ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY FOR APPROVAL OF A CERTIFICATE OF AUTHORITY TO ISSUE BONDS, NOTES OR OTHER EVIDENCES OF INDEBTEDNESS IN AN AMOUNT NOT TO EXCEED $655,000,000 DURING THE PERIOD JULY 1, 2014 THROUGH DECEMBER 31, 2016.	)	**CAUSE NO. 44410** **APPROVED:** APR 30 2014

ORDER OF THE COMMISSION

Presiding Officers:
David E. Ziegner, Commissioner
Gregory R. Ellis, Administrative Law Judge

On October 23, 2013 Northern Indiana Public Service Company ("NIPSCO" or "Petitioner") filed with the Indiana Utility Regulatory Commission ("Commission") its Verified Petition ("Petition") in this Cause requesting the authority to issue bonds, notes, or other evidences of indebtedness in an amount not to exceed $655,000,000 during the period beginning July 1, 2014 through December 31, 2016. In conformance with Ind. Code § 8-1-2-79, the Petition was verified by Frank A. Shambo, Vice President of Regulatory and Legislative Affairs for NIPSCO and Robert E. Smith, Corporate Secretary for NIPSCO. Petitioner also prefiled the Direct Testimony and Exhibits of Mark S. Downing, Assistant Treasurer and Director of Credit Risk Management for NIPSCO on October 23, 2013. On January 24, 2014 the Indiana Office of Utility Consumer Counselor ("OUCC") prefiled the Testimony of Stacie R. Gruca, Senior Utility Analyst in the Electric Division. On February 6, 2014, NIPSCO prefiled the Rebuttal Testimony and Updated Debt Ratings Information of Mark S. Downing.

Pursuant to notice of hearing duly given and 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 at 1:30 p.m. on February 21, 2014 in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. The Petitioner and the OUCC were present and participated. The testimony and exhibits of both Petitioner and the OUCC were admitted into the record without objection. No members of the general public appeared or sought to testify at the hearing.

Having considered the evidence and being duly advised, the Commission now finds:

1. **Notice and Jurisdiction.** Due, legal and timely notice of the hearing in this Cause was given and published as required by law. Petitioner is a public utility as defined in Ind. Code § 8-1-2-1(a) and is an energy utility as defined in Ind. Code § 8-1-2.5-2. Petitioner is subject to the jurisdiction of this Commission in the manner and to the extent provided by

Indiana law, including Ind. Code § 8-1-2-76 to Ind. Code § 8-1-2-81, with respect to the issuance of debt. The Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. **Petitioner's Characteristics.** Petitioner is a public utility corporation organized and existing under the laws of the State of Indiana with its principal office and place of business at 801 East 86th Avenue, Merrillville, Indiana. Petitioner is engaged in rendering electric and gas public utility service in the State of Indiana and owns, operates, manages and controls, among other things, plant and equipment within the State of Indiana used for the generation, transmission, distribution and furnishing of such service to the public. Petitioner is a wholly-owned subsidiary of NiSource Inc., an energy holding company whose stock is listed on the New York Stock Exchange. NiSource Finance Corp. ("NFC"), a wholly-owned subsidiary of NiSource Inc., is a special purpose finance subsidiary of NiSource that engages in financing activities to raise funds for the business of NiSource and its subsidiaries.

Petitioner is authorized by the Commission to provide electric utility service to the public in all or part of Benton, Carroll, DeKalb, Elkhart, Fulton, Jasper, Kosciusko, LaGrange, Lake, LaPorte, Marshall, Newton, Noble, Porter, Pulaski, Saint Joseph, Starke, Steuben, Warren and White Counties in northern Indiana. NIPSCO provides electric utility service to over 457,000 residential, commercial, industrial, wholesale and other customers. Petitioner is authorized by the Commission to provide gas utility service to the public in all or part of Adams, Allen, Benton, Carroll, Cass, Clinton, DeKalb, Elkhart, Fulton, Howard, Huntington, Jasper, Kosciusko, LaGrange, Lake, LaPorte, Marshall, Miami, Newton, Noble, Porter, Pulaski, St. Joseph, Starke, Steuben, Tippecanoe, Tipton, Wabash, Warren, Wells, White and Whitley Counties in northern Indiana. Petitioner provides gas utility service to approximately 786,000 residential, commercial and industrial customers.

