MEMORANDUM

TO: Missouri Public Service Commission
Official Case File No. GF-2018-0041 (Summit Natural Gas of Missouri, Inc.)

FROM: Robert Bickel, Financial Analysis Unit,
Operational Analysis Department, Commission Staff Division

/s/ Robert Bickel 12/5/2017	/s/ Jeff Keevil 12/5/2017
Project Coordinator / Date	Staff Counsel's Office / Date

SUBJECT: Staff's recommended conditional approval of Summit Natural Gas of Missouri, Inc.'s ("SNGMO" or the "Company") application for authority to amend and restate the term of its Existing Credit Agreement, and refinance its outstanding secured indebtedness of $100,000,000 with the issuance of one or more new promissory notes.

DATE: December 5, 2017

1. (a) **Type of Issue:** 3-Year Senior Secured Term Loan

   (b) **Amount:** $100 million

   (c) **Rate:** The interest rate will be ** ________ ** as defined in the loan agreement.

2. **Proposed Date of Transaction:** By December 31, 2017.

3. (a) **Statement of Purpose of the Transaction:**

   The Applicant plans to amend and extend its existing Credit Agreement to reflect a different lender syndicate and to refinance the indebtedness thereunder, with new indebtedness.

   (b) **From a financial perspective, does Staff deem this Statement of Purpose of the Issue reasonable?**

   Yes, assuming the Commission orders compliance with the proposed conditions.

4. **Copies of executed instruments defining terms of the proposed securities provided:**

   No, such instruments have not been executed, but a preliminary term sheet providing the principal terms and conditions to be contained in the instruments were attached to the Application.

** Denotes Confidential Information **

5. **Certified copy of resolution of the directors of applicant, or other legal documents authorizing the issuance of the securities reviewed:**

    Yes.

6. **Pro-forma Balance Sheet and Income Statement reviewed:**

    Yes.

7. **Capital expenditure schedule reviewed:**

    No.

8. **Recommendation of the Staff:**

    Conditional Approval recommended pending receipt of finalized terms of issuance (see Comments).

COMMENTS:

SNGMO's Corporate Structure:

SNGMO is a wholly owned subsidiary of Summit Utilities, Inc. ("Summit"). SNGMO and Summit are corporations incorporated under the laws of the State of Colorado. SNGMO's principal office is located at 7810 Shaffer Parkway, Suite 120, Littleton, Colorado 80127. SNGMO is authorized to do business in Missouri; and a copy of certification from the Missouri Secretary of State was filed in Case No. GA-2012-0285.

Summit's and SNGMO's Operations:

Summit, a holding company owned by JP Morgan Infrastructure Investment Fund (IIF), owns and operates the following natural gas distribution and transmission subsidiaries: Colorado Natural Gas, Inc., Summit Natural Gas of Missouri, Inc., Summit Natural Gas of Maine, Inc., and Arkansas Oklahoma Gas Corporation.[1]

SNGMO provides natural gas service in the Missouri counties of Benton, Caldwell, Camden, Daviess, Douglas, Greene, Harrison, Howell, Laclede, Miller, Morgan, Pettis, Stone, Taney, Texas, Webster and Wright. To Staff's knowledge, SNGMO's operations are limited to regulated natural gas distribution operations in Missouri.

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1 http://summitutilitiesinc.com/.

Case Background:

On October 12, 2017, SNGMO filed an Application with the Missouri Public Service Commission ("Commission") requesting approval for authority to refinance $100,000,000 of existing secured indebtedness with the issuance of one or more new promissory notes pursuant to its proposed amended and extended Credit Agreement. This extension would allow the Company to extend the maturity of its outstanding debt for three years.[2] This shorter-term maturity continues to diverge from the Company's intention to seek a longer maturity as the Company alluded to in the 2013 case. In the 2016 case, the Company proposed a two–year extension to the Credit Agreement approved in the 2013 finance case.

As reflected on page 3 of the Staff Recommendation in GF-2016-0095, in that case the Company stated:

> Summit Natural Gas of Missouri, Inc. "SNGMO" is seeking to extend its existing term loan financing for two years rather than entering into a longer-term fixed rate loan primarily due to ** ____ ____ ____ ____ ____ ____________________________. ** Therefore, SNGMO has decided to extend its existing term loan in anticipation of being able to achieve a lower rate long-term structure in the future when SNGMO is ** ________________________________. ** SNGMO currently has a 41/59 debt/equity capital structure and would like to be able to achieve a more optimal 50-60% debt in its capital structure under a long-term scenario. ** ____________ ____ ________________________ . **[3]

2 On December 19, 2012, the Commission issued an Order in Case No. GF-2013-0261 (2013 Case) authorizing SNGMO to issue up to $100,000,000 of 3-year senior secured term indebtedness. On December 9, 2015, in Case No. GF-2016-0095 (2016 Case), the Commission granted the Company's request to extend the maturity of the indebtedness to December 31, 2017.

3 GF-2016-0095, Response to Staff's Data Request No. 0005.

In the current case, GF-2018-0041, Staff again issued data requests in regards to the Company's request for a shorter maturity date than that to which the Company alluded to in GF-2013-0261. The Company again stated:

> ** . **[4]

Staff reviewed the Company's past and pro-forma financial statements along with the data requests Staff issued to the Company. Staff's main concerns are:

1. ** ; **
2. ** **
3. ** **

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The Company indicated in response to Data Request No. 0006 ** . **

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4 GF-2018-0041, Response to Staff's Data Request No. 0007.

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RECOMMENDED CONDITIONS:

Staff recommends that this Application be approved with the following conditions:

1. That nothing in this Memorandum or the Commission's order shall be considered a finding by the Commission of the value of this transaction for rate making purposes, 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.

2. That the Company file with the Commission all final terms and conditions of the proposed secured debt.

3. That all future funds acquired through the collateralization of SNGMO's utility properties shall be used exclusively for the benefit of its Missouri utility properties.

4. That the amount authorized for purposes of the requested lien or encumbrance shall be limited to $100,000,000.

5 GF-2018-0041, Appendix 3, *Summary of Terms and Conditions*, Page 4.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Summit Natural Gas of Missouri, Inc. for Authority to Amend and Extend the Term of its Existing Credit Agreement, and to Extend the Term of its Outstanding Secured Indebtedness Of $100,000,000 with the Issuance of One or More New Promissory Notes	)))))))	**Case No. GF-2018-0041**

AFFIDAVIT OF ROBERT BICKEL

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

COMES NOW Robert Bickel and on his oath states that he is of sound mind and lawful age; that he contributed to the foregoing Staff Recommendation in Memorandum form; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

Robert Bickel

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 4th day of December, 2017.

Dianna L. Vaught
Notary Public

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: June 28, 2019
Commission Number: 15207377