Service Commission, but it must be kept in mind that the Commission's authority to regulate does not include the right to dictate the manner in which the company should conduct its business. The company has the lawful right to manage its own affairs and to conduct its business in any way it may choose, provided that in doing so, it does not injuriously affect the public. The customers of a public utility have the right to demand efficient service at a reasonable rate, but they have no right to dictate the methods which the company must employ in that rendition of that service. It is of no concern of either the customers of the water company or the Commission, if the water company obtains necessary material, labor, supplies, etc., from the holding company so long as the quality and price of the service rendered by the water company are what the law says it should be.

*Id.* at 14. In other words, the Commission's powers are "purely regulatory in nature" and, as stated in *State ex rel. Harline v. Public Service Commission*, 343 S.W.2d 177, 181 (Mo. App., W.D. 1960), do not:

[C]lothe the Commission with the general power of management incident to ownership. The utility retains the lawful right to manage its affairs and conduct its business as it may choose, as long as it performs its legal duty, complies with lawful regulation and does no harm to the public welfare.

17. It is clear from the foregoing that the Commission may regulate a public utility's operations as the law expressly permits but it may not substitute its business judgment for that of the company's management so long as safe and adequate service is being provided. If approved by the Commission, however, the limitations recommended by Staff would result in the very kind of usurpation of management prerogatives that the law forbids. In effect, the Staff is suggesting that Laclede must request and the Commission must specifically approve any instance where Laclede seeks to issue long-term debt or preferred stock for market-driven reasons or enter into a capital lease. Presumably, such an approach would entail having the Company come forward with whatever market data or circumstances it believes warrants a particular issuance, having

that data, together with the Company's supporting analysis, evaluated by the Staff and then the Commission for purposes of determining whether the issuance should be approved, and then moving forward with the issuance if, and only if, the Staff and the Commission decide it is the reasonable and appropriate thing to do under the circumstances.

18. Quite frankly, such an approach smacks of the very kind of management interference that the law prohibits and the very kind of pre-approval of management decisions that the Commission has generally been extremely reluctant to engage in. Indeed, the Commission has repeatedly rejected undertaking such a role in a variety of other contexts. For example, as the result of a generic case that had been established to determine how the Commission should regulate gas utilities following restructuring at the federal level, the Commission determined that it could not and should not attempt to displace management in determining the appropriate mix of system supply gas, transported gas and spot market gas that the utility should procure for its customers. *Re Transportation of Natural Gas*, 82 P.U.R 4<sup>th</sup>, 121, 125-126 (March 20, 1987). Instead, the Commission concluded that “. . . a company's choice of the appropriate mix of gas to procure is a management decision and is properly left to the company. The Commission may review for prudence the management decisions made in connection with said procurement as it does other management decisions, in the company's rate cases.” *Id.* Ironically, by proposing highly restrictive limitations on the Company's ability to issue long-term debt, the Staff is not only seeking to exercise control over the mix of debt instruments issued by Laclede, but is also significantly reducing the financing flexibility required by the Company to engage in such activities as multi-year hedging.

19. For all of these reasons, the Commission should reject the limitations recommended by Staff relating to long-term debt, preferred stock and capital leases and

in their place reconfirm those financing safeguards that have previously been proposed by Staff and approved by the Commission to protect ratepayers in Case Nos. GM-2001-342 and GF-2007-0220. Specifically, the Commission should grant Laclede's request subject to the requirement that the total amount of long-term debt (including capital leases) issued by Laclede and outstanding at any point in time shall not exceed an amount equal to: (a) 65% of Laclede's overall capital structure or (b) the value of its regulated rate base, whichever is less. For purposes of resolving this matter, and providing even additional assurances, Laclede would also have no objection if the Commission were to include the total outstanding value of any preferred stock or capital leases within the amounts subject to this limitation

20. Simply put, Laclede believes that these safeguards have proved to be more than adequate in the past to protect customers and there is every reason to believe that they will be equally effective in the future. At the same time, the implementation of such safeguards will continue to provide the Company with the flexibility it requires to manage its financings in a way that is most likely to achieve favorable results for its customers and ensure the kind of access to capital market that is so critical to performing its public utility obligations.

