ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF WABASH VALLEY POWER ASSOCIATION, INC. FOR AUTHORITY TO ISSUE UP TO $100,000,000 IN PRINCIPAL AMOUNT OF DEBT SECURITIES TO BE COMPRISED OF PETITIONER'S SECURED FIRST MORTGAGE NOTES AND UNSECURED DEBT IN ANY COMBINATION AND TO USE THE PROCEEDS TO (a) PROVIDE SECURITY FOR LONG-TERM POWER PURCHASES, (b) PAYING THE INITIAL COSTS OF ITS CONSTRUCTION PROGRAM AND (c) GENERAL CORPORATE PURPOSES.	)	CAUSE NO. 44341 APPROVED: SEP 19 2013

ORDER OF THE COMMISSION

Presiding Officers:
James D. Atterholt, Chairman
David E. Veleta, Administrative Law Judge

On May 3, 2013, Wabash Valley Power Association, Inc., ("Petitioner" or "Wabash Valley") filed its Verified Petition with the Indiana Utility Regulatory Commission ("Commission") seeking approval to issue up to $100 million in principal amount of debt securities comprised of Petitioner's secured First Mortgage Notes and unsecured debt for the purpose of providing security for long-term power purchases, to pay the initial costs of its construction program and for general corporate purposes.

Pursuant to notice duly published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, a public hearing was held in this Cause at 1:30 p.m., on August 22, 2013, in Suite 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, the Petitioner presented the testimony of its witness, Jeff A. Conrad, Chief Financial Officer for Petitioner. The Indiana Office of Utility Consumer Counselor ("OUCC") appeared and presented the testimony of Stacie R. Gruca, a senior utility analyst in the Electrical Division of the OUCC's energy group. The testimony and exhibits of both Petitioner and OUCC were admitted into the record. No members of the general public appeared or sought to testify at the hearing.

Based upon the applicable law and the evidence herein, the Commission now finds:

1. Notice and Jurisdiction. Due, legal, and timely notice of the evidentiary hearing in this Cause was given and published by the Commission as required by law. Petitioner is a public utility within the meaning of the Public Service Commission Act, as amended, Indiana Code ch. 8-1-2. Petitioner requests authorization and approval for its proposed financing pursuant to Indiana Code §§ 8-1-2-76 through 8-1-2-81, and 8-1-2-83. Therefore, the Commission has jurisdiction over the Petitioner and the subject matter of this proceeding.

2. **Petitioner's Characteristics.** Petitioner is a mutual benefit corporation organized and existing pursuant to the Indiana Nonprofit Corporation Act, as amended with its principal place of business located at 722 North High School Road, Indianapolis, Indiana 46214. Pursuant to an order of this Commission in Cause No. 35091, on January 13, 1978, Petitioner was certified and authorized to operate as a public utility, including the authority to, among other things, serve as a power supplier to its members and to construct, own, and operate generation, transmission, and related plants and facilities.

3. **Proposed Financing Program and Purposes.** Petitioner requests authorization and approval in this Cause to issue up to $100 million in principal amount of debt securities comprised of Petitioner's secured First Mortgage Notes and unsecured debt for the purpose of providing security for long-term power purchases, to pay the initial costs of its construction program and for general corporate purposes. Mr. Conrad testified that Petitioner's primary purpose in seeking financing approval is to support its existing and future purchase power agreements ("PPAs") and that the PPAs have been Petitioner's primary means for satisfying its members' power supply energy needs and are an effective way to diversify its power supply portfolio while providing reliable power to its members. Mr. Conrad added that utilizing PPAs as a power resource means that Petitioner must be willing to accept and manage credit risk that accompanies PPAs.

Mr. Conrad explained that credit risk is the risk that a counter-party will default on a PPA or other transaction(s) with your company. To measure credit risk, a daily Mark-to-Market ("MtM") calculation is performed, which values the portfolio of transactions with the counterparty. MtM is the process by which a company takes an inventory of all future trades in the company's portfolio and places a current market value on each trade. This value compared to the notional value of the trade will disclose an unrealized "in the money" (profit) or "out of the money" (loss) on the trade. The cumulative MtM indicates the value of the entire portfolio of future trades. MtM is an essential risk management tool in that it helps to eliminate surprises resulting from volatility in the market price of a commodity.

