

Docket No: 11-0476
Bench Date: 3/21/12
Deadline: N/A

TO: The Commission

FROM: Terrance Hilliard, Administrative Law Judge

DATE: March 1, 2012

SUBJECT: The Peoples Gas Light and Coke Company

Petition for an order approving the purchase of certain securities and for authority to resell those securities pursuant to Section 7-102 of the Illinois Public Utilities Act.

RECOMMENDATION: Enter the attached Order.

On June 8, 2011, The Peoples Gas Light and Coke Company (“Peoples Gas”) filed a Petition pursuant to Section 7-102 of the Public Utilities Act (“Act”) requesting that the Illinois Commerce Commission (“Commission”) approve its request to purchase certain securities and for authority to resell those securities.

On July 14, 2011, Peoples Gas filed the Direct Testimony of Tchapo Napoe, Manager - Corporate Finance for Integrys Business Support, LLC. In this Direct Testimony, Mr. Napoe stated, *inter alia*, that Peoples Gas no longer intended to resell the securities and withdrew that portion of its request.

In its Petition and its witness Mr. Napoe’s testimony, Peoples Gas stated that, in 2003, it had requested authority through an Informational Statement filed under Section 6-102 of the Act, and the Commission approved, authority to issue up to \$177 million principal amount of bonds to the Illinois Finance Authority’s (“IFA”) predecessor. The IFA is a conduit through which Peoples Gas was able to access the tax-exempt debt market. Peoples Gas issued \$102 million of the bonds authorized in Docket No. 03-0548 on October 9, 2003, and it denominated \$51 million of these bonds as Series PP. As described in the Order, the IFA contemporaneously issued certain Gas Supply Refunding Revenue Bonds and lent the proceeds to Peoples Gas. Peoples Gas then used the proceeds to redeem certain bonds. On April 17, 2008, Peoples Gas purchased all the outstanding Series PP bonds, holding the related IFA Series 2003D bonds, and simultaneously converted the interest period on the bonds to a weekly rate mode. The bonds were in an auction rate mode. An “auction rate mode” means that the rate was set periodically through an auction process, and, if the auction failed, there was a default rate. The IFA Series 2003D bond holders received their investment back from Peoples Gas. As a result, Peoples Gas retired the Series PP debt and removed it

from the balance sheet for accounting purposes. The IFA did not receive any money in the purchase transaction.

Based on the Commission's Interim Order in Docket No. 11-0269, Peoples Gas stated that it believes that the Commission would regard the Series 2003D bonds it holds as an investment in the IFA under Section 7-102(A)(h) of the Act. Peoples Gas filed in this proceeding to try to remedy what it expects the Commission would conclude was a failure to satisfy the Section 7-102(A)(h) requirements.

Mr. Napoe stated that, prior to Peoples Gas' decision to retire the liability associated with Series PP, the interest rate was set through auctions that occurred every 35 days. These auctions started failing in early 2008. Peoples Gas decided to retire the Series PP bonds based on its observations of failed auctions resulting in increasingly higher rates. Mr. Napoe stated that Peoples Gas' decision to retire Series PP avoided the risk of potentially having to pay the maximum failed auction rate of 14%.

Mr. Napoe explained that the Series PP bonds were issued to reflect the liability Peoples Gas had to the IFA. No investors ever owned those bonds. Since Peoples Gas now owns the IFA Series 2003D bonds, Peoples Gas retired Series PP, removing it from the balance sheet for accounting purposes to reflect the extinguishment of its liability to the IFA.

The transaction allowed Peoples Gas and its ratepayers to mitigate interest rate risk. Mr. Napoe stated that Peoples Gas paid a failed auction interest rate as high as 13.93% in October 2008 for similar bonds that remained outstanding. The transaction limited Peoples Gas' and its ratepayers' exposure to such volatile interest rates.

Mr. Napoe stated that Peoples Gas no longer intends to resell the IFA Series 2003D bonds. Instead, it intends to close down the conduit, thereby retiring the IFA Series 2003D bonds. Since the IFA Series 2003D bonds will now be retired, Peoples Gas withdrew its request for a future resale transaction.

Ms. Kight-Garlich reviewed Peoples Gas' application, testimony, and supplemental information provided to Staff. Ms. Kight-Garlich stated that Peoples Gas purchased the securities to alleviate the interest rate risk associated with the auction rate. Thus, she stated that Staff does not object to Peoples Gas' purchase of the securities.

Recommendation Enter the attached Order Approving The Peoples Gas Light and Coke Company purchase of those securities.

TH:fs