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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA GAS COMPANY, INC. D/B/A )  
VECTREN ENERGY DELIVERY OF INDIANA, INC. FOR )  
AUTHORITY TO IMPLEMENT ITS 2015-2016 )  
FINANCING PROGRAM BY (1) ISSUING NOT TO )  
EXCEED \$125,000,000 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 \$80,000,000 )  
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. 44546

APPROVED: MAR 04 2015

ORDER OF THE COMMISSION

**Presiding Officers:**  
**James F. Huston, Commissioner**  
**Loraine L. Seyfried, Chief Administrative Law Judge**

On October 16, 2014, Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren North" or "Petitioner") filed with the Indiana Utility Regulatory Commission ("Commission") a Verified Petition for authority to carry out its financing program for the period beginning with the date of an order in this Cause through December 31, 2016.

Petitioner filed its testimony and exhibits on October 17, 2014. On December 19, 2014, the Indiana Office of Utility Consumer Counselor ("OUCC") filed its testimony and exhibits.

An evidentiary hearing was held at 9:30 a.m. on January 27, 2015 in Room 224, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC appeared and participated at the hearing. No member of the public appeared or sought to participate at the hearing.

Based upon applicable law and the evidence presented, the Commission 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 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 to -81, the Commission has jurisdiction over a public utility's issuance of stocks, bonds, and debt. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. **Petitioner's Characteristics and Business.** Vectren North is a public utility incorporated under the laws of the State of Indiana, with charter power and authority to engage in and is engaged in the business of rendering natural gas distribution service within the State of 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 578,000 customers in central and southern Indiana. Vectren North 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 Southern Indiana Gas & Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren South") and Vectren Energy Delivery of Ohio, Inc. ("VEDO").

3. **Petitioner's Capitalization and Outstanding Securities.** As of June 30, 2014, Vectren North's total capitalization amounted to \$723 million and consisted of long-term debt in the amount of \$328 million (including current maturities), common stock in the amount of \$259 million, and retained earnings in the amount of \$136 million. At that date, the long-term debt of Vectren North was represented by ten series of senior unsecured debt totaling \$116 million and six series of unsecured notes to VUHI totaling approximately \$212 million. A schedule showing the long-term debt was attached to Vectren North's Verified Petition as Exhibit A. As of June 30, 2014, Vectren North has no 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.** Vectren North requests authorization to carry out, from time to time, during the period from the effective date of this Order through December 31, 2016, a financing program ("Vectren North Financing Program") consisting of one or more of the following:

- issuing and selling not to exceed \$125 million in aggregate principal amount of long-term debt;
- issuing and selling additional common stock, preferred stock, or a combination thereof, for cash, for an aggregate sale price not to exceed \$80 million; and
- entering into one or more interest rate risk management transactions.

**5. Petitioner's Evidence.** Robert L. Goocher, Vice President and Treasurer of Vectren North, who also holds the same positions with VUHI, Vectren South, and VEDO, and is Treasurer and Vice President, Investor Relations for Vectren Corporation, testified about Petitioner's financing needs during the 2015-2016 period. He estimated Vectren North's external financing requirements for the 2015-16 period to be \$205 million. He said Vectren North has capital spending requirements for the 2015-16 period of approximately \$271 million, of which 40% to 60% is estimated to require external financing. Mr. Goocher testified that there are other potential refinancing requirements of \$25 million due to the maturity of outstanding VUHI long-term debt re-loaned to Vectren North. In addition, Vectren North has a \$5 million long-term debt issue that matures in March 2015, a \$5 million long-term debt issue that matures in December 2015, and a \$10 million long-term debt issue that also matures in December 2015.

Mr. Goocher 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 North will be determined at the time of each interest rate reset in accordance with the loan documentation or by Petitioner's remarketing agent, as applicable, based on the then-prevailing market and economic conditions.

Mr. Goocher discussed the benefits of the Financial Services Agreement with respect to the short-term financing needs of Vectren North. He said VUHI enters into multi-year credit facility agreements that allow it to borrow on a short-term basis and re-loan the proceeds to Vectren North, Vectren South, and VEDO (together, "Participants") in accordance with their needs and at the same rate VUHI pays for short-term debt. He said 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 testified that Petitioner requests authority to issue and sell additional common stock, preferred stock, or a combination thereof, for cash, for an aggregate sale price not to exceed \$80 million. Mr. Goocher stated that although it is unlikely Petitioner will issue preferred stock during the period of the Vectren North Financing Program, it 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 Program. 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.