#### **Alternative Request for Extension of Existing Authority and Further Proceedings**

21. For all of the reasons stated above, Laclede recommends that the Commission grant the authorizations recommended by Staff, with the modifications proposed herein by Laclede.<sup>6</sup> In the event the Commission concludes, however, that it cannot adopt Laclede's proposed modifications based on the pleadings presented,

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<sup>6</sup>For the Commission's convenience, Laclede has attached as Exhibit 2 to this Verified Response, a redlined version of Staff's Recommended Conditions, with the modification proposed by Laclede.

Laclede respectfully requests that the Commission schedule an evidentiary hearing or, at a minimum, an on-the-record presentation so that these critical issues can be addressed in greater detail and the parties can respond to whatever questions the Commission may have.

22. Laclede would prefer that such proceedings be held and this matter concluded prior to the February 15, 2010, expiration date of the Company's current financing authorization approved in Case No. GF-2007-0220, if at all possible. As previously noted, however, Laclede recognizes that the Commission has a very full regulatory agenda at the moment and that it may therefore not be possible to accommodate such a request. If that is the case, Laclede would respectfully request that the Commission extend the effectiveness of its current financing authorization in Case No. GF-2007-0220 until May 15, 2010. This three month extension, which the Company and Staff have jointly recommended in a separate pleading, would provide the Commission and the parties with sufficient time to address the important policy matters at issue in this proceeding, while still ensuring that there is no gap in what Laclede believes is absolutely critical financing authority.

**WHEREFORE**, for the foregoing reasons, Laclede Gas Company respectfully requests that the Commission approve its financing application on the terms recommended by Staff, with the proposed modifications suggested herein by Laclede. In the alternative, Laclede requests that the Commission schedule an evidentiary hearing or an on-the-record presentation to address these matters in greater detail and extend the Company's existing financing authorization until May 15, 2010, if required to provide sufficient time to conduct such proceedings.

Respectfully submitted,

LACLEDE GAS COMPANY

By **/s/ Michael C. Pendergast**

Michael C. Pendergast, #31763

Vice President & Associate General Counsel

Rick Zucker, #49211

Assistant General Counsel-Regulatory

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**Certificate of Service**

The undersigned certifies that a true and correct copy of the foregoing Verified Response of Laclede Gas Company was served on the General Counsel of the Staff of the Missouri Public Service Commission and the Office of the Public Counsel on this 15th day of January 2010 by hand-delivery, e-mail, fax, or by placing a copy of such document, postage prepaid, in the United States mail.

**/s/ Gerry Lynch**



**Previously Approved Long-Term Debt Issuance Limitations**

**Case No. GF-2007-0220; Order Granting Financing Application, pp. 5-6**

Conditions:

- 2(f) Laclede Gas Company's total long-term borrowings, including all instruments, shall at no time exceed Laclede Gas Company's regulated rate base.

**Case No. GM-2001-342; Unanimous Stipulation and Agreement**

**Section III – Financial Conditions**

Par. 4 The Laclede Group, Inc. agrees to maintain consolidated equity of no less than 30 percent of its total permanent consolidated capitalization and Laclede Gas Company agrees to maintain its equity at no less than 35% of its total capitalization, unless they are unable to do so due to events or circumstances beyond their control, including, but not limited to, acts of God, war, insurrection, strikes, civil unrest, material changes in market conditions that could not have been reasonably anticipated, or changes in the application, character or impact of laws, taxing requirements, regulations, or regulatory practices and standards governing the Company's regulated operations. Total capitalization is defined as common equity, preferred stock, long-term debt, and short-term debt, excluding short-term debt supporting natural gas and propane inventories, purchased gas costs and cash working capital. Common equity is defined as par value of common stock, plus additional paid in capital, plus retained earnings, minus treasury stock. The Laclede Group, Inc. and Laclede Gas Company agree to notify the Staff and Public Counsel in the event they become aware of any material possibility that either or both companies will be unable to maintain their respective equity ratios. In the event either Company's equity ratio should fall below these specified levels, Laclede Gas Company shall file a plan with the Commission within 90 days of such occurrence proposing alternatives for raising the ratios to or above the levels specified herein.

