

ORIGINAL



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 2015-2016 FINANCING PROGRAM)
BY (1) ISSUING NOT TO EXCEED \$140,000,000 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 \$70,000,000 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. 44547

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, Southern Indiana Gas & Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren South" 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 South is a public utility incorporated under the laws of the State of Indiana. It has charter power and authority to engage in and is engaged in the business of rendering electric service and natural gas distribution 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 143,000 customers and natural gas utility service to approximately 111,000 customers in southwestern Indiana. Petitioner 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 Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren North") and Vectren Energy Delivery of Ohio, Inc. ("VEDO").

3. **Petitioner's Capitalization and Outstanding Securities.** As of June 30, 2014, Vectren South's total capitalization amounted to \$1.43 billion and consisted of long-term debt in the amount of \$633 million, common stock in the amount of \$313 million, and retained earnings and accumulated other comprehensive income in the amount of \$482 million. At that date, the long-term debt of Petitioner was represented by ten series of first mortgage bonds totaling \$267 million and eight series of unsecured notes to VUHI totaling approximately \$365 million. A schedule showing the long-term debt was attached to Vectren South's Verified Petition as Exhibit A. As of June 30, 2014, Vectren South had 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 South requests authority 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 South Financing Program") consisting of one or more of the following:

- issuing and selling not to exceed \$140 million in aggregate principal amount of long-term debt;

- issuing and selling common stock, preferred stock (including tax deductible preferred stock), or a combination thereof, for cash, for an aggregate sale price not to exceed \$70 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 South, who also holds the same positions with VUHI, Vectren North and VEDO and is Treasurer and Vice President, Investor Relations for Vectren Corporation, testified about Petitioner's financing needs during the 2015-2016 period. Mr. Goocher estimated Vectren South's external financing requirements for the 2015-16 period to be \$210 million. He said Vectren South has capital spending requirements for the 2015-16 period of approximately \$245 million, of which 40% to 60% is estimated to require external funding. Mr. Goocher testified that there are potential refunding requirements of \$63 million of long-term debt issues that mature during the term of the proposed Vectren South Financing Program. He said that some or all of the new long-term debt issued pursuant to the Financing Program will be issued through the existing pooling arrangements with VUHI and will likely have maturities of five to forty years. Vectren South may also engage in tax-exempt financings. He said that 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 or tax-exempt debt issued by a governmental entity may be secured or unsecured.

Mr. Goocher described how the tax-exempt financing component of the Vectren South Financing Program would work. He testified 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 debt, should that be necessary to obtain the most advantageous terms. Mr. Goocher 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 only provide security for the payment of that amount. Mr. Goocher stated that the long-term tax-exempt debt will likely be issued with variable or fixed interest rates with the option to alter the interest rate mode in the future as provided in the new loan agreements.

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 South, including tax-exempt variable rate debt, 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 the Petitioner. 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 South, Vectren North, 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 VUHI and 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 (including tax-deductible preferred stock), or a combination thereof, for cash, for an aggregate sale price not to exceed \$70 million. Mr. Goocher stated that although it is unlikely Vectren South will issue preferred stock during the period of the Financing Programs, 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 Vectren South 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 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. He 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 Vectren South 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 Petitioner's past practice of reporting to the Commission and the OUCC on the status of the Vectren South 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 South 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 VUHL. 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 short and long-term 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 May 11, 2005 in Cause No. 42807 (“42807 Order”).

Petitioner confirmed that long-term debt issued by VUHI on behalf of Vectren South will likely be in the form of unsecured notes and that debt issued directly to investors by Petitioner or tax-exempt debt issued by a governmental entity may be either secured or unsecured.

Petitioner also confirmed that, if the Vectren South 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 South 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:

Description	Actual at 6/30/14		Adjusted For Financing Program	
	Amount	Ratio	Amount	Ratio
Long-Term Debt	\$632,716	44.3%	\$709,716	45.1%
Common Equity	<u>\$795,065</u>	<u>55.7%</u>	<u>\$865,065</u>	<u>54.9%</u>
Total	\$1,427,781	100.0%	\$1,574,781	100.0%

The dollars in the “Amount” columns are shown in thousands.

Vectren South’s capital structure includes tax-exempt financings. In tax-exempt financing, bonds are issued by a governmental entity and sold pursuant to a private placement or an underwriter, which will market the bonds in a public offering. The proceeds of the tax-exempt bond issue are deposited with a trustee and Vectren South borrows the deposited funds pursuant to a loan agreement between Vectren South and the governmental entity acting as the issuer. The terms upon which Vectren South repays the loan under the loan agreement will be the same as the terms applicable to the tax-exempt bonds. Vectren South repays the principal and interest to the trustee in accordance with the loan agreements and the trustee will use these funds to pay the bondholders.

We find that the long-term debt and common equity, including tax-exempt financings, 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 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. Vectren South 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 South to enter into financial hedges allows it the possibility to lock-in interest rates at lower costs.

Therefore, we authorize Vectren South to issue long-term debt, including tax-exempt long-term debt, sell common and/or preferred stock, and enter into interest rate risk management transactions as described in Vectren South's Verified Petition and supporting 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. 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 42807 Order.

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, 2016, 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:

- a. to issue, sell, and deliver up to \$140 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 \$70 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 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, 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 South 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