

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

In the matter of the Application of)	
Terre Du Lac Utilities Corporation)	
For Authority to Assign, Transfer,)	<u>Case No. WF-2018-0061</u>
Mortgage or Encumber its)	
Franchise, Works, or System in Order)	
to Secure Financing)	

STAFF'S RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission, by and through counsel, and for its *Recommendation* in this matter hereby states:

1. Terre Du Lac Utilities Corporation filed an *Application and Motion for Waiver* August 30, 2017, asking for approval for a loan it obtained for \$126,000 by pledging 380 shares of its stock as security to gain the financing to perform improvements for the benefit of its water and sewer systems. The Commission on September 6 directed Staff to file its *Recommendation*.

2. Staff has reviewed Terre Du Lac's *Application* and found that the purpose of the loan is reasonable, the utility has already obtained the loan and performed the improvements as outlined in its *Application*, and all of the necessary documentation was properly provided to staff.

3. Staff's *Recommendation* is attached to this document as Attachment A, and sets out Staff's findings. Staff recommends approval of the *Application*, with the condition that the Commission's order have no binding effect for ratemaking purposes, including on the capital structure of the utility, and the Commission reserve the right to determination of the ratemaking treatment of these transactions in Terre Du Lac's next general rate case or other proceeding.

WHEREFORE, Staff recommends that the Commission grant Terre Du Lac's *Application*, on the condition that no ratemaking treatment be afforded the transaction at this time; and grant such other and further relief as the Commission considers just in the circumstances.

/s/ Whitney Payne

Whitney Payne

Legal Counsel

Missouri Bar No. 64078

Attorney for the Staff of the

Missouri Public Service Commission

P. O. Box 360

Jefferson City, MO 65102

(573) 751-8706 (Telephone)

(573) 751-9285 (Fax)

whitney.payne@psc.mo.gov

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by electronic mail, or First Class United States Postal Mail, postage prepaid, on this 31st day of October, 2017, to all counsel of record.

/s/Whitney Payne

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. WF-2018-0061, Terre Du Lac Utilities Corporation

FROM: Jeffrey Smith, Financial Analysis Unit

SUBJECT: Staff's recommendation to approve Terre Du Lac Utilities Corporation's ("borrower") application for authority to borrow up to \$126,000 in long-term secured debt.

/s/ Jeffrey Smith 10/31/2017
Commission Staff Coordinator/Date

/s/ Whitney Payne 10/31/2017
Staff Counsel's Office/Date

DATE: October 31, 2017

Terre Du Lac Utilities Corporation

1.
 - (a) **Type of Issue:** Secured Debt, 15-year Promissory Note.
 - (b) **Amount:** Not to exceed \$126,000.
 - (c) **Rate:** Variable interest rate not to be less than 4.25%, or greater than 11.00%. The interest rate changes will not occur more than once a year on the anniversary date of the note. The interest rate change is based on the Federal Home Loan Bank of Des Moines' 1-year fixed rate advance rate, as determined on the 25th day of the month preceding the note's anniversary. The maximum increase or decrease in the interest rate at any one time will not exceed 2.00%. When increases occur in the interest rate, First State Community Bank (lender), at its option, may do one or more of the following: (1) increase borrower's payments to ensure borrower's loan will pay off by its original final maturity date, (2) increase borrower's payments to cover accruing interest, (3) increase the number of borrower's payments, and (4) continue borrower's payments at the same amount and increase borrower's final payment.
 - (d) **Other Provisions:** Borrower pledges all of its assets as security. Specifically, borrower grants to lender security interest in all equipment, contracts, receivables and real property owned by borrower.
2. **Date of Transaction:** January 31, 2017, note was established as a line of credit to be drawn as required while underway investments are completed.

3. (a) **Statement of Purpose of the Transaction:** Required to complete construction of a well (well #4) with a minimum capacity of 300 gallons per minute, a well house, and to replace three lift stations. Construction is necessary to ensure that borrower continues to provide safe and adequate water and sewer services to its customers.

(b) **From a financial perspective, does Staff deem this purpose reasonable?**

Yes

4. **Was a copy of the loan instrument defining terms of the transaction attached to the Application:**

Yes. The transaction closed on January 31, 2017, so the Company attached the already-executed loan instrument. Consequently, if the Commission approves the Application, it will be approving the loan transaction after the fact.

5. **Certified copy of resolution of the directors of the borrower, or other legal document authorizing the issuance of the securities reviewed:**

Yes

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

Yes

7. **Capital expenditure schedule reviewed:**

Yes

8. **Journal entries are required to be filed by the borrower to allow for the fee schedule to be applied:**

N/A

9. **Recommendation of the Staff:**

Conditional approval as discussed below.

COMMENTS:

Terre Du Lac Utilities Corporation ("Borrower") is a Missouri water and sewer corporation with its principle office and place of business at 1628 S. St. Francois Road, Bonne Terre, MO 63628. Borrower is in the business of providing water supply

and distribution services as well as sewer collection services as a public utility in St. Francois and Washington Counties, Missouri. Borrower currently provides service to approximately 1,302 water and sewer customers.

Borrower filed an application requesting that the Commission authorize an already-executed secured loan in the amount of \$126,000, as well as the pledging of Borrower's assets for said loan.

The loan (see Exhibit B attached to the Application) was established as a line of credit, to be deposited and withdrawn from an escrow account at the lending institution (First State Community Bank) until the construction project is completed. Borrower was obligated to make interest only payments, at an interest rate of 5.00% on the distributed amount of the loan until July 28, 2017. Beginning August 28, 2017, borrower was required to begin making the first of six consecutive principle and interest payments in the initial amount of \$1,001.06 each, with interest calculated on the unpaid principle balance using an interest rate of 5.00%. Beginning February 28, 2018, borrower will begin making principle and interest payments using the interest calculation method described in Section 1(c) of this memorandum. Financial Analysis has reviewed Borrower's construction project trial balance statements produced by First State Community Bank and verified that funds distributed from the notes line of credit have been used towards system improvements described in Borrower's finance application submitted to the Commission. The last draw on the line of credit was completed May 24, 2017, coinciding with completion of construction.

RECOMMENDED CONDITIONS:

Staff recommends that this application be approved with the condition that nothing in the Commission's order 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 financing transactions, and their effect on the cost of capital, in later proceeding.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI


In the Matter of the Application of Terre Du)
Lac Utilities Corporation for Authority to) Case No. WF-2018-0061
Assign, Transfer, Mortgage, or Encumber)
its Franchise, Works, or System, in Order to)
Secure Financing)

AFFIDAVIT OF JEFFREY SMITH

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW JEFFREY SMITH 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.

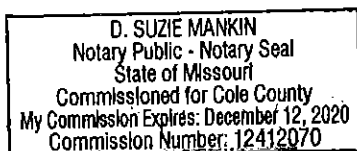
Further the Affiant sayeth not.

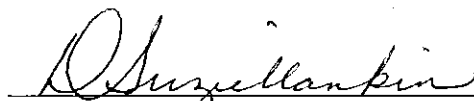


JEFFREY SMITH

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 31st day of October, 2017.





Notary Public