

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Session of the Public Service
Commission held at its office
in Jefferson City on the 22nd
day of March, 1996.

In the matter of the application of United)
Cities Gas company, an Illinois and Virginia)
corporation, for an order approving the merger)
of Monarch Gas Company, an Illinois natural)
gas utility, with and into United Cities Gas)
Company.)

CASE NO. GM-96-180

ORDER APPROVING MERGER

On November 29, 1995, United Cities Gas Company (United Cities) filed an application with the Commission seeking authority to acquire all shares of common stock of Monarch Gas Company (Monarch) and to merge Monarch with and into United Cities. On March 4, 1996, the Staff of the Commission (Staff) filed a memorandum recommending the Commission approve the application with certain conditions.

United Cities is a corporation organized under the laws of Illinois and Virginia, engaged in providing natural gas service in several states including Missouri. Monarch is an Illinois corporation engaged in providing natural gas service in Illinois. Monarch's service area is entirely outside of Missouri.

In support of its application, United Cities states that the proposed transaction should have no impact on its Missouri operations and that utility services provided in Missouri will not be affected. United Cities also states that the proposed transaction will have no significant effect on its Missouri operating expenses, revenues, or conditions of service and will not cause any significant change in its assets, liabilities, or net worth. United Cities further indicates that while its

agreement with Monarch includes non-competition agreements with Monarch's shareholders, it will not seek recovery of the cost of the non-competition agreements or any merger premium from Missouri ratepayers.

Based on Staff's analysis of financial data prepared by United Cities, the merger would have a minimal effect on United Cities' overall capital structure. The merger would result in a pro forma capital structure for United Cities of 36.86 percent common equity, 46.65 percent long-term debt, and 16.49 percent short-term debt, which is in line with United Cities' present capital structure. In addition, Staff indicates that it believes United Cities' merger with Monarch will likewise have minimal impact on United Cities' Missouri jurisdictional operations. Staff recommends that the Commission approve the merger of United Cities and Monarch subject to the following conditions:

- 1) that the Commission reserve the right to consider the ratemaking treatment to be afforded this transaction;
- 2) that United Cities maintain records pertaining to this merger and make said records available to Staff in its next rate proceeding; and
- 3) that the Commission prohibit United Cities from seeking recovery of the cost of the non-competition agreement or any acquisition premium from Missouri ratepayers.

The Commission finds that the minimal changes in United Cities' capital structure are reasonable, and that United Cities' merger with Monarch will have minimal impact on United Cities' Missouri jurisdictional operations. Furthermore, the Commission finds that the conditions recommended by Staff are reasonably designed to protect the public interest. Thus, the Commission finds that the merger of United Cities with Monarch is not detrimental to the public interest and should be approved.

IT IS THEREFORE ORDERED:

1. That United Cities Gas Company is hereby authorized to acquire all of the shares of common stock of Monarch Gas Company, and to merge Monarch Gas Company with and into United Cities Gas Company.

2. That United Cities Gas Company is hereby authorized to take any and all other actions necessary to effectuate the stock purchase and merger authorized in Ordered Paragraph 1.

3. That the stock purchase and merger authorized in Ordered Paragraph 1 shall be subject to the conditions specified in this Order.

4. That United Cities Gas Company shall not propose recovery of any cost of the non-competition agreements or any acquisition premium related to the stock purchase and merger authorized in Ordered Paragraph 1 from Missouri ratepayers.

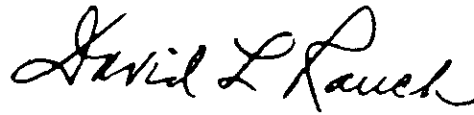
5. That United Cities Gas Company shall maintain all records pertaining to the stock purchase and merger authorized in Ordered Paragraph 1 and make said records available to the Staff of the Commission for monitoring purposes or in any later proceeding.

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 included, nor as an acquiescence in the value placed upon said properties by United Cities Gas Company.

7. That the Commission reserves the right to consider the ratemaking treatment to be afforded these transactions in any later proceeding.

8. That this Order shall become effective on April 2, 1996.

BY THE COMMISSION

A handwritten signature in cursive script, reading "David L. Rauch".

David L. Rauch
Executive Secretary

(S E A L)

Zobrist, Chm., McClure, Kincheloe,
and Drainer, CC., Concur.
Crumpton, C., Absent.