

**ORIGINAL**

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF WABASH )  
VALLEY POWER ASSOCIATION, INC. FOR )  
AUTHORITY TO EXECUTE NOTES OF )  
INDEBTEDNESS UP TO \$100 MILLION PAYABLE AT )  
PERIODS OF MORE THAN TWELVE MONTHS FOR )  
THE PURPOSE OF FUNDING THE CONSTRUCTION )  
AND UPGRADING OF TRANSMISSION, )  
DISTRIBUTION AND GENERATION FACILITIES )  
AND GENERAL PLANT AND TO ENCUMBER ITS )  
PROPERTY TO SECURE THE INDEBTEDNESS )

CAUSE NO. 44465

APPROVED:

SEP 17 2014

ORDER OF THE COMMISSION

**Presiding Officers:**

**Angela Rapp Weber, Commissioner**

**Marya E. Jones, Administrative Law Judge**

On March 17, 2014, Wabash Valley Power Association, Inc. (“Petitioner” or “WVPA”) filed its Verified Petition with the Indiana Utility Regulatory Commission (“Commission”) seeking authority to execute notes of indebtedness up to \$100 million payable at periods of more than 12 months to fund construction and upgrading of transmission, distribution and generation facilities, and general plant, and to encumber its property.

On March 18, 2014, Petitioner prefiled the testimony and exhibits of Nisha A. Harke, Manager of Finance and Rates for WVPA. Also on March 18, 2014, Petitioner requested that the Commission find certain designated exhibits as confidential in accordance with Ind. Code § 8-1-2-29, Ind. Code ch. 5-14-3, and 170 IAC 1-1.1-4, which was granted on a preliminary basis by a docket entry dated March 27, 2014. On May 23, 2014, the Office of Utility Consumer Counselor (“OUCC”) prefiled the testimony of Crystal L. Thacker, Utility Analyst in the Electric Division. On May 29, 2014, Petitioner prefiled the rebuttal testimony of Ms. Harke.

The Commission held a public Evidentiary Hearing in this Cause on July 1, 2014, at 9:30 a.m. in Room 224 of the PNC Center, 101 W. Washington Street, Indianapolis, Indiana. The evidence of Petitioner and the OUCC was offered into the record without objection. No member of the public appeared at the hearing.

Having considered the evidence and applicable law, the Commission now finds:

**1. Notice of 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, Ind. Code ch. 8-1-2. Petitioner requests approval for its proposed financing and to encumber its property pursuant to Ind. Code §§ 8-1-2-78, -79, and -84(f). The Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

**2. Petitioner's Characteristics and Business.** Petitioner is a generation and transmission cooperative formed as a mutual benefit corporation organized and existing pursuant to the Indiana Non-Profit Corporation Act, as amended. Petitioner's principal place of business is located at 722 N. High School Road, Indianapolis, Indiana 46214. Pursuant to an order of the Commission issued 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. Petitioner serves as a power supplier to electrical cooperative distribution members.

**3. Proposed Financing Program and Purposes.** Petitioner requests authorization and approval in this Cause to execute promissory notes as evidence of indebtedness in amounts not to exceed \$100 million payable in terms of more than 12 months for the purpose of financing the construction and upgrading of transmission, distribution and generating facilities, and general plant, and to encumber its property to secure the payment of the indebtedness.

**4. Petitioner's Direct Evidence.** Ms. Harke testified that WVPA requests authorization to execute promissory notes as evidence of indebtedness for financing up to \$100 million for various capital projects, like: transmission and distribution projects that include substations and transmission lines and joint ownership projects with Duke Energy Indiana, Inc., Gibson Unit No. 5 improvements, Wabash River Unit No. 1 improvements, and capital investment for the demand response program. The project costs are expected to occur over a four-year time period from 2012 – 2015. She said these specific projects are presently budgeted, but other projects to serve the electric needs of its members may arise which could take priority over the identified list of projects.