Mr. Conrad testified that to minimize the counterparty credit risk, the utility industry has adopted a standardized contract for physical power purchases and sales referred to as the Edison Energy Institute ("EEI") contract. Similarly, financial transactions are executed under a standardized International Swaps Dealer Association ("ISDA"), agreement used within the industry. He testified these contracts, which are used by Petitioner and others in the utility industry, include language regarding counterparty credit limits and the ability to call on the counterparty to provide collateral security based on changes in the MtM valuation of the portfolio transactions with the counterparty. According to Mr. Conrad, the contract also includes language that provides for events of default if certain credit and collateral requirements are not met according to the terms of the contract. Changes in market prices compared to the contracted purchase price or a change in the financial condition of the company could trigger a margin call. A margin call is a request for additional credit support. He testified that margin calls assist Petitioner and others in the industry to limit their credit risk; however, a side effect of this feature is liquidity risk. Mr. Conrad testified that companies, including Petitioner, must have the liquidity necessary to meet potential margin calls and that this is the primary reason Petitioner is requesting authority to obtain an additional $100 million in credit facilities.

Mr. Conrad testified that the margin call exposure varies with each transaction. Transactions with longer terms and higher quantities of MWh's have more credit risk and margin call exposure. For illustration purposes, Mr. Conrad calculated the MtM exposure of a 100 MW around-the-clock five-year PPA, which is a typical transaction that Petitioner pursues for its members. Mr. Conrad testified that as shown in Exhibit JAC-2, if the market price moves downward by 35% relative to the fixed contract price, then Petitioner is "out of the money" by $49 million on this purchase. Assuming this was the only transaction, he testified that the counterparty would have the right to margin call Petitioner if the MtM amount exceeded Petitioner's credit limit as established in the contract and that per the contract, Petitioner has an established timeframe to meet the margin call, generally, three days. Mr. Conrad testified that a letter of credit from an acceptable financial institution or cash is used to satisfy the margin call and that if this margin call is not satisfied by the specified date, then the counterparty could declare Petitioner in default under the contract. He testified that a default may cause a cross-default in other contracts or loan agreements and would make it very difficult for Petitioner to purchase power in the market for its members.

Mr. Conrad testified that no electric utility, including Petitioner, wants to be short supply in a volatile power market. He testified that Petitioner has long executed a successful strategy of procuring its power supply needs well in advance of its load requirements by using PPAs that are a year or more in length. Long-term contracts in the portfolio help minimize price volatility to Petitioner's members that can be very extreme, particularly in the short-term markets. For example, Mr. Conrad testified that companies paid over $1,000 per MWh during certain periods in 1998 and 1999. Mr. Conrad further explained in another example, that within a twenty-four month span, the market price for a 2005 calendar year product increased by over 50%.

Mr. Conrad testified that long-term PPAs are effective at hedging price risk and fostering rate stability, which is of great importance to Petitioner's members. In recent times, he testified that market prices have been very depressed since the 2008 recession. For instance, he testified that during 2008 the forward market price for calendar year 2013 product was $60/MWh and more recently, this 2013 product could have been purchased at $30/MWh, a 50% drop in price over a span of 4 to 5 years. Mr. Conrad testified that this low price environment presents a special opportunity for Petitioner to secure long-term power supply for the benefit of its members. However, as Mr. Conrad testified, the bigger the transaction and the longer the term, the more credit risk and margin call exposure for Petitioner and its counterparty. Before executing new PPA transactions, Mr. Conrad testified that Petitioner believes it is prudent business practice to secure enough liquidity to withstand at least a 35% change in market prices and a one notch downgrade in its credit rating.

In Exhibit JAC-3, Mr. Conrad identified how Petitioner would use the credit facility for existing transactions and future transactions under different credit rating scenarios. Mr. Conrad included in his testimony an interim financing use of the facility for capital expenditures and the potential margin call exposure of natural gas price hedges.

Mr. Conrad further testified that Petitioner has a $100 million unsecured credit facility that was executed in March 2013 and that the National Rural Utilities Cooperative Finance Corporation ("CFC") was the lead arranger of this facility and holds $40 million. He testified that there are four other bank participants that each have a $15 million share in this 5 year syndicated facility. The facility includes a provision that allows Petitioner, subject to regulatory approval, to increase the facility up to $200 million in aggregate. Based on the oversubscription Petitioner received on the $100 million facility, Mr. Conrad believes an increase to $200 million could be achieved with little difficulty. Since any outstanding amount under this long-term facility would be considered debt, Mr. Conrad testified that Petitioner needs Commission approval before proceeding with an increase above the previously approved $100 million level received from the Commission in Cause No. 42738.

