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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SOUTHERN INDIANA GAS AND ELECTRIC COMPANY d/b/a VECTREN ENERGY DELIVERY OF INDIANA, INC. FOR AUTHORITY TO IMPLEMENT ITS 2012-2014 FINANCING PROGRAM BY (1) ISSUING NOT TO EXCEED $355,000,000 IN AGGREGATE PRINCIPAL AMOUNT OF SECURED OR UNSECURED LONG-TERM DEBT ISSUED TO UNAFFILIATED LENDERS AND LOAN AGREEMENTS SECURING TAX-EXEMPT BONDS OR DEBT IN THE FORM OF UNSECURED PROMISSORY NOTES TO VECTREN UTILITY HOLDINGS, INC. ("VUHI"), ITS IMMEDIATE PARENT COMPANY, PURSUANT TO THE PREVIOUSLY APPROVED FINANCIAL SERVICES AGREEMENT; (2) EXECUTING AND DELIVERING EVIDENCES OF INDEBTEDNESS RELATING TO SUCH LONG-TERM DEBT; (3) ENTERING INTO INTEREST RATE RISK MANAGEMENT TRANSACTIONS; (4) ISSUING AND SELLING NOT TO EXCEED $120,000,000 OF COMMON AND/OR PREFERRED STOCK; AND (5) USING THE NET PROCEEDS FROM THE FINANCING PROGRAM TO REIMBURSE ITS TREASURY AND, THEREAFTER, TO REPAY AND REFUND OUTSTANDING LONG-TERM DEBT, REPAY ITS SHORT-TERM DEBT, AND FINANCE ITS CONSTRUCTION PROGRAM.	CAUSE NO. 44225
PETITION OF INDIANA GAS COMPANY, INC. D/B/A VECTREN ENERGY DELIVERY OF INDIANA, INC. FOR AUTHORITY TO IMPLEMENT ITS 2012-2014 FINANCING PROGRAM BY (1) ISSUING NOT TO EXCEED $105,000,000 IN AGGREGATE PRINCIPAL AMOUNT OF SECURED OR UNSECURED LONG-TERM DEBT ISSUED TO UNAFFILIATED LENDERS OR DEBT IN THE FORM OF UNSECURED PROMISSORY NOTES TO VECTREN UTILITY HOLDINGS, INC. ("VUHI"), ITS IMMEDIATE PARENT COMPANY, PURSUANT TO THE PREVIOUSLY APPROVED FINANCIAL SERVICES AGREEMENT; (2) EXECUTING AND DELIVERING EVIDENCES OF INDEBTEDNESS RELATING TO SUCH LONG-TERM DEBT; (3) ENTERING INTO INTEREST RATE RISK MANAGEMENT TRANSACTIONS; (4) ISSUING AND SELLING NOT TO EXCEED $45,000,000	CAUSE NO. 44226 APPROVED: JAN 16 2013

OF COMMON AND/OR PREFERRED STOCK; AND (5) USING THE NET PROCEEDS FROM THE FINANCING PROGRAM TO REIMBURSE ITS TREASURY AND, THEREAFTER, TO REPAY AND REFUND OUTSTANDING LONG-TERM DEBT, REPAY ITS SHORT-TERM DEBT, AND FINANCE ITS CONSTRUCTION PROGRAM.)

ORDER OF THE COMMISSION

Presiding Officers:
Kari A.E. Bennett, Commissioner
Jeffery A. Earl, Administrative Law Judge

On July 24, 2012, Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren South") filed its Verified Petition in Cause No. 44225 for authority to carry out its financing program for the period through December 31, 2014. On that same day, Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren North" and together with Vectren South, "Petitioners") filed a Verified Petition in Cause No. 44226 for authority to carry out its financing program for the period through December 31, 2014. Petitioners filed their respective cases-in-chief on July 25, 2012.

