

**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)
\$7,000,000 of Indebtedness, in one or More) **Case No. GF-2009-0057**
Transactions, and to, Among Other Things, Execute)
and Deliver a Mortgage and Security Agreement to)
Secure said Indebtedness.)

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission (Commission) and states as follows:

1. On August 25, 2008, Missouri Gas Utility, Inc. (MGU) filed its Application with the Commission seeking permission to issue some \$7,000,000 in debt, and to pledge its Missouri operating assets as collateral.

2. MGU properly filed its Application pursuant to Sections 393.180 and 393.190 RSMo (2000) and Commission rules 4CSR-240-2.060, 2.080 and 4CSR 240-3.210.

3. MGU is a regulated Missouri gas utility and is a wholly owned subsidiary of its parent company Summit Utilities, Inc. (Summit). Both companies are incorporated in the state of Colorado however Summit is not regulated by the Commission.

4. On September 2, 2008, the Commission issued its Order Directing Filing ordering the Staff to file either a Recommendation or a Status Report regarding the Recommendation no later than October 2, 2008. In its October 2nd Status Report, the Staff informed the Commission it would file its Recommendation no later than October 30, 2008.

5. Staff and MGU have held teleconferences on August 13th, 19th, September 29th, and October 21st for purpose of discussing this matter. These discussions included several members of the Summit and MGU management team. Staff's discussions with Mr. Mike Earnest, the president of both Summit and MGU and Mr. Kenneth Wolfe the vice president and

general counsel of both Summit and MGU were quite helpful. In addition to these discussions, the Staff issued several data requests in this case and has received timely responses to them.

6. In its Application, MGU seeks permission from the Commission to collateralize its Missouri assets to provide security for the letter of credit supporting the bonds issued by Summit and for a line of credit. Summit is the debtor for the bonds and the guarantor for both the letter and line of credit. Both letter and line of credit are provided by US Bank National Association (US Bank). US Bank will make the interest payments to bondholders. The advantage to Summit of this letter of credit is that it provides Summit the ability to issue bonds at a lower cost because the bond issue is based on the credit quality of US Bank.

7. The proceeds of these bonds are to go to MGU via a loan agreement with Summit so that MGU can retire long term debt and pay for its ongoing construction program for its Missouri operations.¹ To accomplish this, MGU seeks a \$5 million loan agreement with Summit. Additionally, MGU seeks a \$2 million line of credit for working capital and bridge financing for construction. To accomplish this transaction, the following contracts need to be executed: a reimbursement agreement between MGU, Summit, and US Bank, a note and mortgage from MGU to US Bank, a trust agreement between Summit, MGU and The Bank of New York, Mellon, N.A. and a general security agreement between MGU and US Bank.

8. The Staff has completed its analysis of this matter and provides a detailed discussion of its analysis in its recommendation attached hereto as Appendix A and incorporated by reference herein with supporting Schedules 1 and 2.

9. Because MGU is requesting authority to secure this debt through the issuance of

¹ MGU's construction program includes expenditures made or being made to expand its service in its new certificated areas in the communities of Ridgeway (GA-2008-0321), Pattonsburg (GA-2008—0322) and Jamesport (GA-2008-0348).

various documents that allow a lien on its Missouri utility assets, the Staff applies the “standard of not detrimental to the public interest” in this case, the same standard it has historically applied in such instances.

10. For reasons explained more thoroughly in Staff’s Recommendation (Appendix “A”), the Staff recommends the Commission issue an order approving MGU’s Application subject to the six conditions recommended by Staff. These conditions recognize and address the inherent risk of a parent company’s ability to influence the debt capacity of the Missouri utility. The safeguards contained in these conditions are necessary to protect the creditworthiness of Missouri’s utility properties.

WHEREFORE, the Staff respectfully submits its Recommendation recommending the Commission approve MGU’s Application to enter into the aforementioned debt instruments subject to the six conditions recommended by Staff.

Respectfully submitted,

/s/ Robert S. Berlin

Robert S. Berlin
Senior Counsel
Missouri Bar No. 51709

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 526-7779 (Telephone)
(573) 751-9285 (Fax)
email: bob.berlin@psc.mo.gov

Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 30th day of October 2008.

/s/ Robert S. Berlin