

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

The Peoples Gas Light and Coke Company :
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Petition for authority pursuant to : :
Section 6-102(b) of the Public Utilities : Docket No. 14-0208
Act in connection with the proposed : :
issuance and sale of up to \$100 million : :
aggregate principal amount of long-term : :
debt, in one or more series :

DRAFT ORDER

By the Commission:

Introduction

On March 12, 2014, The Peoples Gas Light and Coke Company (“Peoples Gas” or the “Company”) filed a verified Petition, supported by the Direct Testimony and exhibits of William J. Guc, Peoples Gas’ Treasurer, with the Illinois Commerce Commission (“Commission”) pursuant to Section 6-102(b) of the Public Utilities Act (“Act”), 220 ILCS 5/1-101 *et seq.* In the Petition, Peoples Gas seeks an order from the Commission for the proposed issuance of up to \$100,000,000 in aggregate principal amount of bonds or notes, or a combination thereof, in one or more series. The purpose of the issuance is to provide funds for general corporate utility purposes, including capital expenditures.

On March 20, 2014, Janis Freetly, Senior Financial Analyst for the Finance Department of the Financial Analysis Division, on behalf of the Staff of the Illinois Commerce Commission (“Staff”), filed an Affidavit concluding that the proceeds of the borrowing are reasonably required to fund capital expenditures described in the Company’s Petition, Mr. Guc’s testimony, and the response to Staff data request JF 1.02.

Statutory Authority for Proposed Financing

Peoples Gas filed for approval under Section 6-102(b) of the Act. Section 6-102(a) of the Act provides:

- (a) Subject to the provisions of this Act and of the order of the Commission issued as provided in this Act, a public utility may issue

stocks and stock certificates, and bonds, notes and other evidences of indebtedness payable at periods of more than 12 months after the date thereof for any lawful purpose. However, such public utility shall first have secured from the Commission an order authorizing such issue and stating the amount thereof and the purpose or purposes to which the issue or the proceeds thereof are to be applied, and that in the opinion of the Commission, the money, property or labor to be procured or paid for by such issue is reasonably required for the purpose or purposes specified in the order.

Section 6-102(b) of the Act specifies the types of issuances to which the subsection and the associated review and approval process apply. Peoples Gas filed for approval under Section 6-102(b) and did not claim that its filing met the requirements for approval under Section 6-102(d) of the Act.

Nature and Purpose of Proposed Financing

Peoples Gas witness Mr. Guc stated that Peoples Gas plans to issue up to \$100,000,000 in aggregate principal amount of bonds or notes, or a combination thereof, in one or more series. Peoples Gas may issue the debt through a private placement, an underwritten offering, agency sale, or a bank loan. If Peoples Gas determines to issue and sell any of the debt in an underwritten offering, then Mr. Guc stated that it plans to do so in a competitive manner to one or more investment banks. If Peoples Gas accepts an underwriting proposal for the debt, it intends to accept the proposal that provides it the lowest annual cost of money. Mr. Guc stated that the interest rate will be determined at the time of the offering or periodically during the term of the debt. The interest rate is expected to be in the 4% to 6% range and the maturity is expected to be 30 years. However, Mr. Guc stated that, due to capital market fluctuations, the terms of the debt, including the maturity, price, rate or method of calculation of interest and dates for payment thereof, and any redemption, prepayment or sinking fund provisions, will be determined at the time of the offering.

Mr. Guc's testimony included three exhibits: a Consolidated Statement of Income for the twelve months ended December 31, 2013; a Consolidated Balance Sheet as of December 31, 2013; and the Capital Structure as of December 31, 2013, with Pro Forma adjustments reflecting the proposed issuance of long-term debt.

Mr. Guc stated that the purpose of the issuance is to provide funds for general corporate utility purposes, including capital expenditures. Peoples Gas' capital expenditures include the extension and replacement of mains and pipelines needed in gas distribution. In addition, Peoples Gas is involved in a multi-year Accelerated Main Replacement Program ("AMRP") to remove approximately 2,000 miles of cast-iron and ductile-iron pipeline in Chicago and replace it with polyethylene and cathodically protected steel pipe. Mr. Guc stated that acquisition, construction and replacement of utility property plant and equipment are necessary for Peoples Gas to continue to deliver natural gas safely to its customers. He concluded that Peoples Gas intends mainly to use the proceeds from the issuance for general corporate utility purposes

including capital expenditures, which will increase safety and reliability while reducing maintenance costs. Therefore, the proposed transaction is in the public interest and the public will be inconvenienced thereby.

Peoples Gas' Petition stated that Section 6-108 of the Act would apply to the issuance. The fee due under Section 6-108 of the Act would equal \$240,000 (24¢ for every \$100 dollars of the principal amount of bonds, notes or other evidence of indebtedness authorized by the Commission). Pursuant to Section 6-108, Peoples Gas will pay such fee to the Commission no later than thirty days after service of the order approving the issuance.

Peoples Gas requested that the Commission provide, pursuant to Section 6-101 of the Act, a single serial number for the issuance.