On September 6, 2012, the Commission conducted Prehearing Conferences and Preliminary Hearings for the two Causes during which the Presiding Officers discussed the possibility of consolidating the two Causes. No parties objected to consolidation and the Causes were consolidated pursuant to the Commission's Docket Entry dated September 17, 2012. On September 18, 2012, the Indiana Office of Utility Consumer Counselor ("OUCC") prefiled its testimony and exhibits constituting its case-in-chief. Pursuant to notice given and published as required by law, proof of which was incorporated into the record, the Commission held an evidentiary hearing in this consolidated Cause at 1:00 p.m. on October 11, 2012, in Hearing Room 222, 101 West Washington Street, Indianapolis, Indiana. Petitioners and the OUCC participated at the hearing.

Based upon applicable law and evidence presented, the Commission finds:

1. **<u>Notice and Jurisdiction.</u>** Due, legal, and timely notice of the hearing in this Cause was given and published as required by law. Each Petitioner is a public utility as defined in Ind. Code § 8-1-2-1(a) and is subject to the jurisdiction of this Commission in the manner and to the extent provided by Indiana law. Pursuant to Ind. Code §§ 8-1-2-76 through 8-1-2-81, the Commission has jurisdiction over a public utility's issuance of stocks, bonds, and debt. Therefore, the Commission has jurisdiction over Petitioners and the subject matter of this proceeding.

2. **<u>Petitioners' Characteristics and Business.</u>** Vectren South and Vectren North are public utilities incorporated under the laws of the State of Indiana. Each has charter power and authority to engage in and is engaged in the business of rendering gas distribution service and, in the case of Vectren South, electric service, within the State of Indiana. Vectren South owns, operates, manages, and controls, among other things, plant, property, equipment, and facilities that are used and useful for the production, storage, transmission, distribution, and furnishing of electric utility service to approximately 141,000 customers and gas utility service to approximately 110,000 customers in southwestern Indiana. Vectren North owns, operates, manages, and controls, among other things, plant, property, equipment, and facilities which are used and useful for the production, storage, transmission, distribution, and furnishing of gas utility service to approximately 563,000 customers in central and southern Indiana. Each utility is a wholly-owned subsidiary of Vectren Utility Holdings, Inc. ("VUHI"), which is a wholly-owned subsidiary of Vectren Corporation. Vectren Corporation is a holding company whose stock is publicly-traded and listed on the New York Stock Exchange. VUHI also owns all of the common stock of Vectren Energy Delivery of Ohio, Inc. ("VEDO").

3. **Petitioners' Capitalization and Outstanding Securities.** As of December 31, 2011, Vectren South's total capitalization amounted to $1.34 billion and consisted of long-term debt in the amount of $618 million, common stock in the amount of $303 million, and retained earnings and accumulated other comprehensive income in the amount of $419 million. At that date, the long-term debt of Vectren South was represented by eleven series of first mortgage bonds totaling $267 million and six series of unsecured notes to VUHI totaling $352 million. A schedule showing the long-term debt was attached to Vectren South's Verified Petition as Exhibit A. On December 31, 2011, Vectren South had $77 million of outstanding short-term debt. All of the outstanding long-term debt and common stock have been duly authorized by Orders of this Commission.

As of December 31, 2011, Vectren North's total capitalization amounted to $607 million and consisted of long-term debt in the amount of $255 million (including long-term debt subject to tender and current maturities), common stock in the amount of $260 million, and retained earnings in the amount of $92 million. At that date, the long-term debt of Vectren North was represented by eleven series of senior unsecured debt totaling $121 million and four series of unsecured notes to VUHI totaling $134 million. A schedule showing the long-term debt was attached to Vectren North's Verified Petition as Exhibit A. On December 31, 2011, Vectren North had $63 million of outstanding short-term debt. All of the outstanding long-term debt and common stock have been duly authorized by Orders of this Commission.

4. **Relief Requested.**

A. **Vectren South Financing Program.** Vectren South requests authorization to carry out, from time to time, during the period from the effective date of this Order through December 31, 2014, a financing program (the "Vectren South Financing Program") consisting of one or more or a combination of the following:

(1) issuing and selling not to exceed $355 million in aggregate principal amount of long-term debt;

(2) issuing and selling additional common stock or preferred stock (including tax deductible preferred stock) or a combination thereof, for cash, for an aggregate sale price not to exceed $120 million; and

(3) entering into one or more interest rate risk management transactions as described below.