Ms. Harke explained that the need for all transmission and distribution projects is driven by member system demand, timing requirements for serving load additions, and available alternatives which can change from time to time and result in need for other capital projects to take priority. Joint transmission system assignments can also impact Petitioner's capital budget, and the project financing costs requested in this Cause are the same type of expenditures needed to serve member load year after year. Ms. Harke also explained that the costs for several years of capital projects were bundled into a single financing filing instead of seeking Commission approval each year. She testified that Petitioner's Board of Directors approved the \$100 million of financing for capital projects on November 6, 2013, and authorized the filing of the Verified Petition.

Ms. Harke testified that Wabash Valley seeks authorization to finance all of the estimated capital costs up to \$100 million related to the capital projects through competitive lenders, like the National Rural Utility Cooperative Finance Corporation ("CFC"), CoBank, or private placement lenders. WVPA expects to finance \$25 million in 2014, \$25 million in 2015, and \$50 million in 2016. Petitioner intends to sign several promissory notes to finance these projects for up to 30 years at estimated interest rates of 5.1% for 2014, 5.7% for 2015, and 6.3% for 2016. Ms. Harke noted that the financing facility will likely be a multi-draw facility, and each note will have a different interest rate based on market conditions and the prevailing rate with the lending institution at the time of the draw. WVPA will seek to obtain the lowest cost financing for its members. Ms. Harke testified that in addition to obtaining a competitive interest rate from CFC and CoBank, WVPA, as a member of CFC and CoBank, will also receive patronage capital.

After the return of patronage capital and other interest rate discounts potentially available, the effective interest rate will be less than the stated interest rates in the promissory notes issued to these two lenders.

Ms. Harke testified that the annual debt service payments for all of the notes related to these capital projects will be approximately \$7.1 million based on an interest rate for 30 years of approximately 5.85% (the weighted average interest rate for 2014, 2015, and 2016), and an aggregate loan amount of \$100 million. The loans will be secured by property owned by WVPA through its Indenture of Trust. She also testified that WVPA's current rates will generate adequate revenues to repay the debt service obligations. She noted further that WVPA's Indenture of Trust requires a Times Interest Earned Ratio (TIER) of 1.0 or better, and a debt service coverage ratio of 1.15 or better. The minimum financial covenants of the Indenture of Trust will still be met with financing. Ms. Harke explained that any capital projects financed using long-term debt by WVPA also need to meet the requirements of its Indenture of Trust, and any notes issued require the authorization of the Trustee under the Indenture of Trust. She estimated that the first loan proceeds will be drawn in the fourth quarter of 2014 assuming WVPA receives the required approvals.

**5. OUCC's Evidence.** Crystal L. Thacker, Utility Analyst with the OUCC, testified that she reviewed WVPA's Petition, direct testimony, exhibits and responses to OUCC discovery requests, WVPA's credit report from Standard & Poor's ("S&P") credit rating agency, and WVPA's last two financing cases. Ms. Thacker testified that in conducting her analysis of WVPA's financing request, she paid particular attention to use of debt proceeds, financial position and interest rate expectations, and expiration date of requested financing authority. She testified that the OUCC accepts WVPA's proposed use of the debt proceeds. She noted that the scope of the financing case was limited to requesting financing authority and not the details of the specific construction projects.

Ms. Thacker testified that according to WVPA's discovery responses, WVPA obtained a quote for a 5.1% interest rate from one of its cooperative lenders and estimated that patronage reductions would reduce the rate by 0.35% to 4.75%. As of July 2013, S&P affirmed WVPA's "A-" long-term rating with a stable outlook and also indicated that WVPA's debt service coverage is better than required under its mortgage loan agreement. She said WVPA's estimated interest rates are reasonable. Ms. Thacker noted that this is a long timeframe and there will be movements in interest rates during this time period.

Ms. Thacker testified that WVPA did not provide a specific expiration date for the financing authority in this Cause, but expected to execute the notes in 2014, 2015, and 2016. Ms. Thacker proposed that approval of Petitioner's requested financing authority should expire on December 31, 2016. Ms. Thacker further recommended that the Commission approve Petitioner's requested financing program authority in this proceeding, with the following conditions: a) WVPA's issuances shall be at competitive market rates; b) An expiration date of December 31, 2016, shall be applied to the requested authority; c) WVPA shall provide a written report to both the OUCC and the Commission within thirty days of the issuance of debt, which 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 d) WVPA shall provide updated S&P credit reports if its credit rating changes.