3. **Requested Relief.** NIPSCO seeks authorization to issue bonds, notes, or other evidences of indebtedness ("Notes") to NiSource Finance Corp. ("NFC Notes") or to unaffiliated parties in the external capital markets ("Market Notes") from time to time over the period beginning July 1, 2014 through December 31, 2016 (the "Financing Period") with maturities ranging from two to thirty years in an aggregate principal amount not to exceed $655,000,000 (the "Financing Plan").

4. **The Financing Plan.**

A. **Purpose of the Financing Plan.** Assistant Treasurer for NiSource Inc. and NIPSCO, Mark S. Downing, testified that NIPSCO will use the funds obtained through the Financing Plan as follows:

i. **Refinancing of various external and internal notes**. Mr. Downing testified that NIPSCO will discharge or lawfully refund its obligations under the following three external notes that will mature within the Financing Period with an aggregate settled par value of $130,000,000 and one internal NFC Note that will mature within the Financing Period with an aggregate settled par value of $137,500,000:

	Par Value
Pollution Control Bonds -	
Series A - 5.60% due November 1, 2016	$37,000,000
Series B - 5.60% due November 1, 2016	$47,000,000
Series C - 5.60% due November 1, 2016	$46,000,000
Intercompany Note -	
NIPSCO - 5.21 % due June 27, 2015	$ 137,500,000

ii. Financing of the Phase III Projects. Mr. Downing testified that NIPSCO will finance the construction, completion, extension, or improvement of its facilities, plant, or distributing system; namely, the flue gas desulfurization ("FGD") facilities and other projects for which NIPSCO requested a certificate of public convenience and necessity ("CPCN") in Cause No. 44012 ("44012 Projects"). He stated this will allow NIPSCO to comply with the Order in Cause No. 43969 which directs NIPSCO to finance, in aggregate, the 44012 Projects with at least 60% debt capital. In its September 5, 2012 Phase III Order in Cause No. 44012, the Commission issued to NIPSCO a CPCN to construct and install and approved NIPSCO's cost estimates for the following clean coal technology projects at NIPSCO's Michigan City Generating Station:

(1) Unit 12 Flue Gas Desulphurization ("FGD") Facility Addition - $239,000,000;
(2) Unit 12 Waterside Bypass SCR Reheat Project - $7,017,700; and
(3) Unit 12 Continuous Particulate Monitors - $375,000.

Mr. Downing testified that 60% of the aggregate cost estimate is $147,800,000. He stated the remaining 40% of the aggregate cost estimate of these projects is anticipated to be funded using retained earnings.

iii. Costs of ongoing capital requirements in support of NIPSCO's public service obligations and short term debt. Mr. Downing testified that NIPSCO is requesting authority to issue up to $239,700,000 which will be used in the normal course of NIPSCO's business for general capital requirements, service improvements, or to repay borrowings from the Money Pool. NIPSCO anticipates it will have general capital requirements and service improvements that touch every part of NIPSCO's electric and gas systems during the Financing Period. Specifically, Mr. Downing testified that on July 19, 2013, NIPSCO filed a petition for approval of a 7-Year Electric Plan for eligible transmission, distribution and storage system improvements pursuant to Ind. Code § 8-1-39-10(a) in Cause No. 44370. The 7-Year Electric Plan identifies approximately $1.073 billion of capital improvement projects on NIPSCO's electric transmission and distribution systems over the 7-year period, with projected annual amounts of $75,200,000 in 2014, $66,500,000 in 2015 and $158,900,000 in 2016. He also stated that on October 3, 2013, NIPSCO filed a petition for approval of a 7-Year Gas Plan for eligible transmission, distribution and storage system improvements pursuant to Ind. Code § 8-1-39-10(a) in Cause No. 44403. The 7-Year Gas Plan identifies approximately $713,000,000 of capital improvement projects on NIPSCO's gas transmission, distribution, and storage systems over the 7-year period, with projected annual amounts of $53,300,000 in 2014, $89,200,000 in 2015, and $109,400,000 in 2016.

iv. Other corporate purposes, including paying the issuance expenses related to the proposed new debt. Mr. Downing testified that as a general matter, NIPSCO finances capital improvements with long-term debt and equity. Consistent with this practice, Mr. Downing stated NIPSCO will finance 7-Year Electric Plan and 7-Year Gas Plan investments with long-term debt and equity, so NIPSCO will require additional debt capital during the Financing Period to help fund these significant investments.