B. **Vectren North Financing Program.** Vectren North requests authorization to carry out, from time to time, during the period from the effective date of this Order through December 31, 2014, a financing program (the "Vectren North Financing Program") consisting of one or more or a combination of the following:

(1) issuing and selling not to exceed $105 million in aggregate principal amount of long-term debt;

(2) issuing and selling additional common stock or preferred stock (including tax deductible preferred stock) or a combination thereof, for cash, for an aggregate sale price not to exceed $45 million; and

(3) entering into one or more interest rate risk management transactions as described below.

5. **Petitioner's Evidence.**

A. **Purposes of the Financing Programs.** The proceeds of the Financing Programs, after payment of expenses, will be used to reimburse each Petitioner's respective treasury for monies actually expended for: (1) the acquisition of property, material, or working capital; (2) the construction, completion, extension, or improvement of its facilities, plant, or distribution system; (3) the improvement of its service; and (4) the discharge or lawful refunding of its obligations. Thereafter, each Petitioner shall use the net proceeds of its respective financing program to repay and refund outstanding long-term debt, to repay short-term borrowings and to finance its construction program or otherwise fund expected expenditures for its construction program.

Sean K. Browning, Director, Enterprise Risk Management at Vectren Corporation, testified about Petitioners' financing needs during the 2012-2014 period. Mr. Browning estimated Vectren South's external financing requirements for the 2012-2014 period to be $475 million. He said Vectren South has capital spending requirements of approximately $369 million over the period of the financing program, of which 25% to 50% is estimated to require external financing. Mr. Browning testified there are other potential refunding requirements of $86 million due to the potential call of $122 million of outstanding VUHI long-term debt. In addition, nine issues of Vectren South's tax-exempt debt totaling $174 million are currently callable, or will be during the term of the proposed Vectren South Financing Program.

Mr. Browning estimated Vectren North's external financing needs for the 2012-2014 period to be $150 million. He said Vectren North has capital spending requirements of approximately $213 million over the period of the Vectren North Financing Program, of which 25% to 50% is estimated to require external financing. Mr. Browning testified there are other potential refunding requirements of $22 million due to the potential call of outstanding VUHI long-term debt reloaned to Vectren North. In addition, Vectren North has a $5 million long-term debt issue that matures in June 2013.

Mr. Browning further stated that although not currently anticipated, depending on market conditions at the time, it may be advantageous for Petitioners to redeem in whole or in part additional outstanding debt prior to the maturity date thereof.

Robert L. Goocher, Vice President and Treasurer of Vectren South and Vectren North, who also holds the same positions with Vectren Corporation, VUHI, and VEDO, testified that Petitioners request financing authority for a multi-year period in order to provide flexibility to react quickly to changing market conditions and take advantage of capital market opportunities that may arise during the period of the Financing Programs. He cited the unprecedented volatility and instability in the financial markets in recent years, which reached near crisis levels in the fall of 2008, as evidence of the need to make sure Petitioners can access the capital markets when windows of opportunity present themselves so Petitioners can maintain adequate liquidity to meet their operational needs and reduce future financial risk.

B. __**New Long-Term Debt.**__ Mr. Goocher testified that some or all of the long-term debt issued pursuant to the Financing Programs will be issued through the existing pooling arrangements with VUHI.

Under the debt pooling arrangement previously described in the Commission's Orders in Cause Nos. 41908, 41909, 42807, 42367, 42888, 43330, 43332, 43695, and 43714, the debt requirements of Vectren South, Vectren North, and VEDO ("Participants") are pooled, thereby creating larger more attractive debt issues with lower interest rates, lower transaction costs, and better financial market access than the Participants would have if they financed separately. In accordance with the restated Financial Services Agreement, approved by the Commission's July 27, 2001 Order in Cause No. 43968, VUHI sells its own long-term debt securities in the public or private markets in the amount of the combined long-term debt requirements of the Participants and reloans the proceeds to the Participants on the same terms as apply to the VUHI debt. To maximize the benefits of the pooling arrangement, the Participants provide ongoing joint and several guarantees of all of VUHI's debt to make VUHI's debt issues attractive to investors and to achieve lower debt costs. These guarantees are provided pursuant to on-going authority previously granted in Cause No. 42807 for Vectren South, and Cause No. 42888 for Vectren North.

