

## MEMORANDUM

**TO:** Missouri Public Service Commission Official Case File  
Case No. GO-2021-0257, Summit Natural Gas of Missouri, Inc.

**FROM:** Peter Chari, Senior Regulatory Auditor, Financial Analysis Department

*/s/ Seoung Joun Won, PhD 03/12/2021*      */s/ Jamie S. Myers 03/12/2021*  
Commission Staff / Date                      Staff Counsel's Office / Date

**SUBJECT:** Staff's Recommendation Regarding Summit Natural Gas of Missouri, Inc.'s ("SNGMO") Application for Authority to Enter into Additional Indebtedness Secured by the Pledge of its Capital Stock by its Parent Summit LDC Holdings, LLC

**DATE:** March 12, 2021

### INTRODUCTION

On February 11, 2021, Summit Natural Gas of Missouri, Inc. ("SNGMO" or the "Applicant") submitted an Application and Request for Waiver of Notice ("Application") requesting that the Commission grant Summit LDC Holdings ("Summit Holdings") authority to enter into additional indebtedness of \$100 million secured by its pledge of the capital stock of its subsidiaries, including the Applicant. \*\* \_\_\_\_\_

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### COMMENTS

SNGMO is a wholly-owned subsidiary of Summit Holdings, which is a wholly-owned subsidiary of 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 a "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.

\*\* Denotes Confidential Information \*\*

**APPENDIX A**

SNGMO has filed an Application requesting that the Commission authorize Summit Holdings to issue up to \$100 million in additional indebtedness, secured by its pledge of capital stock of its subsidiaries, including SNGMO. Such authority is required by the terms of a Stipulation and Agreement approved by the Commission in Case No. GO-2005-0120.<sup>1</sup>

### **CASE BACKGROUND**

On January 24, 2019, SNGMO filed an application with the Commission, docketed as File No. GO-2019-0216, requesting authority to undertake a corporate restructuring which would permit a newly-formed parent company (referred to therein as “Midco”) to take and hold all of SNGMO’s capital stock and pledge that capital stock in support of financing for up to \$225 million of indebtedness. The application stated the proceeds of the financing would be used, in part, to pay off, in full, all amounts outstanding under SNGMO’s credit facility and to refund and replace outstanding secured indebtedness held at the SNGMO level. On March 13, 2019, the Commission issued its *Order Granting Application* in File No. GO-2019-0216, in which it asserted subject matter jurisdiction pursuant to the terms of a Stipulation and Agreement in Case No. GO-2005-0120, and authorized the corporate restructuring and the Midco entity’s pledge of SNGMO’s capital stock for securing indebtedness of up to \$225 million. The corporate restructuring occurred on May 8, 2019, at which time the newly formed Midco entity, Summit Holdings, entered a \$310 million debt financing, secured by a pledge of the capital stock of direct subsidiaries (including SNGMO), for use by Summit Holdings and its subsidiaries. The \$310 million included \$225 million already authorized in Case No. GO-2019-0216. In File No. GO-2019-0406 the Commission granted SNGMO’s subsequent application seeking authority for Summit Holdings, authority to increase, by \$85 million, the amount of debt secured by its pledge of the capital stock of SNGMO to a total of \$310 million. The company stated that the proceeds of the \$85 million debt issuance was for paying-off indebtedness of Summit Holdings’ subsidiary, Colorado Natural Gas, Inc. (“CNG”), and exchange of notes issued by Summit Holdings’ other subsidiary, Arkansas Oklahoma Corporation (“AOG”).

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

**RECOMMENDATION**

Staff, through Data Requests (“DR”), obtained the data used to assess and confirm Summit Holdings’ use of funds. SNGMO stated on page 3 of its Application that the, “The purpose of this indebtedness is to take advantage of the historically low interest rates and increase capacity for capital expenditures and working capital needs”.

Although interest rates have been rising recently, they are at historically low levels. The 30-year Treasury bond was about 2.21% on March 3, 2021, compared to the 30-year average of 4.71%, ending March 1, 2021. Yields on long-term public utility bonds have averaged about 3.13%, in February, according to Mergent Bond Record. The average yield on public utility bonds for the past 30 years has been about 6.18%.<sup>2</sup> Staff finds it reasonable for Summit Holdings to take advantage of the low interest rates.

In response to Staff DR No. 0002, SNGMO stated that it has a projected \*\* \_\_\_\_\_

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\_\_\_\_\_ \*\*, it is expected that they will also benefit from the proceeds of the debt issuance. Staff concludes that Summit Holdings has a reasonable need for raising up to \$100 million in debt.

\*\* \_\_\_\_\_ \*\*<sup>3</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, the parent company of SNGMO, raises debt, and provides funding for

<sup>2</sup> SNGMO’s workpaper, the 30-year monthly average ending February 2021.

<sup>3</sup> Response to Staff Data Request No. 0005.

SNGMO and the other subsidiaries of Summit Holdings. Therefore, the relevant capital structure for raising debt of SNGMO is Summit Holdings’.

Summit Holdings capital structure is currently \*\* \_\_\_\_\_

\_\_\_\_\_. \*\*<sup>4</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 only marginally. Staff is not concerned that SNGMO’s ability to access capital will be impaired because of the Commission’s approval of the Application.

### **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 ratemaking purposes, which includes, but is not limited to, the capital structure, and that the Commission reserves the right to consider the ratemaking 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.

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<sup>4</sup> Ibid.

**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 ) Case No. GO-2021-0257  
Authority for Summit LDC Holdings, LLC to )  
Pledge SNGMO's Capital Stock As Security )  
in Regard to Certain Indebtedness )

**AFFIDAVIT OF PETER CHARI**

STATE OF MISSOURI     )  
                                  )     ss.  
COUNTY OF COLE     )

**COME NOW Peter Chari** 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, under penalty of perjury.

Further the Affiants sayeth not.

/s/ Peter Chari  
Peter Chari