B. <u>Description of the Financing Plan.</u> Mr. Downing testified that NIPSCO is requesting authority to secure up to $655,000,000 from the issuance of long-term NFC Notes or Market Notes. He stated that NIPSCO requests authority to issue Notes from time to time through the Financing Period with maturities ranging from two (2) to thirty (30) years. Mr. Downing testified that NIPSCO is requesting authority for a flexible Financing Plan with various options in order to provide NIPSCO with maximum financial flexibility, allow NIPSCO to obtain cost-effective and timely long-term financing, and allow NIPSCO to appropriately ladder its debt maturities and avoid high levels of refinancing risk in any particular year. He stated that flexible timing also allows NIPSCO to take advantage of favorable interest rates and market conditions as they arise.

Mr. Downing also testified NIPSCO intends to continue to file a petition approximately every two years to request authority to refinance any maturing long term debt, to fund ongoing capital requirements in support of NIPSCO's public service obligations, and to pay down short-term debt. He explained that in the past, NIPSCO filed petitions for certificates of authority to issue debt on a case-by-case basis, seeking authority to issue long-term notes for specific projects. He testified that regular financing petitions will allow NIPSCO the flexibility to proceed with greater speed to take advantage of favorable market conditions.

Mr. Downing testified that NIPSCO is requesting authority to issue Notes with various terms for several reasons: (1) issuing Notes with different terms will allow NIPSCO to appropriately ladder its debt maturities and avoid high levels of refinancing risk in any particular year; (2) NIPSCO generally prefers to match the financing term of a Note issued for a specific capital project with the life of the underlying asset; and (3) the Financing Plan envisions the issuance of multiple Notes for multiple purposes which each have different time horizons.

Mr. Downing explained that NIPSCO proposes to implement most of the Financing Plan by issuing either NFC Notes or Market Notes. He testified that NFC Notes would be unsecured and would be issued during the Financing Period. The NFC Notes will be issued for terms ranging from two (2) to thirty (30) years, will bear an interest rate that corresponds to the pricing being offered to companies with financial profiles similar to NIPSCO and will reflect market conditions at the time of issuance. The interest rate of the NFC Notes will be determined by the corresponding applicable Treasury yield (as reported in the Federal Reserve Statistical Release, H. 15 Selected Interest Rates (Daily)) effective on the date such NFC Note is issued, plus the yield spread on corresponding maturities for companies with a credit risk profile equivalent to that of NIPSCO (as reported by Reuters Corporate Spreads for Utilities) effective on the date such NFC Note is issued. For maturities not specifically referenced in the Statistical Release or Reuters, an interest rate will be calculated based upon a simple linear interpolation method. The Reuters Corporate Spread for Utilities report assigns yield spreads based on a company's Standard and Poor's ("S&P") and Moody's debt ratings. Mr. Downing testified that NIPSCO's senior unsecured debt is currently rated BBB- by S&P with a stable outlook and Baa2 by Moody's with a stable outlook. He testified that in a January 31, 2014 announcement, Moody's upgraded the ratings for NiSource Inc. (senior unsecured rating for its guaranteed financing vehicle to Baa2 from Baa3) and NIPSCO (senior unsecured and Issuer Rating to Baa1 from Baa2). To the extent that a split-rating shall occur between the respective S&P and Moody's ratings, the higher credit rating shall apply to the interest rate calculation methodology described above. He stated that NFC Notes will not reflect any mark-up by NFC. Mr. Downing testified that the Commission previously approved of this methodology by its November 28, 2012 Order in Cause No. 44191, NIPSCO's most recent long-term debt financing proceeding.