Mr. Browning testified that long-term debt issued pursuant to the Financing Programs is likely to have maturities of five to forty years. Debt issued by VUHI on behalf of either Petitioner will likely be in the form of unsecured notes. Debt issued directly to investors by either Petitioner, or tax-exempt debt issued by a governmental entity in the case of Vectren South, may be secured or unsecured. Any long-term debt sold by VUHI or Petitioners will be issued and sold for not less than 95% of its face amount plus accrued interest to the date of delivery.

Mr. Goocher and Mr. Browning testified that Vectren South also may engage in tax-exempt financings. Mr. Browning explained that in a tax exempt financing, bonds would be issued by a governmental entity and sold pursuant to a private placement or to an underwriter that will market the bonds in a public offering. The proceeds of the tax-exempt bond issue will be deposited with a trustee and Vectren South will borrow the deposited funds pursuant to a loan agreement between Vectren South and the governmental entity acting as the issuer. The terms on which Vectren South will repay the loan under the loan agreement will be the same as the terms applicable to the tax-exempt bonds. Vectren South will pay the principal and interest to the trustee in accordance with the loan agreement, and the trustee will use these funds to pay the bondholders.

The loan agreement will provide Vectren South, at certain times, with the option to change the interest rate modes, purchase the bonds in lieu of redemption and remarket the tax-exempt bonds without redeeming the bonds, or increasing the principal amount or extending the final maturity date of the bonds. Mr. Browning stated that depending on market conditions, pricing considerations and interest rate mode selected at the time of issuance of the tax-exempt bonds, Vectren South may obtain a letter of credit or some other form of credit or liquidity enhancement for the tax-exempt bonds. He said to minimize transaction costs and to ensure continuity of the credit or liquidity support arrangements, Vectren South may obtain multi-year commitments for such arrangements. He explained the use of any such multi-year commitments or facilities supporting the issuance of the underlying debt should not further reduce the amount of financing authority authorized by the Commission in this proceeding. Because the interest on the tax-exempt bonds is exempt from both Federal and Indiana income taxes, the interest rate will normally be less than would be required for comparable taxable bonds.

Mr. Browning stated that to provide maximum flexibility in connection with the issuance of tax-exempt debt, Vectren South seeks authorization to secure its obligations under the loan agreements with First Mortgage Bonds, or similar secured debt, should that be necessary to obtain the most advantageous terms. Mr. Browning explained that any First Mortgage Bonds or similar secured debt that are issued to secure Vectren South's obligations under a loan agreement supporting tax-exempt bonds will not increase the amount of long-term debt above that incurred under the corresponding loan agreement but instead will only provide security for the payment of that amount. Mr. Browning stated that the long-term tax exempt debt will likely be issued with maturities between ten and forty years, with variable or fixed interest rates set based on then-prevailing market conditions, with the option to alter the interest rate mode in the future as provided in the new loan agreements.

Mr. Goocher testified that each Petitioner would also like the ability to issue new long-term debt directly to investors instead of through the VUHI pooling arrangement should changes in the marketplace make it desirable to do so. Any such debt could be secured or unsecured and will consist in whole or in some combination of promissory notes, debentures, medium-term notes, mortgage bonds, or other instruments evidencing debt of the respective Petitioner and may be issued and sold by way of public offerings or private placements. Mr. Goocher testified that Vectren South would also like to have the ability to refund or extend the maturity of existing secured tax-exempt debt if that becomes the most efficient or cost-effective long-term approach to satisfying a portion of its financing needs or if secured debt was needed to support an equivalent amount of any new tax-exempt debt issued either for qualified projects or to refund existing tax-exempt debt. He said Vectren South will evaluate whether it is feasible or advantageous to seek to extend the maturity of its existing tax-exempt debt either in connection with refinancing such debt or in connection with a remarketing thereof. He explained that if the maturity of existing tax-exempt debt is extended, Vectren South will treat those transactions as new debt for purposes of the financing authority granted by the Commission in this proceeding. However, as long as the maturity on existing debt is not extended, remarketing the debt to set a new interest rate mode as provided for in the loan documentation executed under authority granted in previous Commission Orders will not reduce the remaining financing authority, because such re-marketings are not new issues of debt.

