

MEMORANDUM

TO: Missouri Public Service Commission
Official Case No. GF-2016-0095 (Summit Natural Gas of Missouri, Inc.)

FROM: Zephania Marevangeo, Financial Analysis Unit,
Operational Analysis Department, Commission Staff Division

/s/ Zephania Marevangeo 12/04/15
Project Coordinator / Date

/s/ Jeffrey A. Keevil 12/04/2015
Staff Counsel's Office / Date

SUBJECT: Staff's recommendation regarding Summit Natural Gas of Missouri, Inc.'s ("SNGMO") application for authority to amend its existing credit agreement and to extend the term of the financing authority that was granted in Case No. GF-2013-0261 by two years.

DATE: December 4, 2015

1. (a) **Type of Issue:** 2-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, 2015.

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

The Applicant plans to amend and extend its existing \$100,000,000 3-year senior secured term loan, which is due in December 2015, with an additional 2-year senior secured term loan.

(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:**

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 Highly Confidential Information **

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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 granted pending receipt of finalized terms of issuance (see Comments).

COMMENTS:

SNGMO's Corporate Structure and Business:

SNGMO's Corporate Structure:

SNMGO 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. and Summit Natural Gas of Maine, Inc.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.

¹ <http://summitutilitiesinc.com/>.

Case Background:

On December 19, 2012, the Commission issued an Order in Case No. GF-2013-0261 (2013 Finance Case) authorizing SNGMO to issue up to \$100,000,000 of 3-year senior secured term indebtedness. Based on SNGMO's most recent financial statements and responses to Staff's data requests, SNGMO has fully exhausted the entire capacity of the financing authorization provided in Case No. GF-2013-0261. Proceeds that were received from the issuance of the \$100,000,000 long-term debt issuance were used as follows: ** _____

_____ **

SNGMO alluded, during discovery conducted in the 2013 Finance Case, to its intent to convert the 3-year Senior Secured Term Loan (3-year term loan) into a single, longer-term (20-year term) debt facility before the end of December 2015. However, rather than converting the 3-year term loan into a 20-year loan, SNGMO's instant application is seeking 2-year extension of its existing authorization. The excerpt below is SNGMO's justification for its change of plans:

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. ** _____

_____ **²

SNGMO's Request:

In light of the situation highlighted above, on October 22, 2015, SNGMO filed, in Case No. GF-2016-0095, pursuant to Sections 393.180, and 393.190, RSMO, and Commission Rules

4 CSR 240-2.060, 2.080, 3.220 and 4.020(2)(B), an application for (i) authority to amend the term of its outstanding Credit Agreement and (ii) a 2-year extension of its existing financing authorization. ** _____

_____ ** The 2-year extension of the financing authorization would give SNGMO the capacity to refinance its 3-year outstanding \$100,000,000 indebtedness maturing on December 31, 2015.

Assessment of SNGMO's Request:

With specific regards to the financing authorization request, Staff established that SNGMO is seeking a 2-year extension of its existing financing authorization. Such an extension would give SNGMO the capacity to refinance its outstanding debt over a period of up to 2-years and not 20 years as alluded to by SNGMO during discovery conducted in the 2013 finance case. The case background excerpt above furnishes succinct detail of why SNGMO did not pursue its initial plan to convert its existing 3-year *variable-rate* term loan into a 20-year *fixed-rate* long-term loan.

Staff's main concern regarding SNGMO's proposal to only extend the term loan for two years at a variable interest rate was ** _____

_____. ** Based on SNGMO's response to Staff Data Request No. 0008, ** _____

_____. **

Staff recommends the Commission approve SNGMO's 2-year financing authorization extension request. However, Staff would like to note specific financing aspects of the request that still remain changeable, and may conceivably impact SNGMO's current strategy to continue to benefit from the existing variable debt costs.

SNGMO's application suggests that the proposed terms and conditions for the 2016 finance case, as compared to the 2013 finance case, ** _____

_____ ** (*a fixed percentage required over the variable portion of the aggregate interest rate*) that is charged on SNGMO's debt. Therefore, SNGMO's application assumes that the same effect will translate into lower cost of debt for SNGMO, provided the variable component (LIBOR) stays constant or within the bounds experienced during the 2013 finance case time frame. Unfortunately, no one knows when the Federal Reserve ("Fed") will increase the short-term interest rates and the impact that decision will have on LIBOR. Consequently,

Staff's only concern is that if the Fed raises the short-term borrowing rates *before SNGMO's debt is converted to a 20-year fixed and low-interest term loan*, it is possible that the corresponding upward movement in LIBOR may ** _____

_____. **

On the upside, Staff acknowledges the results of SNGMO's LIBOR analysis – which suggest that the 1-month LIBOR rate has fluctuated between 15 basis points and 21 basis points. Meaning if the Fed maintains a lower Fed Funds rate for the next 2 years or if the fluctuation in LIBOR stays within those bounds for the next 2 years, SNGMO will experience another phase of low-cost debt capital. Although there has been and continues to be much debate on when the Fed will raise the Fed Funds rate, Staff cannot predict when the Fed will act. Being that many, including the Fed itself, believed it would likely raise the Fed Funds rate by the end of the year, one would think that the Fed Funds rate will be increased during the 2-year term of the requested refinancing of the loan.

Therefore, based on the case background excerpt above, Staff's assessment of SNGMO's request, and in recognition of the decision set out in the Commission's Report and Order in Case No. GF-2013-0261, Staff recommends approval of SNGMO's application for authority to amend its existing credit agreement and to extend the term of its existing financing authority by 2 years.

Staff will continue to monitor SNGMO for compliance with the conditions ordered by the Commission and continue to monitor the purposes for which any long-term debt financing will be used.

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, 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.
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.

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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

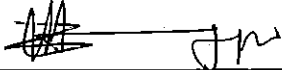
In the Matter of the Application of Summit)	
Natural Gas of Missouri Inc., for Authority)	Case No. GF-2016-0095
to Amend its Existing Credit Agreement and)	
to Extend the Term of its Outstanding)	
Secured Indebtedness of \$100,000,000 with)	
the Issuance of a New Note Having more)	
Favorable Interest Rate)	

AFFIDAVIT OF ZEPHANIA MAREVANGEPO

STATE OF MISSOURI)	
)	ss.
COUNTY OF COLE)	

COMES NOW Zephania Marevangepo and on his oath declares 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.

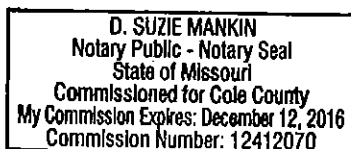
Further the Affiant sayeth not.

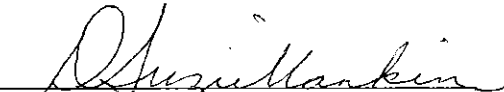


Zephania Marevangepo

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 3rd day of December 2015.





Notary Public