Mr. Downing testified that Market Notes would be issued in the external capital markets using one of four possible approaches: (1) a traditional public debt offering that would utilize a conventional Indenture of Trust; (2) a Rule 144A quasi-public debt offering that would also utilize an Indenture of Trust; (3) tax-exempt notes issued through the Indiana Finance Authority; or (4) a traditional private placement debt offering that would utilize a Note Purchase Agreement directly between NIPSCO and the note purchasers. He explained that if Market Notes are issued, the obligations would be evidenced by a promissory note and an Indenture of Trust, Note Purchase Agreement, or similar document, under terms mutually agreeable to NIPSCO and a qualified financial institution in conformity with generally accepted market conventions. He stated that the terms for the issuance of such Market Notes will be established through negotiated offerings in which NIPSCO will negotiate the terms of each offering with such underwriters, purchasers or agents. Market Notes would be issued on a senior unsecured basis for a term of between two (2) and thirty (30) years at either a fixed or variable rate.

Mr. Downing testified that the main factors NIPSCO will consider when selecting the type and maturity of Notes to be issued during the Financing Period include: (1) appropriately laddering NIPSCO's debt maturities to avoid high levels of refinancing risk in any particular year; (2) NIPSCO's general preference for matching the maturity of a Note with the life of the underlying asset; (3) market conditions; (4) overall cost effectiveness; and (5) the purpose for the Note and the associated time horizon.

5. <u>Summary of the OUCC's Evidence.</u> Stacie R. Gruca, Senior Utility Analyst in the Electric Division of the OUCC explained her review of NIPSCO's request and provided recommendations based on her review. Ms. Gruca testified that in preparing her testimony she reviewed the Verified Petition, the testimony and exhibits of Petitioner's witnesses, and reviewed Petitioner's responses to OUCC discovery questions. She explained NIPSCO's proposed use of debt proceeds and stated that this case deals only with financing and the OUCC reserves its right to review the details of specific construction projects in the appropriate proceedings. She stated that while the OUCC does not oppose NIPSCO's proposed methodology for determining the interest rate of the NFC Notes or the Market Notes, the OUCC recommends that NIPSCO's issuances pursuant to this authority be at a competitive, market rate regardless of whether NIPSCO borrows from an affiliate or an unaffiliated party in the external capital market. With respect to NIPSCO's proposed two (2) to thirty (30) years maturity of the debt, Ms. Gruca testified the OUCC believes that long-term debt typically has a maturity of up to thirty (30) years; therefore NIPSCO's request is reasonable.

In response to NIPSCO's proposed date by which authority to borrow funds would cease, Ms. Gruca testified the OUCC is not in favor of excessively long or open ended timeframes for authority to issue debt. She indicated the OUCC would typically suggest a twenty-four month period to be a reasonable timeframe; therefore the OUCC believes that an expiration date, in which authority to borrow funds would cease, of December 31, 2016 is reasonable.

Ms. Gruca testified the OUCC recommends that NIPSCO continue to provide a written report to both the OUCC and the Commission within fifteen days of issuance of NFC Notes or Market Notes that provides, at a minimum, the principal amount borrowed, the applicable interest rate(s), how the interest rate(s) was(were) determined, any collateral required, the term and intended purpose of the borrowing and any other pertinent repayment terms, as required by the Commission in Cause No. 44191. Further, she recommended that should NIPSCO's or NiSource's credit rating change or be updated in the future, the OUCC would also recommend NIPSCO provide credit reports for NIPSCO and NiSource showing such changes/updates at the time of its compliance report filings.

Ms. Gruca stated the OUCC recommends the Commission approve NIPSCO's requested Financing Plan, including the following Financing Plan conditions proposed by the OUCC: (1) NIPSCO's issuances pursuant to this authority shall be at a competitive, market rate; (2) NIPSCO shall provide a written report to both the OUCC and the Commission within fifteen days of issuance of NFC Notes or Market Notes that provides, at a minimum, the principal amount, applicable interest rate(s), how the interest rate(s) was(were) determined, any collateral required, term and intended purpose of the borrowing, and any other pertinent repayment terms; and (3) NIPSCO provides credit reports for NIPSCO and NiSource, should NIPSCO's or NiSource's credit rating change or be updated, at the time of its compliance report filing(s).

6. <u>Commission Discussion and Findings</u>. The record evidence shows the total effect of the proposed Financing Plan would be to increase NIPSCO's long-term debt by approximately \$362,737,000. The evidence further demonstrates the proposed Financing Plan will result in a total capitalization of \$3,441,981,000--an amount which is less than the fair value of Petitioner's property used and useful for the convenience of the public. Based on this evidence, we find the capital structure that will result from the Financing Plan is reasonable and that NIPSCO's total outstanding capitalization will not exceed the total value of NIPSCO's property.