Mr. Browning testified that the interest rates on the new fixed rate long-term debt will be determined at the time of issuance or at the time the debt is priced, based on the then prevailing market and economic conditions. He said interest on any new variable rate debt issued by Vectren South (including any tax-exempt variable rate debt) or Vectren North will be determined at the time of each interest rate reset by the remarketing agent appointed by Vectren South or Vectren North, as applicable, based on the then prevailing market and economic conditions. Petitioners and VUHI will consult with investment bankers and review pertinent econometric data prior to issuing long-term debt to ensure that the interest rates and terms and conditions of the new debt issues are reasonable.

C. Benefits Of VUHI For Short-Term Debt And Cash Pooling. Mr. Goocher also discussed the benefits of the Financial Services Agreement with respect to the short-term financing needs of the Participants. He said VUHI enters into credit facility agreements that allow it to borrow on a short-term basis and reloan the proceeds to the Participants in accordance with their needs and at the same rate VUHI pays for short-term debt. Mr. Goocher testified that consolidating the short-term financing needs of all three Participants through a syndicated credit facility and commercial paper program at VUHI yields the same kinds of benefits as does the long-term debt pooling arrangement, *i.e.*, greater financial market access, more favorable pricing, and lower transaction costs. Mr. Goocher stated that VUHI's existing $350 million multi-year credit facility matures in September 2016, but, if advantageous, could be refinanced during the period of time covered by this Order. The Commission authorized Vectren South (in the May 11, 2005 Order in Cause No. 42807) and Vectren North (in the October 26, 2005 Order Cause No. 42888) to borrow from VUHI on an ongoing basis in accordance with: (1) multi-year credit facility agreements of VUHI, so long as each actual borrowing under the facility will be repaid within 365 days; and (2) credit facility agreements that contain options allowing VUHI to terminate the facility and convert any outstanding short-term revolving loans into term loans so long as the exercise of the option creates a term loan maturing no longer than 365 days after the facility termination date. Mr. Goocher testified that Petitioners expect to continue to renew and utilize these multi-year credit facilities on an on-going basis, within the parameters set forth in the Orders in Cause Nos. 42807 and 42888.

D. Common and Preferred Stock. Petitioners request authority to issue and sell additional common stock or preferred stock (including tax-deductible preferred stock) or a combination thereof, for cash, for an aggregate sale price not to exceed $120 million for Vectren South and $45 million for Vectren North. The additional common stock issued by Petitioners will be sold to VUHI. Petitioners will sell any preferred stock, for cash, either (1) through public offerings or private placements to non-affiliated parties, or (2) to VUHI in the event VUHI sells its own preferred stock, some or all of the proceeds of which will be allocated to Petitioners. In the event of such a preferred stock sale by VUHI, Petitioners will sell preferred stock to VUHI with terms that match those applicable to the VUHI preferred stock for an amount equal to the proceeds of the VUHI preferred stock sale allocated to each Petitioner. Any preferred stock will be sold at a price of not less than the par value per share plus accrued dividends, if any, from the date of issuance to the date of delivery. Mr. Goocher stated that although it is unlikely either

Petitioner will issue preferred stock during the period of the Financing Programs, they would like to have the ability to do so to take advantage of any market opportunities that may arise during the period of the Financing Programs. Mr. Goocher testified that, to the extent preferred stock is issued, it would likely be in the form of a Cumulative Preferred series or a convertible security. Before issuing any preferred stock pursuant to this authority, the respective Petitioner's Board of Directors will, by resolution, in accordance with the applicable Amended and Restated Articles of Incorporation, as amended (the "Articles"), fix and determine the relative rights, preferences, qualifications, limitations and restrictions of each series of preferred stock. Each Petitioner has a sufficient number of authorized but unissued shares of common stock and preferred stock under its respective Articles and, therefore, no shareholder action will be required for these transactions.

