

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

In the Matter of the Application of Missouri Gas)
Utility, Inc., for Authority to Enter into Certain)
Debt Instruments and to Issue up to and Including)
\$26,400,000 of Long-Term Indebtedness, in One or)
More Transactions, and to, Among Other Things,)
Execute and Deliver a Mortgage and Security)
Agreement to Secure Said Indebtedness.)

Case No. GF-2010-0334

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission (Staff), by and through the undersigned counsel, and for its recommendation respectfully states the following to the Missouri Public Service Commission (Commission):

1. On July 16, 2010, Missouri Gas Utility, Inc., (MGU or Company) filed its *First Amended Application (Amended Application)* requesting that the Commission approve the issuance of up to \$26,400,000 of indebtedness in the combination of (1) revenue bonds under the terms of a loan agreement with Summit Utilities, Inc., and related debt instruments and (2) a term loan from CoBank, ACB. MGU proposes to secure all such indebtedness by a mortgage, lien and encumbrance upon its Missouri operating properties.

2. On July 21, 2010, the Commission directed the Staff to file a recommendation on MGU's *Amended Application* no later than August 20, 2010. On August 20, 2010, the Staff moved for the Commission to extend the time for filing a recommendation until August 31, 2010, due to unforeseen circumstances on the part of the Staff.

3. Because MGU is a Colorado corporation, the Company is not requesting authority to directly issue debt pursuant to Section 393.200, RSMo and 4 CSR 240-3.220. However, the transaction will encumber MGU's utility assets within Missouri, and as such, the Staff has

applied the standard of “not detrimental to the public interest” in evaluating the Company’s *Amended Application*.

4. Through discussions and exchange of information between the Staff and the Company, the Staff has reviewed and investigated MGU’s *Amended Application* and is now in a position to file its recommendation contained in the attached *Memorandum* with supporting schedules.

5. As part of its investigation, the Staff verified that the financing amounts requested in this case are consistent with the estimated capital needs in the certificate Case Nos. GA-2010-0189 and GA-2010-0012. MGU anticipates that approximately \$19.2 million in debt proceeds will be used in connection with the Company’s Lake of the Ozarks project, with the balance of \$7.2 million in proceeds utilized in connection with the Company’s expansions into Dallas, Greene and Polk counties. The Staff considers MGU’s requested amount of financing to be reasonably required and acceptable.

6. Additionally, the Staff reviewed conditions placed upon MGU from the previous Commission case, Case No. GF-2009-0331, including: MGU continuing an agreement with its parent Summit Utilities, Inc., (Summit), whereby Summit would commit to be capitalized with no more debt capital as a percentage of total capital, as compared to Summit’s capitalization of MGU; Summit’s business risk remaining consistent with its then current business operations in GF-2009-0331; and MGU’s filing of a management plan for exposure to variable interest rate risk when seeking financing for the projects subject to the certificate case, Case No. GA-2010-0012.

7. Summit has complied with the debt to capital ratio and is expected to continue to do so based upon the Staff’s review of the current financial statements and the pro-forma

financial statements. The Staff also reviewed both Summit's and MGU's fiscal-year end audited financial statements to ensure compliance with the condition on business risk, and the Staff believes MGU is in compliance with the condition. Also, to support its management of interest risk, MGU provided its plan for managing its exposure to variable interest rate risk in response to the Staff's data requests. The Staff believes that the Company's plan for managing its exposure to variable interest risk is reasonable.

8. Finally, for reasons more fully explained in Staff's attached *Memorandum*, the Staff recommends that the Commission approve MGU's *Amended Application* with the following conditions:

- a. That nothing in the Staff's Memorandum or the Commission's order shall be considered a finding by the Commission of the value of this transaction for rate making purposes, which includes, but is not limited to the capital structure, and that the Commission reserves the right to consider the rate making treatment to be afforded these financing transactions and their effect on cost of capital, in any later proceeding.
- b. That the Company file with the Commission any information concerning communication with credit rating agencies concerning the proposed financing.
- c. That the Company file with the Commission all final terms and conditions of the proposed financing subject to this case, including, but not limited to, the aggregate proceeds received, price information, and estimated expenses.
- d. That MGU continue the agreement with Summit Utilities, Inc., whereby Summit commits to :
 - i. be capitalized with no more debt capital as a percentage of total capital, as compared to how it capitalizes MGU and,
 - ii. Summit Utilities, Inc.'s business risk shall remain consistent with its current operations.

The debt to capital ratio shall be as defined in the Reimbursement and Pledge Agreement by and among MGU, Summit and U.S. Bank National

Association. MGU shall file with the Commission both Summit's and MGU's fiscal-year end annual audited financial statements to ensure compliance with this condition.

- e. That all future funds acquired through issuance of securities under this application shall be used exclusively for the benefit of Missouri Gas Utility, Inc.'s Missouri regulated operations.
- f. That the amount authorized for purposes of the requested lien or encumbrance shall be limited to \$26,400,000.
- g. That the Company file with the Commission Summit Utilities, Inc.'s finalized plans for managing the consolidated variable interest rate risk exposure no later than March 31, 2011.

WHEREFORE, the Staff submits this recommendation for the Commission's information and consideration, and requests that the Commission issue an order approving the *Amended Application* of Missouri Gas Utility, Inc., for authority to issue up to \$26,400,000 of indebtedness conditioned upon the specific recommendations in Paragraph eight (8) above.

Respectfully submitted,

/s/Jennifer Hernandez
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CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing has been mailed first class postage prepaid, hand-delivered, transmitted by facsimile or electronic mail to all counsel/parties of record this 31st day of August, 2010.

/s/ Jennifer Hernandez