Mr. Conrad also testified as to other possible ways the $200 million credit facility might be used by Petitioner. Mr. Conrad testified that in 2009, Petitioner acquired 50% ownership in Holland Energy, which is a natural gas fueled combined cycle plant and that in 2012, this 627MW plant had a record year in output. He testified that the plant produced over 500,000 megawatt-hours for Petitioner which was 66% greater than the prior year and that gas plants, like Holland, have become much more economical to dispatch due to lower natural gas prices. Mr. Conrad testified that one of the consequences of a competitive natural gas unit is additional exposure to natural gas prices. To minimize Petitioner's exposure, he testified that it enters into financial natural gas transactions with other counterparties.

Mr. Conrad stated that like Petitioner's power supply agreements, the natural gas hedge is accompanied with the potential for margin calls. Any change in market prices compared to the contracted price or change in the financial condition of the company could trigger a margin call. This margin call assists Petitioner and others in the industry to limit its credit exposure. Conversely, Petitioner must have the liquidity necessary to meet potential margin calls related to these hedges. Mr. Conrad testified that this is another reason Petitioner is requesting authority to obtain an additional $100 million in credit facilities.

In addition, Mr. Conrad stated that the credit facility provides Petitioner an interim financing option on Board-approved capital projects until permanent financing is attained. Depending upon final Environmental Protection Agency ("EPA") regulations, Petitioner may see a significant increase in capital expenditures that exceed $100 million. To fund these environmental expenditures, Mr. Conrad testified that Petitioner would need to secure long-term financing. The additional credit facility capacity would allow Petitioner to minimize the number of long term financings, resulting in less financing transaction costs paid by Wabash.

Mr. Conrad testified that Petitioner has an A- credit rating with a stable outlook by Standard & Poor's ("S&P"). This credit rating has put Petitioner in a position to establish the current syndicated credit facility under favorable terms. In addition, Mr. Conrad testified that Petitioner has been able to capitalize on this favorable credit rating by acquiring long term low-cost financing and to negotiate higher collateral threshold limits with potential power suppliers. The higher threshold amounts limit Petitioner's potential margin call exposure which in turn reduces the amount of supplementary credit needed from its lenders.

Mr. Conrad testified that the credit rating has been extremely valuable for Petitioner and that the additional liquidity Petitioner is seeking in this proceeding will be viewed favorably by S&P. He testified that taking actions to improve or maintain its favorable credit rating is a benefit for its members and the ultimate customers.

Mr. Conrad testified that Petitioner's Board of Directors at its March 8, 2013, board meeting authorized management to petition the Commission for approval of the additional credit capacity. If Petitioner's request is approved, he testified that Petitioner would expand the existing unsecured facility and sign one or more promissory notes as necessary for a period not to exceed 5 years. Mr. Conrad testified the increased facility would create two primary cost changes. First, there would be doubling of the $125,000 facility fee Petitioner pays each year. Second, Petitioner would be charged interest expense for any borrowings made under this facility. At Petitioner's option, it could repay any borrowings prior to maturity.

Mr. Conrad testified that for study purposes, he assumed Petitioner borrowed the full capacity of the credit facility for a 5 year term. Based on market conditions as of April 26, 2013, Petitioner could borrow using the 6 month LIBOR at 1.43%. Because interest rates will change during the 5 year period, Mr. Conrad added some conservatism to his study and assumed a 2.00% interest rate throughout the study. These assumptions result in an additional $4.0 million of interest expense each year during the 5 year term and is reflected in Exhibit JAC-4.

Mr. Conrad testified that Petitioner is rate regulated by the Federal Energy Regulatory Commission ("FERC") and that Petitioner has an approved formula rate tariff with FERC that permits the recovery of interest expense, facility fees and any other expenses incurred. He testified that Confidential Exhibit JAC-5, which is a Pro Forma Income Statement, Balance Sheet, and Cash Flow Statement, includes the $200 million borrowing during the 5 year period of January 1, 2013 to December 31, 2017. He testified that Petitioner's Indenture of Trust requires a Times Interest Earned Ratio ("TIER") of 1.0 or greater and a Debt Service Coverage ("DSC") ratio of 1.10 or greater and that the Pro Forma Income Statement (Page 1 of Confidential Exhibit JAC-5) shows Petitioner exceeding the TIER and DSC requirements. Mr. Conrad testified that Confidential Exhibit JAC-6 shows the company's interest expense in detail including the incremental interest expense from the $200 million credit facility borrowing and the formula used to calculate the TIER and DSC ratios. He testified that Confidential Exhibit JAC-7 shows a detailed calculation of Petitioner's TIER and DSC.