E. **Capitalization Ratios.** Mr. Goocher stated that each Petitioner seeks to maintain its permanent common equity ratio in the range of 50% to 60%. Petitioners believe that keeping the equity component of their respective capital structures in this range will allow them to maintain interest coverage ratios, cash flow ratios and other quantitative measures at a level permitting good credit ratings. Mr. Goocher testified maintaining adequate equity levels provides financial flexibility and greater financial market access during adverse business environments and economic conditions. Mr. Goocher's exhibits included a schedule showing each Petitioner's actual capital structure as of December 31, 2011 and *pro forma* capital structure reflecting the implementation of the financing program (adjusted for potential retirements of outstanding long-term debt) as follows:

Vectren South				
	Actual At 12/31/11		Adjusted For Financing Program	
Description	Amount	Ratio	Amount	Ratio
Long-Term Debt	$619,423,000	46.2%	$713,958,000	45.9%
Common Equity	721,969,000	53.8%	841,969,000	54.1%
Total	$1,341,392,000	100.0%	$1,555,927,000	100.0%

Vectren North				
	Actual At 12/31/11		Adjusted For Financing Program	
Description	Amount	Ratio	Amount	Ratio
Long-Term Debt	$254,951,000	42.0%	$332,951,000	45.6%
Common Equity	351,741,000	58.0%	396,741,000	54.4%
Total	$606,692,000	100.0%	$729,692,000	100.0%

F. **Interest Rate Risk Management Transactions.** Petitioners request authority to enter into one or more interest rate risk management transactions. Examples of these hedging instruments include forward starting interest rate swaps, treasury rate locks, interest rate caps, collars, floors and other derivative products. Mr. Browning testified that these instruments are contractual agreements that will allow Petitioners to lock-in an interest rate in advance of completion of a long-term debt issuance, reduce interest rate volatility and mitigate interest rate risk.

G. **Amortization of Issuance and Interest Rate Risk Management Costs.** Mr. Browning testified that Petitioners propose to amortize issuance costs and interest rate risk management costs associated with new long-term debt issued pursuant to the authority granted herein over the life of the new debt issue and in the case of interest rate risk management costs associated with currently outstanding debt, over the remaining life of such long-term debt. Petitioners also propose to treat the costs associated with the early redemption of debt and any unamortized issuance expense relating to prematurely redeemed debt issues as issuance expense to be amortized over the life of the refinancing issue, or if not refinanced with long-term debt, amortized over the original life of the debt being retired. Petitioner proposes to account for these costs for book purposes as an increase in its interest expense, and for ratemaking purposes by reflecting the net effect of these transactions in the embedded cost of debt, consistent with its past practice.

6. **OUCC's Case-in-Chief.** The OUCC submitted the testimony of Bradley E. Lorton, a Utility Analyst in the OUCC's Natural Gas Division. Mr. Lorton testified in support of Petitioners' request for financing authority, stating that locking in capital at a time when interest rates and bond yields are at historic lows is in the public interest and can provide savings to ratepayers. Mr. Lorton recommended that Petitioners' past practice of reporting to the Commission and the OUCC on the status of their respective financing programs be required to be continued in this Cause.

7. **Commission Discussion and Findings.** Pursuant to Ind. Code §§ 8-1-2-78 through 8-1-2-80, the Commission has the authority, after consideration of all information that may be relevant or required by the Commission, to investigate and approve or disapprove a proposal by a public utility to issue bonds notes or other evidence of indebtedness, payable more than one year from the execution thereof or preferred or common stock. The Commission must determine whether the proposed issue is in the public interest in accordance with laws touching the issuance of securities by public utilities. The Commission must also find that the proposed issue is reasonably necessary in the operation and management of the business of the utility in order that the utility may provide adequate service and facilities.

