

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held at its office
in Jefferson City on the 21st
day of November, 1989.

In the matter of the application of United Cities Gas)
Company for an order authorizing the acquisition and)
merger into it of Union Gas System, Inc.; authorizing)
the issuance of \$15,000,000 principal amount of First)
Mortgage Bonds, Series R, 11.32%, due 2004, in connec-)
tion with the acquisition and merger; and for other)
relief.)
)

Case No. GM-90-62

ORDER APPROVING MERGER

On September 15, 1989, United Cities Gas Company (United Cities) filed an application seeking Commission authorization and approval to acquire Union Gas System, Inc. (Union Gas) and merge Union Gas into United Cities. United Cities is a public gas utility authorized to do business in the state of Missouri. United Cities provides gas service to the former service areas of Osage Natural Gas Company and Great River Gas Company.

United Cities states that it has entered into an agreement for the acquisition of all of the common stock of Union Gas. Upon the acquisition of the stock, Union Gas will be merged into United Cities, with United Cities as the surviving corporation. United Cities will issue its First Mortgage Bonds, Series R, 11.32%, due 2004, in the principal amount of \$15,000,000 in replacement of Union Gas' First Mortgage Bonds. To secure the First Mortgage Bonds United Cities will issue a Supplemental Indenture amending its existing Trust Indenture. The Indenture of Mortgage will constitute a lien upon substantially all properties of United Cities including those in Missouri.

On November 14, 1989, Commission Staff filed a recommendation concerning the proposed acquisition and merger. Staff points out that it foresees no potential problems with United Cities' bond replacement program. The bond replacement program

will be less expensive than for United Cities to exercise the defeasance option in Union Gas' bonds.

Staff does see some potential problems because of the purchase price and that United Cities will become liable for pending litigation against Union Gas. The purchase price, which is in excess of \$12 million, is 6.33 times over book value. This is far greater than analysts indicate is the market to book ratio for other gas companies. Staff indicates that, under adverse circumstances, a combination of the litigation liabilities and high market to book ratio might cause higher rates in Missouri. Staff recommends approval of the acquisition and merger with a disclaimer of future ratemaking treatment.

The Commission has reviewed this matter and has determined that the authority sought will be granted. The potential problems do not rise to the level to deny the acquisition and merger, and if adverse circumstances occur, they can be addressed in future rate case proceedings. The Commission finds, further, that the indebtedness is reasonably required for the purposes specified in this order and such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

It is, therefore,

ORDERED: 1. That the acquisition and merger of Union Gas System, Inc., by and into United Cities Gas Company is hereby approved.

ORDERED: 2. That United Cities Gas Company is hereby authorized to issue its First Mortgage Bonds, Series R, 11.32%, due 2004, in the principal amount of Fifteen Million Dollars (\$15,000,000) in replacement of the outstanding First Mortgage Bonds of Union Gas System, Inc., and to execute and deliver a Supplemental Indenture to its original Indenture of Mortgage, as amended, creating the issue of Series R bonds and securing the same.

ORDERED: 3. That United Cities Gas Company is hereby authorized to sell and deliver such bonds and to obtain the authentication and delivery of the bonds by

the principal trustee in any manner permitted by the Trust Indenture, and to use the net proceeds of the sale of the bonds for the purposes hereinabove stated.

ORDERED: 4. That United Cities Gas Company is hereby authorized to create and make effective the lien of the Trust Indenture, as amended and supplemented, and as to be amended and supplemented, for the Series R bonds, on the property of United Cities Gas Company located in the state of Missouri to secure the Series R bonds.

ORDERED: 5. That United Cities Gas Company is hereby authorized to take such other actions as may be reasonably necessary to complete the subject transactions.

ORDERED: 6. That nothing in this order shall be considered as a finding by the Commission of the reasonableness of the expenditures herein involved, nor of the value for ratemaking purposes of the properties herein involved, nor as an acquiescence in the value placed upon said properties by United Cities Gas Company. Furthermore, the Commission reserves the right to consider the ratemaking treatment to be afforded these transactions, and their resulting cost of capital, in any later proceeding.

ORDERED: 7. That United Cities Gas Company shall file with the Commission the final terms and conditions of the issuance after the First Mortgage Bonds authorized in this order are issued.

ORDERED: 8. That United Cities Gas Company shall file with the Commission the journal entries in United Cities Gas Company's books utilized to record the merger approved in this order.

ORDERED: 9. That this order shall become effective on the 1st day of December, 1989.

BY THE COMMISSION

(S E A L)

Harvey G. Hubbs
Harvey G. Hubbs
Secretary

Steinmeier, Chm., Mueller,
Fischer and Rauch, CC., Concur.