Mr. Conrad concluded his testimony by stating that the cost of adding $100 million to the facility is $125,000 per year plus interest expense and that the downside risk of expanding this facility to $200 million is Petitioner paying an additional $125,000 each year for a facility it might not have to utilize. He testified that this would translate into a .02% increase to Petitioner's member rate. On the other hand, this added liquidity will provide significant upside for Petitioner and its members. Mr. Conrad testified that in this low cost power price environment, a $200 million credit facility would provide Petitioner greater capability to execute low-cost PPAs or natural gas hedges which will save millions dollars in power costs for its members.

4. **OUCC's Testimony.** Ms. Stacie R. Gruca, Senior Utility Analyst with the Indiana Office of Utility Consumer Counselor testified that she reviewed Petitioner's request for authority to issue up to an additional $100 million credit facility and that the OUCC has no concerns with Petitioner's proposed use of the credit facility. Ms. Gruca stated that in preparing for her testimony, she reviewed Petitioner's Petition, direct testimony and exhibits and Petitioner's responses to OUCC's informal discovery. Ms. Gruca testified that the items she specifically reviewed were the specified use of the credit facility; the benefit to members and ratepayers; the effect on credit rating; and the cost changes resulting from increased credit facility. She further testified that Petitioner's additional financing request would allow it to pursue additional PPAs and natural gas hedges to limit future credit and price risk. In addition, Ms. Gruca stated that the additional credit facility would provide Petitioner with the liquidity necessary to timely meet potential margin calls and thus avoid default and that a default would make it difficult for Petitioner to purchase power in the market. She further added that the credit facility would allow Petitioner to diversify its energy portfolio, procure power supply needs while reducing price volatility, and provide rate stability by means of fixed-price PPAs.

Ms. Gruca testified that the depressed market prices since the 2008 recession also present Petitioner with the opportunity to secure long-term power supply at a low cost. The additional credit would also provide interim financing of board approved capital projects which would minimize the number and cost of long-term financings by Petitioner.

Ms. Gruca testified that based on the S&P report noted in Mr. Conrad's testimony, Petitioner's request for additional liquidity is reasonable and that it would carry a little less liquidity compared to its peers. She continued by stating that the benefits mentioned in Mr. Conrad's testimony outweigh any potential cost or risk associated with the requested additional financing, and should Petitioner be denied its request and have to limit is portfolio approach, members and ratepayers could experience volatile prices and costly power.

In conclusion, Ms. Gruca testified that the OUCC supports and recommends the approval of Petitioner's request for authority to issue up to an additional $100 million credit facility (for a total of $200 million credit facility).

5. **Commission Discussion and Findings.** In this proceeding, Petitioner requested authorization to issue up to $100 million in principal amount of debt securities comprised of Petitioner's secured First Mortgage Notes and unsecured debt for the purpose of providing security for long-term power purchases, to pay the initial costs of its construction program and for general corporate purposes.

Based on the Commission's review of the evidence presented in this proceeding, we find that Petitioner's request is reasonable. Petitioner's proposed financing is consistent with prior financing authority and will limit Petitioner's future credit and price risk while at the same time providing Petitioner improved liquidity.

Therefore, based on the evidence of record, we find that Petitioner should be authorized to issue up to $100 million in principal amount of debt securities comprised of Petitioner's secured First Mortgage Notes and unsecured debt for the purpose of providing security for long-term power purchases, to pay the initial costs of its construction program and for general corporate purposes.

6. **Petitioner's Request for Confidentiality.** On May 6, 2013, Petitioner filed an Application for the Commission to find certain information filed in this Cause as confidential, and an Affidavit in support thereof seeking protection of certain financial and trade secret information ("Confidential Information"). The Presiding Officers in this Cause through Docket Entry determined that the information should be held as confidential by the Commission on a preliminary basis. In compliance with that Docket Entry, the confidential information was submitted to this Commission under seal. The Commission now finds that the confidential information constitutes confidential financial and trade secret information and should continue to be treated by the Commission as confidential, and not subject to public disclosure in accordance with Indiana Code § 5-14-3-4(a).

IT IS THEREFORE ORDER BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. Wabash Valley is authorized to issue up to $100 million in principal amount of debt securities comprised of Petitioner's secured First Mortgage Notes and unsecured debt for the purpose of providing security for long-term power purchases, to pay the initial costs of its construction program and for general corporate purposes.

2. The Confidential Information filed under seal by Wabash Valley in this Cause constitutes confidential financial and trade secret information and shall continue to be treated by the Commission as confidential and not subject to public disclosure.

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

ATTERHOLT, MAYS AND ZIEGNER CONCUR; BENNETT AND LANDIS ABSENT:

APPROVED: SEP 19 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