

**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 )  
\$5,500,000 of Bonded 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-2009-0331**

**STAFF RECOMMENDATION**

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

1. On March 11, 2009, Missouri Gas Utility, Inc. (MGU) filed its Application with the Commission seeking permission to issue some \$5,500,000 in variable-interest revenue bonds to be secured by a mortgage, lien and encumbrance for up to \$5.65 million that includes accrued interest on the bonds, 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 March 18, 2009, 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 April 7, 2009. In its April 7th Status Report, the Staff informed the Commission it would file its Recommendation no later than May 7, 2009. On May 7<sup>th</sup>, Staff filed its motion for extension of time to file its recommendation so that the parties could discuss additional concerns

regarding the Application. In its May 11<sup>th</sup> order, the Commission granted Staff its requested extension to no later than May 14, 2009.

5. 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. Summit is the debtor for the bonds and the guarantor for the letter of credit. The letter of credit is 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.

6. 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.<sup>1</sup> To accomplish this, MGU seeks a \$5.5 million loan agreement with Summit. 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.

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

8. Because MGU is requesting authority to secure this debt through the issuance of various documents that allow a lien on its Missouri utility assets, the Staff applies the “standard

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<sup>1</sup> MGU’s construction program includes expenditures made or being made to expand its service in its new certificated areas in the communities of Green Ridge, Cole Camp, Lincoln and Warsaw in Case No. GA-2009-0264.

of not detrimental to the public interest” in this case, the same standard it has historically applied in such instances.

9. For reasons explained more fully in Staff’s Recommendation (Appendix “1”), the Staff recommends the Commission issue an order approving MGU’s Application subject to the seven 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 seven conditions recommended by Staff.

Respectfully submitted,

**/s/ Robert S. Berlin**

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### **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 13th day of May 2009.

**/s/ Robert S. Berlin**