

## MEMORANDUM

**TO:** Missouri Public Service Commission Official Case File  
Case No. GF-2022-0216, Summit Natural Gas of Missouri, Inc.

**FROM:** Randall T. Jennings, Financial and Business Analysis Division

/s/ Seoung Joun Won      04/07/2022      /s/ Don Cospers      04/07/2022  
Financial & Business Analysis / Date      Staff Counsel's Office / Date

**SUBJECT:** Staff Recommendation concerning the Application of Summit Natural Gas of Missouri, Inc. ("SNGMO", "Company," or "Applicant"), for Approval to Enter into Additional Indebtedness Secured by its Pledge of the Capital Stock by its Parent, Summit LDC Holdings, LLC ("Summit Holdings").

**DATE:** April 7, 2022

1.    (a)    **Type of Issues:**    \*\* [REDACTED] \*\*  
[REDACTED]  
[REDACTED]    \*\*

(b)    **Amount:**    \*\* [REDACTED] \*\*

(c)    **Rate:**    \*\* [REDACTED] \*\*  
[REDACTED]    \*\*

2.    **Proposed Date(s) of Transaction:** Summit Holdings will refinance on or before May 6, 2022.

(a)    **Statement of Purpose of the Issue:** Take advantage of historically low interest rates, increase capacity for capital expenditures, fund a portion of incurred winter storm costs, and fund working capital needs.

(b)    **Does Staff deem this Statement of Purpose of the Issue reasonable?**

Yes.

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

Such instruments have not been executed.

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

Not Applicable.

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

Yes.

6. **Capital expenditure schedule reviewed:**

Yes.

7. **Journal entries required to be filed by Ameren MO to allow for the Fee Schedule to be applied:**

Not Applicable.

8. **Recommendation of the Staff:**

Conditional Approval granted (see Comments and Recommended Conditions below).

**COMMENTS:**

SNGMO is a wholly-owned subsidiary of Summit Holdings, which is a wholly-owned subsidiary of Summit Utilities, Inc. (“Summit Utilities”). The Applicant is a corporation duly incorporated under the laws of the State of Colorado, with its principal offices located at 10825 E. Geddes Avenue, Suite 410, Centennial, Colorado 80112. SNGMO conducts business as “gas corporation” and a “public utility” as provided by the law and 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.

On February 16, 2022, SNGMO submitted an application, motion for waiver of notice and motion for expedited treatment pursuant to 20 CSR 4240-2.060, 20 CSR 4240-2.080(14), and 20 CSR 4240-4.017, requesting that the Commission grant Summit Holdings authority to enter into additional indebtedness by its pledge of the capital stock of its subsidiaries, including the Applicant. Such authority is required by the terms of a Stipulation and Agreement in Case No.

GO-2005-0120.<sup>1</sup> The additional indebtedness consists of \*\* [REDACTED]

[REDACTED] \*\*<sup>2</sup> SNGMO stated on page 4 of its Application that: “The purpose of this indebtedness is to take advantage of historically low interest rates, increase capacity for capital expenditures, fund a portion of incurred winter storm costs, and fund working capital needs.”

Although interest rates have been rising recently, they are still at relatively low levels. The 30-year Treasury bond was 2.41% for March of 2022, compared to March of 2021 when it was 2.34%.<sup>3</sup>

On February 21, 2021, SNGMO filed an application for approval to grant Summit Holdings authority to enter into additional indebtedness secured by its pledge of the capital stock of its subsidiaries, including the Applicant. On April 21, 2021, the Commission issued an Order approving Summit Holdings to issue up to \$100 million in additional indebtedness, secured by its pledge of capital stock of its subsidiaries, subject to conditions recommended by Staff of the Commission and the Office of the Public Counsel.<sup>4</sup> According to the Applicant, as of February 16, 2022, Summit Holdings has not utilized any portion of the approved additional \$100 million.<sup>5</sup> The approved indebtedness pursuant to File No. GO-2019-0406 and File No. GO-2021-0257 totals \$410 million.

In response to Staff Data Request (“DR”) No. 0014, SNGMO stated the indebtedness is requested as the Applicant “looks to ensure safe and reliable delivery of natural gas, long lived assets are constructed which is a cumulative investment year after year increasing the system size and capacity.”<sup>6</sup> In response to Staff DR No. 0013.1, SNGMO stated unrecovered incremental gas costs from winter storm Uri 2021 were \*\* [REDACTED] \*\* while two other subsidiaries of Summit Holdings (Colorado Natural Gas and Arkansas Oklahoma Gas Corporation) also have unrecovered incremental gas costs from winter storm Uri 2021 totaling an additional \*\* [REDACTED] \*\*. <sup>7</sup>

In response to Staff DR No. 0016, the Applicant stated \*\* [REDACTED] \*\*<sup>8</sup> In response to Staff DR No. 0021, the Applicant stated that

<sup>1</sup> Case No. GO-2005-0120, Stipulation and Agreement, pages 7 and 8.

<sup>2</sup> The Application, Appendix 1C.

<sup>3</sup> Federal Reserve web site (<https://fred.stlouisfed.org/series/DGS30#>) retrieved 04/04/22.