A. **Vectren South Financing Program.** We find that the long-term debt and common equity that Vectren South will have outstanding pursuant to the Vectren South Financing Program described herein will bear a reasonable proportion to Vectren South's total capitalization and will be reasonable in aggregate amount, with due consideration given to the nature of Vectren South's business, credit, future prospects, earnings, and the effect that the issuance of such securities may have on the management and efficient operations of Vectren South. Vectren South's total outstanding capitalization, when adjusted for the Vectren South Financing Program, appears to be reasonable in relation to the total value of Vectren South's property and will not be in excess of the fair value of Vectren South's property used and useful for the convenience of the public.

We also find that the issuance of long-term debt and common and preferred stock pursuant to the Vectren South Financing Program is reasonably necessary for the purposes for which such securities may be authorized by the Commission and is in accordance with the provisions of the laws of the State of Indiana relating to the issuance of securities by public utilities. Further, we find that the proposed Vectren South Financing Program is in the public interest and is reasonably necessary in the operation and management of Vectren South's business so that Vectren South may provide adequate service and facilities. The Financing Program is consistent with what Vectren South has proposed in the past. It will refinance existing long-term debt at a lower cost. Vectren South also anticipates that the financing will be used for capital expenditures that will allow the Company to continue to provide safe, reliable service to its customers. Granting authority to Vectren South to enter into financial hedges allows it the possibility to lock in interest rates at lower costs. The combination of financial flexibility, lower cost debt, and financial hedges will result in a benefit to ratepayers in the form of lower financing costs.

Therefore, we authorize Vectren South to issue long-term debt and sell common or preferred stock and to enter into interest rate risk management transactions as described above and in Vectren South's Petition and evidence. We approve Vectren South's proposal with respect to the amortization, accounting, and ratemaking treatment applicable to issuance, early redemption, and interest rate risk management costs and the unamortized issuance costs associated with prematurely redeemed debt issues as described above. We also authorize Vectren South to continue to participate in multi-year credit facilities on the terms and subject to the limitations described in the Order in Cause No. 42807 dated May 11, 2005.

B. <u>Vectren North Financing Program.</u> We find that the long-term debt and common equity that Vectren North will have outstanding pursuant to the Vectren North Financing Program described herein will bear a reasonable proportion to Vectren North's total capitalization and will be reasonable in aggregate amount, with due consideration given to the nature of Vectren North's business, credit, future prospects, earnings, and the effect that the issuance of such securities may have on the management and efficient operations of Vectren North. Vectren North's total outstanding capitalization, when adjusted for the Vectren North Financing Program, appears to be reasonable in relation to the total value of Vectren North's property and will not be in excess of the fair value of Vectren North's property used and useful for the convenience of the public.

We also find that the issuance of long-term debt and common and preferred stock pursuant to the Vectren North Financing Program is reasonably necessary for the purposes for which such securities may be authorized by the Commission and is in accordance with the provisions of the laws of the State of Indiana relating to the issuance of securities by public utilities. Further, we find that the proposed Vectren North Financing Program is in the public interest and is reasonably necessary in the operation and management of Vectren North's business so that Vectren North may provide adequate service and facilities. The Financing Program is consistent with what Vectren North has proposed in the past. It will refinance existing long-term debt at a lower cost. Vectren North also anticipates that the financing will be used for capital expenditures that will allow the Company to continue to provide safe, reliable service to its customers. Granting authority to Vectren North to enter into financial hedges allows it the possibility to lock in interest rates at lower costs. The combination of financial flexibility, lower cost debt, and financial hedges will result in a benefit to ratepayers in the form of lower financing costs.

Therefore, we authorize Vectren North to issue long-term debt and sell common or preferred stock and to enter into interest rate risk management transactions as described above and in Vectren North's Petition and evidence. We approve Vectren North's proposal with respect to the amortization, accounting, and ratemaking treatment applicable to issuance, early redemption, and interest rate risk management costs and the unamortized issuance costs associated with prematurely redeemed debt issues as described above. We also authorize Vectren North to continue to participate in multi-year credit facilities on the terms and subject to the limitations described in the Order in Cause No. 42888 dated October 26, 2005.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION THAT:

1. Vectren South is authorized, during the period from the effective date of this Order through December 31, 2014, to carry out and consummate the Vectren South Financing Program described above, including taking all steps contemplated in the Financing Program and entering into and executing appropriate agreements and instruments.