Staff's Affidavit

Ms. Freetly stated that Section 6-102 of the Act provides that prior to the issuance of stocks, notes and other evidences of indebtedness payable at periods of more than 12 months the public utility shall first receive a Commission order authorizing the issue stating the amount and the purpose for the financing and that in the opinion of the Commission the money, property, or labor to be procured or paid for by such issue is reasonably required for the purpose or purposes specified in the order. She further stated that the Commission can refuse to grant approval, in whole or in part, if it finds that the issuance would be contrary to the public interest. Also, she stated that the Commission may attach conditions to its approval as it deems reasonable and necessary.

Ms. Freetly stated that she reviewed the Company's Petition, Mr. Guc's Direct Testimony and supplemental information that the Company provided to support its Petition. She stated that she does not object to Peoples Gas' proposal to incur up to \$100 million of new indebtedness ("New Debt"). Ms. Freetly stated that the Company anticipates it will issue the New Debt through a private placement, an underwritten offering, agency sale, or a bank loan. If the Company uses an underwritten offering, then it will do so in a competitive manner and will accept the proposal that provides the lowest annual cost. She stated that the exact maturities and interest rates associated with the New Debt will be determined at the time of sale and will depend on market conditions. Currently, she stated that the Company expects an issuance date on or around December 1, 2014, and expects the interest rate to be 5.50%.

Ms. Freetly noted that the New Debt will be used for the purpose of funding capital expenditure, including the Company's AMRP. She concluded that, in her opinion, the proceeds of the borrowing are reasonably required to fund capital expenditures described in the Company's Petition, Mr. Guc's testimony, and the response to Staff data request JF 1.02. She stated that, if the Commission authorizes the proposed New Debt, the Company should provide proper identification numbers on the proposed indebtedness when issued, and the Company requested one such number. Also, should the Commission authorize the proposed New Debt, the Company

will owe a financing fee to the Commission equal to \$240,000, pursuant to Section 6-108 of the Act. The required fee is to be paid no later than 30 days after service of the Commission Order authorizing the issuance of the New Debt.

She further stated that Peoples Gas should be required to file with the Commission's Chief Clerk quarterly reports in accordance with 83 Illinois Administrative Code Part 240. Finally, Ms. Freetly requested that the utility be specifically directed in the Order authorizing the issuance that the payment and the reporting requirements are mandatory and that failure to make the mandated payment and filings could result in action against the utility seeking penalties for failure to comply with a Commission order, the requirements of statute or the rules of the Commission.

Ms. Freetly had no objection to waiver of the hearing in this case.

Findings and Ordering Paragraphs

The Commission, having considered the entire record herein, is of the opinion and finds that:

- (1) Peoples Gas is a corporation engaged in the sale and distribution of natural gas in portions of the State of Illinois and, as such, is a public utility within the meaning of the Act;
- (2) the Commission has jurisdiction over Peoples Gas and the subject matter of this proceeding;
- (3) the recitals of fact set forth in the prefatory portion of this Order are supported by the record and are hereby adopted as findings of fact;
- (4) subject to the conditions set forth herein, Peoples Gas' proposed issuance of up to \$100,000,000 in aggregate principal amount of bonds or notes to be used only in the manner described in Finding (5) below, is reasonable;
- (5) all proceeds will be used for the purposes of providing funds for capital expenditures for general corporate utility purposes, including Peoples Gas' accelerated main replacement program, described in this Order;
- (6) the funds to be obtained from the issuance are reasonably required for the purposes described herein;
- (7) the authority granted extends no later than two years from the date of issuance of this Order;
- (8) the proposed transaction is subject to the provisions of Section 6-102(b) of the Act;

- (9) in accordance with Section 6-101 of the Act, Peoples Gas shall, before issuance of the debt described herein, cause the following identification number to be placed on the face of such securities: Ill. C.C. No. _____;
- (10) in accordance with Section 6-108 of the Act, Peoples Gas shall pay the Commission a fee equal to \$240,000 no later than 30 days after the issuance of this order, which payment is mandatory, and failure to make the payment could result in action against the Company seeking penalties for failure to comply with a Commission order, the requirements of a statute or the Commission's rules; and
- (11) Peoples Gas shall comply with the reporting requirements of 83 Ill. Admin. Code Part 240, which reporting requirements are mandatory, and failure to make the filings could result in action against the Company seeking penalties for failure to comply with a Commission order, the requirements of a statute or the Commission's rules.

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that The Peoples Gas Light and Coke Company's proposed issuance of up to \$100,000,000 in aggregate principal amount of bonds or notes is hereby approved in accordance with Section 6-102(b) of the Act.

IT IS FURTHER ORDERED that the authority to issue the bonds or notes granted herein shall expire on _____, 2016.

IT IS FURTHER ORDERED that The Peoples Gas Light and Coke Company shall comply with Findings (5), (7), (9), (10) and (11) of this Order.

IT IS FURTHER ORDERED that, subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Admin. Code Sec. 200.880, this Order is final; it is not subject to the Administrative Review Law.

By Order of the Commission this _____ day of _____, 2014.

(SIGNED)

Chairman