<sup>4</sup> Case No. GO-2021-0257, Order Granting Application and Waiver of 60-Day Notice.

<sup>5</sup> The Application, Paragraph 6.

<sup>6</sup> Response to Staff Data Request No. 0014.

<sup>7</sup> Response to Staff Data Request No. 0013.1.

<sup>8</sup> Response to Staff Data Request No. 0016.

Capital Expenditure Budget for SNGMO, Colorado Natural Gas and Arkansas Oklahoma Gas Corporation for years 2022 through 2026 totals \*\* [REDACTED] \*\*<sup>9</sup>

Staff concludes that Summit Holdings has a reasonable need for raising up to \*\* [REDACTED] \*\* indebtedness in addition to the amounts previously approved in File No. GO-2019-0406 and File No GO-2021-0257.

SNGMO's current capital structure shows that it has 100% equity<sup>10</sup> and indicates that upon approval of this Application, will remain the same.<sup>11</sup> Although SNGMO's capital structure indicates minimal financial risk, it is important to note that SNGMO's capital structure is not relevant on a standalone basis for raising debt in the capital market. Summit Holdings, SNGMO's parent company, raises debt and provides funding for SNGMO and the other subsidiaries of Summit Holdings. Therefore, the relevant capital structure for raising debt of SNGMO is that of Summit Holdings.

Summit Holdings' current capital structure is \*\* [REDACTED] \*\*% debt and \*\* [REDACTED] \*\*% equity.<sup>12</sup> It is expected to change to approximately \*\* [REDACTED] \*\*% debt and \*\* [REDACTED] \*\*% equity upon approval of this application.<sup>13</sup> Because the changes in the capital structure for Summit Holdings, the entity that issues and holds debts for the subsidiaries, including SNGMO, is expected to increase, Staff is not concerned that SNGMO's ability to access capital will be impacted because of the Commission's approval of the Application.

SNGMO stated on page 4 of the Application "Such authority would not be detrimental to the public interest because the public health, safety and welfare is being served by the Applicant's ability to obtain debt capital on more advantageous terms." In response to Staff DR No. 0011 SNGMO stated that \*\* [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] \*\* This reduction in interest rate will result in savings for Summit Holdings. In response to Staff DR No. 0010.1 SNGMO stated SNGMO does not have any debt.

<sup>9</sup> Response to Staff Data Request No. 0021.

<sup>10</sup> Response to Staff Data Request No. 0002.

<sup>11</sup> Response to Staff Data Request No. 0012.

<sup>12</sup> Response to Staff Data Request No. 0003.1.

<sup>13</sup> Response to Staff Data Request No. 0003.1.

The capital structure as of December 31, 2021 and pro forma (based on the increased indebtedness) are:

**SNGMO**

	<u>As of December 31, 2021<sup>14</sup></u>	<u>Pro Forma 2023<sup>14</sup></u>
Common Equity	** [REDACTED] **	** [REDACTED] **
Additional Paid In Capital	** [REDACTED] **	** [REDACTED] **
Retained Earnings	** [REDACTED] **	** [REDACTED] **
Long-Term Debt	** [REDACTED] **	** [REDACTED] **
Short-Term Debt	** [REDACTED] **	** [REDACTED] **
Total	100.01%	100.00%

**Summit Holdings**

	<u>As of December 31, 2021<sup>14</sup></u>	<u>Pro Forma 2023<sup>14</sup></u>
Common Equity	** [REDACTED] **	** [REDACTED] **
Additional Paid In Capital	** [REDACTED] **	** [REDACTED] **
Retained Earnings	** [REDACTED] **	** [REDACTED] **
Long-Term Debt	** [REDACTED] **	** [REDACTED] **
Short-Term Debt	** [REDACTED] **	** [REDACTED] **
Total	100.00%	100.00%

**RECOMMENDED CONDITIONS:**

Staff recommends that the Commission approve the Application and Request for Waiver submitted in this case subject to the following conditions:

1. That nothing in 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 transactions, and their effect on the cost of capital in future rate cases; and,
2. That the proposed financing would not be secured by a lien on any of SNGMO’s operational properties; and,
3. That the total amount of indebtedness pledging the capital stock of its subsidiaries, including the Applicant, shall not exceed \*\* [REDACTED] \*\*.

<sup>14</sup> Response to Staff Data Request No. 0003.1.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Summit  
Natural Gas of Missouri, Inc. (SNGMO) for  
Authority for Summit LDC Holdings, LLC  
to Pledge SNGMO's Capital Stock As  
Security in Regard to Certain Indebtedness

Case No. GF-2022-0216

**AFFIDAVIT OF RANDALL T. JENNINGS**

STATE OF MISSOURI    )  
                                  )    ss.  
COUNTY OF COLE     )

**COMES NOW RANDALL T. JENNINGS** 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.

  
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**RANDALL T. JENNINGS**

**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 6<sup>th</sup> day of April 2022.

D. SUZIE MANKIN  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Cole County  
My Commission Expires: April 04, 2025  
Commission Number: 12412070

  
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Notary Public