**6. Petitioner's Rebuttal Evidence.** Ms. Harke disagreed that an expiration date of December 31, 2016, be applied to the financing authority WVPA requests. She said that applying an expiration date to WVPA's financing authority is not necessary and is not administratively efficient.

Ms. Harke explained that the timing and needs for Petitioner's capital projects change from time to time, and project delays could occur that are out of WVPA's control. These changes and delays could cause the financing costs to spill into future years. Ms. Harke testified that Wabash Valley's transmission and distribution projects, the largest portion of the financing requests in this Cause, are driven by member system demand and timing requirements for serving load additions. Thus, some projects originally proposed could be delayed at a member's request or substituted with more pressing projects depending on member needs.

Ms. Harke added that Ms. Thacker provided no rationale for the proposed condition. Any potential concerns should be minimized based on the fact that Petitioner is a member-owned cooperative and its customers are also its owners. Ms. Harke testified that the written reports submitted to the Commission and the OUCC will provide information regarding issuance, rates, and special terms until the requested authority is fully utilized, thereby addressing any concerns.

Ms. Harke had no objection to the other conditions recommended by the OUCC.

**7. Commission Discussion and Findings.** Petitioner requests Commission authorization to execute notes of indebtedness up to \$100 million payable at periods of more than 12 months for purposes of funding the construction and upgrading of transmission, distribution, and generation facilities and general plant and to encumber its property, consistent with Ind. Code §§ 8-1-2-79 and -84.

The OUCC recommended that the Commission approve WVPA's request, subject to the following conditions: a) WVPA's issuances shall be at competitive market rates; b) An expiration date of December 31, 2016, shall be applied to the requested authority; c) WVPA shall provide a written report to both the OUCC and the Commission within thirty days of the issuance of debt, which 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 d) WVPA shall provide updated S&P credit reports if its credit rating changes. WVPA agreed to the OUCC's conditions except for the application of the December 31, 2016 expiration date.

The Commission notes that the OUCC did not provide evidence in support of the imposition of an expiration date on WVPA's financing request. And, with respect to issues regarding its capital structure, WVPA is accountable to its members. Thus, we agree that an expiration date should not be applied to WVPA's financing request.

Based on the evidence in the record, we find WVPA's request for financing is in the public interest, reasonable, and necessary for operating the utility. Thus, WVPA is authorized to execute notes of indebtedness with a total value not to exceed \$100 million, payable at periods of more than twelve months for the purpose of funding the construction and upgrading of

transmission, distribution and generation facilities and general plant, and to encumber its property. The Commission's authorization is subject the OUCC's conditions, discussed above, except for the application of the December 31, 2016 expiration date.

8. **Confidentiality.** On March 18, 2014, 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 issued a docket entry determining that the Confidential 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 the 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 Ind. Code § 5-14-3-4(a).

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

1. Petitioner, Wabash Valley Power Association, Inc., is authorized to execute notes of indebtedness in an aggregate amount up to \$100 million payable at periods of more than twelve months for the purpose of funding the construction and upgrading of transmission, distribution and generation facilities, and general plant and to encumber its property to secure the indebtedness.

2. WVPA's issuances pursuant to this authority shall be at competitive market rates.

3. WVPA shall provide a written report to both the OUCC and Commission within thirty days of issuance of debt under this authority, which provides at a minimum the principal amount, applicable interest rates, how the interest rates were determined, any collateral required, the term and intended purpose of the borrowing, and any other pertinent repayment terms.

4. WVPA shall provide updated S&P credits reports if its credit rating changes while under this authority.

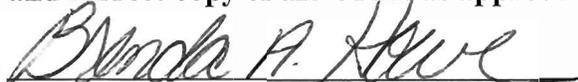
5. The Confidential Information filed under seal by WVPA constitutes confidential financial and trade secret information which shall continue to be treated by the Commission as confidential and not subject to public disclosure.

6. This Order shall be effective on or after the date of its approval.

**STEPHAN, MAYS, WEBER, AND ZIEGNER CONCUR:**

**APPROVED:** SEP 17 2014

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

  
**Brenda A. Howe, Secretary to the Commission**