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July 17, 2001

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

FILED²
JUL 17 2001
Missouri Public
Service Commission

RE: Case No. GM-2001-342

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of the **SUGGESTIONS IN SUPPORT OF UNANIMOUS STIPULATION AND AGREEMENT.**

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,

Cliff E. Snodgrass
Senior Counsel
(573) 751-3966
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CES:sw
Enclosure
cc: Counsel of Record

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

FILED²

JUL 17 2001

Missouri Public
Service Commission

In the Matter of the Application of)
Laclede Gas Company for an Order)
Authorizing Its Plan to Restructure Itself)
Into a Holding Company, Regulated)
Utility Company, and Unregulated)
Subsidiaries)

Case No. GM-2001-342

SUGGESTIONS IN SUPPORT OF UNANIMOUS STIPULATION AND AGREEMENT

COMES NOW the Staff of the Missouri Public Service Commission (Staff), by and through one of its attorneys, and in support of the Unanimous Stipulation and Agreement filed in this case, states as follows:

1. Staff took the position that imposition of conditions or safeguards was necessary before this proposed transaction should be approved by the Commission (Commission). The Staff's primary effort in this case, in terms of safeguards, was devoted to ensuring against or minimizing any "detriment" to the ratepayers of the State of Missouri.

2. Through the process of negotiation Staff believes that it obtained enough safeguards memorialized in the Unanimous Stipulation and Agreement (Agreement) to warrant approval of the transaction sought by the Laclede Gas Company (Gas Company). This pleading will attempt to highlight several items in the Agreement that Staff respectfully believes warrant acceptance of the Agreement by the Commission.

FINANCIAL SAFEGUARDS

Some of the financial “insulating” conditions obtained by the Staff to protect the Missouri ratepayers included the following: A commitment from the proposed holding company, The Laclede Group, Inc. (Holding Company), not to pledge the Laclede Gas Company’s common stock as collateral or security for the debts of the holding company or a subsidiary of the holding company without Commission approval; an agreement by the Gas Company not to guarantee the notes, debentures, debt obligations or other securities of the Holding Company without Commission approval; a commitment from the Gas Company to maintain its equity at no less than 35% of its total capitalization unless unable to do so by circumstances beyond its control or changes in market conditions that could not have been reasonably anticipated; the Gas Company agreed to maintain its debt, and, if outstanding, its preferred stock rating at an investment grade credit rating unless events beyond the Company’s control occurred; the Gas Company also agreed that customer rates should not be increased due to the unregulated activities of the Company’s affiliates; lastly, to assist in monitoring corporate transactions in the event the restructuring is approved, access to the financial records of the Holding Company and the Gas Company related to information furnished to stock and bond rating analysts has been provided for along with access to records relating to corporate adherence to an appropriate Cost Allocation Manual (CAM).

Generally, the conditions summarized above comport with Staff witness Ron Bible’s testimony that insulating conditions are necessary in restructuring transactions to ensure that the business and financial risk of unregulated corporate activities are not transferred to the regulated utility. In addition, a credit rating agency such as Standard and Poors considers that an entity’s

credit worthiness reflects not only its own business and financial profile, but also its relationships with other corporate family members. Thus, financial safeguards are also essential in minimizing a diminution of credit worthiness of the regulated entity due to changes in corporate relationships. A reduction in credit worthiness increases the cost of borrowing money and these increased interest costs may be passed on to the ratepayers.

RESTRICTING LOSS OF COMMISSION JURISDICTION

Staff was concerned with potential loss of Commission jurisdiction if the proposed transaction was approved, specifically in connection with infusion of federal regulation through the Public Utility Company Holding Act (PUHCA). Therefore, a safeguard was negotiated that prohibits the Holding Company from seeking to become a registered holding company, or taking any action which has a material possibility of making it a registered holding company (subject to PUHCA), or subjecting any portion of its Missouri intrastate gas distribution operations to FERC jurisdiction without first obtaining Commission authorization.

COST ALLOCATION MANUAL

Staff witness Stephen Rackers filed testimony stating that a CAM should be maintained and submitted to ensure that ratepayers were not being harmed by any affiliate corporate transactions that might take place after the proposed restructuring. After extensive negotiation, substantially all of the CAM suggestions sought by Staff were accepted by the Gas Company. In addition, compliance with the CAM procedures was extended to all personnel of the Gas

Company and would be made a standard element of the Company's Code of Conduct applicable to employees. Staff had no general objection to the concessions to the union intervenors in this case. Staff's only concern was that all employees were required to comply with CAM procedures, regardless of their bargaining unit status.

MISCELLANEOUS PROVISIONS

The Gas Company agreed not to seek any recovery of any costs related to the restructuring from the ratepayers and these costs will be identified and accounted for in a manner that would enable the Staff to seek disallowance from rates, if necessary, in a future proceeding.

For monitoring purposes, the Holding Company agreed to provide the Staff with all new, revised and updated business plans for the Holding Company and its affiliates, and to provide the Staff with a description of all products and services offered by the Holding Company and its affiliates, with the exception of the regulated Gas Company.

In addition, the parties agreed that nothing in this Agreement or the implementation of the proposed restructuring, should affect the scope of any existing ratemaking authority the Commission has over the Gas Company relating to activities undertaken by Laclede Energy Resources or the Laclede Pipeline Company prior to implementation of the proposed restructuring or over ratemaking issues that may arise as the result of the formation of a service company.

For all of the foregoing reasons, the Staff believes the Stipulation and Agreement has adequately addressed the concerns of the Staff and is a document that offers protection to the ratepayers of Missouri. Staff thereby respectfully requests that the Commission approve the Unanimous Stipulation and Agreement filed in this case.

Respectfully submitted,

DANA K. JOYCE
General Counsel

A handwritten signature in cursive script, reading "Cliff Snodgrass", written over a horizontal line.

Cliff Snodgrass
Senior Counsel
Missouri Bar No. 52302

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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 17th day of July, 2001.

A handwritten signature in cursive script, reading "Cliff Snodgrass", written over a horizontal line.

**Service List for
Case No. GM-2001-342
Revised: July 17, 2001 (SW)**

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