

**BEFORE THE PUBLIC SERVICE COMMISSION  
STATE OF MISSOURI**

In the matter of the Application	)	
for authority of Sendero SMGC LP Acquisition	)	
Company, and Sendero SMGC GP Acquisition	)	
Company to purchase the partnership interests	)	Case No. GM-2005-0136
of DTE Enterprises, Inc. and DTE Ozark, Inc. in	)	
Southern Missouri Gas Company, L.P., and for	)	
Southern Missouri Gas Company, L.P. to execute a	)	
Deed of Trust, Security Agreement and Financing	)	
Statement to secure a loan to complete the transaction.	)	

**SENDERO'S MEMORANDUM IN SUPPORT AND CLARIFICATION  
OF THE STIPULATION AND AGREEMENT**

COMES NOW Sendero SMGC GP Acquisition Company, LLC ("Sendero GP Company"), and Sendero SMGC LP Acquisition Company, LLC ("Sendero LP Company")(collectively referred to as "Sendero") and hereby submits this Memorandum in Support and Clarification of the Stipulation and Agreement.

**I. Procedural History**

In its original application, Sendero requested MPSC approval to acquire the partnership interests of Southern Missouri Gas Company, L.P. (SMGC) in addition to MPSC approval of Sendero's proposed financing plan. Sendero provided detailed information with respect to Sendero Management's experience in the natural gas industry including over 75 years of direct experience among the three main principals. Sendero also emphasized that its focus will be on growth within the existing service territories SMGC currently serves as well as potentially expanding to other nearby communities. Sendero emphasized that since it was acquiring the

partnership interests of SMGC, it did not anticipate making any major changes to existing SMGC management, operating personnel or operating policies and procedures. Sendero also stated that it was very likely that Sendero would add personnel to SMGC as part of its strategic focus on growing SMGC's overall business. Sendero explicitly stated it had no plans to increase SMGC's rates nor make any modifications to the services SMGC currently provides. Therefore, Sendero does not believe this transaction represents any detriment to the customers of SMGC. To the contrary, Sendero believes that its recapitalization plan, which is discussed in more detail below, along with its emphasis on growth will result in a much stronger company capable of providing significantly improved levels of service as well as providing a more exciting and rewarding workplace for SMGC's employees. As such, Sendero submits these comments as clarification of its commitment to the MPSC and as support for the Staff's Memorandum.

## **II. Financial Analysis/Capital Structure**

Under previous ownership, SMGC has been burdened by \*\*\_\_\*\* of long-term debt with interest payments in excess of \*\*\_\_\_\_\_\*\* per year. Sendero's proposed recapitalization includes the elimination of \*\*~\_\_\_\_\_\*\* of long-term debt and combined principal and interest payments significantly below SMGC's current interest only payments. Under Sendero's plan, SMGC will begin amortizing its debt in its second year resulting in a stronger, more financially viable company within a relatively short period of time (reference Tables 1 below for more detail).

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**Table 1 - Key Financial Ratios** ( See Sendero's response to Staff DR #94 for additional detail.)

	<b>Previous Ownership<sup>(1)</sup></b>		<b>Sendero Ownership<sup>(2)</sup></b>	
<b>Total Debt</b>	**	**	**	**
<b>FFO<sup>(3)</sup>/Interest Expense</b>	**	**	**	**
<b>FFO/Total Debt<sup>(4)</sup></b>	**	**	**	**
<b>Total Debt Service Coverage Ratio<sup>(5)</sup></b>	**	**	**	**

Notes:

- (1) Average of past 5 years under previous ownership
- (2) Average of 5 year pro-forma under Sendero ownership
- (3) FFO is defined as Funds Flow from Operations
- (4) Under previous ownership, total debt service was not calculable since SMGC was not able to amortize any of its current long-term debt
- (5) Under previous ownership, FFO/Total Debt was actually negative in 2 of the last 5 years

### III. Gas Supply

With one exception, SMGC operates on a financially stand alone basis. Other than one parental guarantee issued to one of SMGC's suppliers, SMGC's current owners have no financial, contractual or other requirements to backstop any of SMGC's obligations. SMGC has more than nine years of operating and payment history and it is Sendero's belief from discussions with various gas suppliers and transporters that SMGC's overall creditworthiness will be viewed positively, especially in light of SMGC's much improved financial condition resulting from Sendero's recapitalization plan.

Currently, all load analysis and gas supply procurement functions are provided by Mr. Bill Walker, SMGC's Manager of Gas Control who offices at SMGC's headquarters in Mountain Grove, Missouri. Sendero does not intend to materially change or modify SMGC's current

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personnel or operating practices. Sendero does, however, intend to fully utilize the experience and expertise of Sendero's management in the development and implementation of SMGC's future gas procurement strategies.

#### **IV. Accounting for Plant in Service**

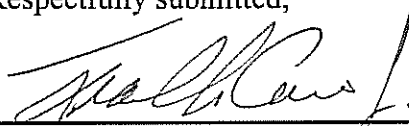
Except for accumulated depreciation and additional capital invested, the value of SMGC's plant in service has not changed since its original approval and certification. The original order certifying SMGC's system (GA-94-127) explicitly stated Staff's and the Commission's belief that the commercial risk of the system's financial viability was properly controlled by the volume imputation of 1,797,000 Mcf/yr. As such, Sendero believes that any argument for lowering the Rate Base runs contrary to the original mechanism for dealing with the risk the system might not meet the conversion targets assumed in the original certificate.

It is important to understand that the previous owners have not written down the value of SMGC's plant in service. Instead they have written down the value of their equity in SMGC, L.P. Since Sendero is willing to agree to a rate moratorium, Sendero believes there has not been any shifting of risks to SMGC's customers and therefore does not believe this transaction is detrimental in any respect. In fact, Sendero's recapitalization plan will result in a stronger and more financially viable company. SMGC will continue operating "as is" except with a much stronger balance sheet, a much higher level of liquidity and an "energized" new owner focused on growth and willing to invest its own capital to achieve it.

## V. Conclusion

Given the facts that (a) Sendero is requesting approval to acquire the partnership interests of SMGC, (b) Sendero does not intend to materially change SMGC's personnel nor its operating practices, and (c) Sendero's willingness to agree to a three year rate moratorium, Sendero believes there is no detriment to SMGC's customers. Sendero's recapitalization plan and growth strategies will result in SMGC's ability to achieve its highest level of operational and financial stability in its brief history. Sendero also believes that its management will bring a new level of energy, expertise and creativity that will benefit SMGC's customers and its employees for years to come. Therefore, Sendero respectfully requests the Commission to approve the Stipulation and Settlement Agreement as filed by Staff.

Respectfully submitted,



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ATTORNEYS FOR SENDERO

**CERTIFICATE OF SERVICE**

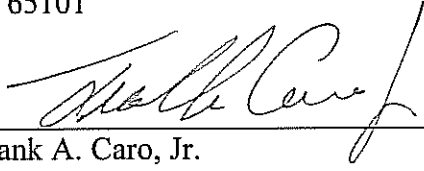
I hereby certify that a true and correct copy of the foregoing document has been hand-delivered, emailed or mailed, postage prepaid, by U.S. Mail, First Class, this 18th day of April, 2005, to:

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