Mr. Goocher testified that Petitioner also requests authority to enter into one or more interest rate risk management transactions, such as forward starting interest rate swaps, treasury rate locks, interest rate caps, collars, floors, and other derivative products. Mr. Goocher said these instruments are contractual agreements that will allow Petitioner 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.

Mr. Goocher also described how Petitioner proposes to treat issuance costs and interest rate risk management costs associated with new long-term debt issued.

6. **OUCC's Evidence.** Bradley E. Lorton, a Utility Analyst in the OUCC's Natural Gas Division, testified in support of Petitioner's request for financing authority. He stated that locking-in capital at a time when interest rate and bond yields are at historic lows is in the public interest and can provide savings to ratepayers. Mr. Lorton recommended that Vectren North's past practice of reporting to the Commission and the OUCC on the status of the Vectren North Financing Program be required to continue in this Cause.

7. **Commission Discussion and Findings.** Pursuant to Ind. Code §§ 8-1-2-78 to -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 stocks, bonds, notes, or other evidence of indebtedness, payable more than one year from the execution thereof. 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.

Pursuant to the Vectren North Financing Program described herein, Petitioner has proposed a financing program that includes issuance of new long-term debt, the sale of common and/or preferred stock, and entrance into one or more interest rate risk management transactions. Petitioner plans to issue some or all new long-term debt through the existing pooling arrangements with VUHI. Under the debt pooling arrangement, as described in prior Commission Orders and the Financial Services Agreement set forth in Attachment RLG-5 to Petitioner's Exhibit 1, the debt requirements of the Participants are pooled together, 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. *See, e.g., S. Ind. Gas Co., Inc.*, Cause No. 44226 (IURC Jan. 16, 2013). In accordance with the restated Financial Services Agreement, approved by the Commission's July 27, 2011 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 re-loans 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 on October 26, 2005 in Cause No. 42888 ("42888 Order").

Petitioner confirmed that long-term debt issued by VUHI on behalf of Petitioner will likely be in the form of unsecured notes and that debt issued directly to investors by Petitioner may be secured or unsecured.

Petitioner also confirmed that, if the Vectren North Financing Program is approved, then any additional common stock issued by Petitioner will be sold to VUHI. Petitioner will sell any preferred stock, for cash, either through public offerings or private placements to non-affiliated parties, or to VUHI. In the event VUHI sells its own preferred stock, some or all of the proceeds will be allocated to Petitioner.

Vectren North provided evidence that its actual capital structure as of June 30, 2014, and pro forma capital structure reflecting implementation of the financing program (adjusted for potential retirements of outstanding long-term debt) are as follows:

| <b>Description</b> | <b>Actual at 6/30/14</b> |              | <b>Adjusted For Financing Program</b> |              |
|--------------------|--------------------------|--------------|---------------------------------------|--------------|
|                    | <b>Amount</b>            | <b>Ratio</b> | <b>Amount</b>                         | <b>Ratio</b> |
| Long-Term Debt     | \$327,816                | 45.3%        | \$407,816                             | 46.2%        |
| Common Equity      | <u>\$395,409</u>         | <u>54.7%</u> | <u>\$475,409</u>                      | <u>53.8%</u> |
| Total              | \$723,225                | 100.0%       | \$883,225                             | 100.0%       |

*The dollars in the "Amount" columns are shown in thousands.*

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 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. Vectren North also anticipates that the financing will be used for capital expenditures that will allow the continued provision of safe, reliable service to its customers. Granting authority to Vectren North to enter into financial hedges also allows it the possibility to lock-in interest rates at lower costs.

Therefore, we authorize Vectren North to issue long-term debt, sell common and/or preferred stock, and enter into interest rate risk management transactions as described in Vectren North's Verified Petition and supporting 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 associated with prematurely redeemed debt issues. 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 42888 Order.

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

1. Vectren North is authorized during the period from the effective date of this Order through December 31, 2016, 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.

2. Vectren North is authorized:

- a. to issue, sell, and deliver up to \$125 million in aggregate principal amount of secured or unsecured long-term debt with fixed or variable interest rates;
- b. to issue and sell additional common stock, preferred stock, or a combination thereof, in an amount not to exceed \$80 million;
- c. to 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. to 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. to the extent necessary, 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.

3. The authority granted to Vectren North by this Order shall expire on December 31, 2016, 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.

4. 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, or 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 months after the date of the Order, and every twelve months thereafter while the authority

granted by this Order remains in effect, 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 Petitioner pursuant to the Agreement since the filing of the prior annual report.

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

**STEPHEN, MAYS-MEDLEY, HUSTON, AND ZIEGNER CONCUR; WEBER NOT PARTICIPATING:**

**APPROVED:**                      **MAR 04 2015**

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



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