The evidence demonstrates that the amount of debt that NIPSCO plans to issue through the Financing Plan does not exceed an amount that is reasonably necessary. NIPSCO is requesting authority to issue notes, primarily NFC Notes and Market Notes in an aggregate principal amount not to exceed \$655,000,000. This amount includes \$267,500,000 needed to refinance external and internal notes coming due during the Finance Period, 60% of the aggregate cost estimate for the Cause No. 44012 Phase III Projects—\$147,800,000, and \$239,700,000 to support NIPSCO's ongoing capital requirements in its normal course of business, service improvements, or to repay borrowings from the Money Pool. The proposed debt to be issued through the Financing Plan is reasonable in aggregate amount because it will allow NIPSCO to fulfill its obligation under the 43969 Order to finance the 44012 Projects with at least 60% debt capital, result in a reasonable overall capital structure, and support NIPSCO's ongoing provision of public utility service to its customers. Finally, the Financing Plan, including the aggregate amount requested, is consistent with NIPSCO's new practice of filing a petition with the Commission approximately every two years to request authority to refinance any long term debt coming due, fund ongoing capital requirements in support of NIPSCO's public service obligations, pay down short-term debt, and finance any known capital projects.

The record evidence shows that NIPSCO will use the funds obtained through the Financing Plan for several purposes: (1) to refinance various external notes maturing within the Financing Period; (2) to comply with the 43969 Order which orders NIPSCO to "finance, in aggregate, the projects for which it receives a CPCN in Cause No. 44012 with at least 60% debt capital"; (3) to fund or reimburse NIPSCO for the cost of ongoing capital requirements in support of NIPSCO's public service obligations and repay short term debt; and (4) for other corporate purposes, including paying the issuance expenses related to the proposed new debt. We find the proposed use of these funds is reasonable and consistent with Indiana law and should be approved.

Based upon our review of the evidence, we find that NIPSCO's Financing Plan is reasonably necessary in the operation and management of NIPSCO's business because it provides NIPSCO flexibility to secure cost-effective and timely long-term financing, appropriately ladder its debt maturities and avoid high levels of refinancing risk in any particular year, and take advantage of favorable interest rates and market conditions as they arise. We also find the OUCC's proposed Financing Plan conditions to be reasonable and in the public interest, noting that the OUCC would have the opportunity to review any rate base additions funded by the Financing Plan in a future rate proceeding as a party to the proceeding. We further note NIPSCO did not provide any testimony rebutting the OUCC's recommendations. We find NIPSCO's Financing Plan will support the provision of adequate service and facilities by financing, in part, clean coal technology projects that will allow NIPSCO to comply with federal and state environmental regulations. Therefore, the Commission finds the Financing Plan will serve the public interest and should be approved.

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

1. Petitioner shall be and is hereby granted authority to issue from time to time over the period beginning July 1, 2014 through December 31, 2016 up to $655,000,000 in aggregate principal amount in promissory notes and other evidences of indebtedness on terms consistent as set forth herein.

2. Petitioner shall be and is hereby issued a Certificate of Authority for the issuance of such securities.

3. Petitioner shall be and is hereby granted authority to execute such other

transaction documents and evidences of indebtedness as are necessary and appropriate to effectuate the issuance of such long term debt.

4. Petitioner's indebtedness shall be issued at a competitive, market rate.

5. Petitioner shall be and is hereby granted authority to use and apply the cash proceeds arising from the issuance of such long term debt for the purposes set forth herein.

6. Within fifteen (15) days of exercising any of the financing authority approved in this Cause, Petitioner shall file a report in this Cause which report shall state the principal amount borrowed, the applicable interest rate(s), how the interest rates(s) was (were) determined, any collateral required, the term of the borrowing and any other pertinent repayment terms, and, in the event that either NIPSCO's or NiSource's credit rating changes, credit reports for NIPSCO and NiSource.

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

ATTERHOLT, MAYS, STEPHAN, WEBER, AND ZIEGNER CONCUR;

APPROVED: APR 30 2014

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