**Staff's Recommended Conditions with Laclede's Redlined Revisions**

1. That the Company be authorized to issue and sell debt securities, solicit and accept private placements, enter into capital leases, issue common stock and receive paid-in capital in an aggregate amount not to exceed \$600 million at any time, or from time to time, for three years from the effective date of the Commission's Order, provided that the total amount of the long-term debt issued and outstanding under such authority shall not, at any time during the period covered by this authorization ~~exceed~~ exceed an amount equal to: (a) 65% of Laclede's overall capital structure, or (b) the value of its regulated rate base, whichever is less, as determined in accordance with conditions approved by the Commission in Case Nos. GM-2001-342 and GF-2007-0220 \$100 million, and, provided further, that the Company shall not be authorized to use any portion of the \$600 million for any purpose other than for the exclusive benefit of Laclede Gas Company's regulated operations, as such purposes are specified in Section 393.200.
2. That the Commission's Authority under this case shall ~~does not include~~ the authority to issue preferred stock, provided that such issuances shall be subject to the limitations specified in condition 1, hereto.
3. That the current Commission Authority under Case No., GF-2007-0220 shall be superseded by the Commission Authority under Case No. GF-2009-0450.
4. That, if and when the individual debt securities are issued under this Application, the Company shall submit a verified report to the Commission's Internal Accounting Department documenting such issuance, the use of any associated proceeds and the applicability and measure of fees under Section 386.300.2.
5. That the Company shall also be required to file with the Commission all final terms and conditions on this financing including, but not limited to, the aggregate principal amount to be sold or borrowed, price information, estimated expenses, portion subject to the fee schedule and loan or indenture agreement concerning each issuance.
6. That if debt securities are set at a fixed rate, the interest rate shall not exceed a rate equal to the greater of 300 basis points above the yield on a United States Treasury security with a comparable maturity at the time of the issuance of the Debt or a rate that is consistent with similar securities of comparable credit quality and maturities issued by other issuers. If a variable rate is set, the basis for determining the interest rate shall be defined at the time of issuance, along with any maximum or minimum interest rates that may be specified for that series; provided, however, that the initial interest rate will not exceed a rate equal to the greater of 300 basis points above the yield on a United States Treasury security with a maturity comparable to the period that the initial interest rate would be in effect, or a rate that is consistent with similar securities of comparable credit quality and maturities issued by other issuers.

7. That the Company shall submit to Staff and Public Counsel any information concerning communications with credit rating agencies concerning individual debt securities issued under this Application.

~~8. That the Company shall file with the Commission any credit rating agency reports issued on the Company, the Company's debt issuances, or on the Laclede Group.~~

89. That nothing in the Commission's order shall be considered a finding by the Commission of the value of these transactions for rate making purposes, and that the Commission reserves the right to consider the rate making treatment to be afforded these financing transactions and their results in cost of capital, in any later proceeding.

940. In seeking a renewal of the authority granted in this case, Laclede and Staff shall operate under the general time frames set forth for financing cases in the 2004 case management roundtable project.

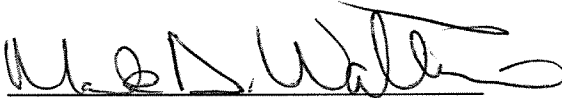
1044. That the Company shall only convert the existing operating leases to capital leases only after the existing accounting rules or statements on capital leases have been amended. The Company shall notify the Commission when the change has been effected before the conversion takes place.

~~12. That in future finance cases, the Company shall be required to provide detailed evidence showing the amounts of long term capital investments that have not been financed under the prior financing authority, the type of long term securities they intend to issue and when the Company intends to issue such securities.~~

**VERIFICATION**

STATE OF MISSOURI     )  
                                  ) SS.  
CITY OF ST. LOUIS     )


Mark D. Waltermire, being duly sworn, on his oath states that he is Chief Financial Officer of Laclede Gas Company, the applicant in the foregoing Response; that he has read said Response, and that the matters and things set forth therein are true and correct to the best of his knowledge, information and belief.

  
Mark D. Waltermire

Subscribed and sworn to before me a Notary Public in the City of St. Louis, State of Missouri, this 15th day of January, 2010.

My Commission expires: 2/18/2012.

[seal]

  
Notary Public, State of Missouri  