2. Vectren South is authorized to:

   a. issue, sell, and deliver up to $355,000,000 in aggregate principal amount of secured or unsecured long-term debt with fixed or variable interest rates;

   b. issue and sell additional common stock or preferred stock or a combination thereof in an amount not to exceed $120,000,000;

   c. enter into interest rate risk management transactions as described above and treat the costs of such transactions as debt costs to be amortized in the same way as the issuance costs related to the issue to which they apply;

   d. amortize the issuance costs associated with new long-term debt issued pursuant to the authority granted herein over the life of the new issue, to treat the costs associated with any early redemption of any outstanding long-term debt, including any premium and any unamortized issuance expense of any such prematurely retired issues, as debt costs to be amortized over the life of the refinancing issue, or if not refinanced with long-term debt, amortized over the original life of the debt being redeemed and to treat such costs for accounting and ratemaking purposes as described above; and

   e. continue to enter into multi-year credit facility agreements, the use of which will not reduce Vectren South's long-term debt authority provided in this or future financing Orders, provided any amounts borrowed thereunder are repaid within 365 days from the date of the borrowing.

3. The authority granted to Vectren South by this Order shall expire on December 31, 2014, to the extent it has not been utilized by that date. This Order is the sole evidence of our approval and shall constitute a certificate of authority granted to Vectren South as provided in Ind. Code § 8-1-2-80.

4. Vectren North is authorized during the period from the effective date of this Order through December 31, 2014, to carry out and consummate the Vectren North Financing Program described above, including taking all steps contemplated in the Financing Program and entering into and executing appropriate agreements and instruments.

5. Vectren North is authorized to:

a. issue, sell, and deliver up to $105,000,000 in aggregate principal amount of secured or unsecured long-term debt with fixed or variable interest rates;

b. issue and sell additional common stock or preferred stock or a combination thereof in an amount not to exceed $45,000,000;

c. enter into interest rate risk management transactions as described above and treat the costs of such transactions as debt costs to be amortized in the same way as the issuance costs related to the issue to which they apply;

d. amortize the issuance costs associated with new long-term debt issued pursuant to the authority granted herein over the life of the new issue, to treat the costs associated with any early redemption of any outstanding long-term debt, including any premium and any unamortized issuance expense of any such prematurely retired issues, as debt costs to be amortized over the life of the refinancing issue, or if not refinanced with long-term debt, amortized over the original life of the debt being redeemed and to treat such costs for accounting and ratemaking purposes as described above; and

e. continue to enter into multi-year credit facility agreements, the use of which will not reduce Vectren North's long-term debt authority provided in this or future financing Orders, provided any amounts borrowed thereunder are repaid within 365 days from the date of the borrowing.

6. The authority granted to Vectren North by this Order shall expire on December 31, 2014, to the extent it has not been utilized by that date. This Order is the sole evidence of our approval and shall constitute a certificate of authority granted to Vectren North as provided in Ind. Code § 8-1-2-80.

7. Each Petitioner shall file with the Commission under this Cause and serve on the OUCC a written report on each occasion when it exercises its authority to issue long-term debt, preferred stock, and common stock authorized by this Order. The report shall summarize the type and terms of the financing, including the effective interest rate of any new debt, and the nature and terms of any interest rate risk management transactions relating thereto. Further, within twelve (12) months after the date of the Order, and every twelve (12) months thereafter while the authority granted by this Order remains in effect, each Petitioner shall file with the Commission under this Cause and serve on the OUCC an annual report, which summarizes the extent to which it made short-term borrowings from VUHI pursuant to the Financial Services Agreement during the prior year and the range of interest rates applicable thereto, and shall

attach copies of any promissory notes signed by the respective Petitioner pursuant to the Agreement since the filing of the prior annual report.

8. This Order shall be effective on and after the date of its approval.

ATTERHOLT, BENNETT AND ZIEGNER CONCUR; MAYS NOT PARTICIPATING; LANDIS ABSENT:

APPROVED: JAN 16 2013

I hereby certify that the above is a true and correct copy of the Order as approved.

Brenda A. Howe

Brenda A. Howe
Secretary to the Commission