ORIGINAL

Commissioner	Yes	No	Not Participating
Huston	√		
Freeman	√		
Krevda	√		
Ziegner	√		

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF WESTFIELD GAS, LLC D/B/A CITIZENS GAS OF WESTFIELD FOR ALL NECESSARY AUTHORITY IN CONNECTION WITH THE: (1) ISSUANCE OF LONG-TERM DEBT SECURITIES IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED $4,000,000, AND (2) EXTENSION BY ONE ADDITIONAL YEAR AND UP TO $7,000,000 IN AGGREGATE PRINCIPAL AMOUNT OF DEBT IN THE FORM OF A REVOLVING CREDIT FACILITY	)	**CAUSE NO. 45668** **APPROVED: JUN 28 2022**

ORDER OF THE COMMISSION

Presiding Officers:
Stefanie N. Krevda, Commissioner
David E. Veleta, Senior Administrative Law Judge

On January 14, 2022, Westfield Gas, LLC d/b/a Citizens Gas of Westfield ("Westfield Gas" or "Petitioner") filed a Verified Petition ("Petition") with the Indiana Utility Regulatory Commission ("Commission") initiating this Cause. On the same date, Petitioner filed the testimony and exhibits of Jennifer M. Bailey, Petitioner's Treasurer, and Michael W. Bartone, Petitioner's Director of Gas Supply. Petitioner requests authority to issue Long-Term Debt Securities and to renew and increase an existing line of credit in the form of a Revolving Credit Facility (collectively, the "Proposed Financing Program" or "Program").

On March 25, 2022, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the testimony of Leja D. Courter, Chief Technical Advisor in the OUCC's Natural Gas Division.

On May 11, 2022, the Commission held an evidentiary hearing in this Cause at 1:30 p.m. in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC appeared and participated in the hearing by their respective counsel. The testimony and attachments of Petitioner and the OUCC were offered and admitted into the record without objection.

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

1. **Notice and Jurisdiction.** Notice of the hearing was published as required by law. Petitioner is a public utility as defined in Ind. Code § 8-1-2-l(a). Under Ind. Code §§ 8-1-2-76 through 8-1-2-81, the Commission has jurisdiction over a public utility's issuance of bonds, notes, or other evidence of indebtedness payable at periods of more than one year. Petitioner requests authority for the following Proposed Financing Program: (1) to issue Long-Term Debt Securities payable at periods not to exceed 30 years; and (2) to extend by an additional year and increase the total amount of its existing line of credit in the form of a Revolving Credit Facility, that is, a form of indebtedness the total term of which exceeds one year. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. **Petitioner's Characteristics.** Petitioner is a limited liability company organized and existing under Indiana law, with its principal office located at 2020 North Meridian Street, Indianapolis, Indiana 46202. Petitioner owns, operates, manages and controls plant, property, and equipment used and useful to provide natural gas utility service to approximately 5,500 customers in and around the City of Westfield, Indiana.

3. **Relief Requested.** Petitioner sought a certificate of authority to issue and to sell through December 31, 2022, up to the amount of $4,000,000 in aggregate principal amount of Long-Term Debt Securities with the following characteristics: (1) a term not to exceed 30 years; (2) an interest rate based on current market conditions at the time of issuance, but not to exceed 8% at the time of issuance; and (3) accompanied by interest rate and anticipatory interest rate hedging transactions (collectively "Interest Rate Hedges") to reduce and manage interest costs.

Petitioner also seeks a certificate of authority to extend and increase its existing line of credit up to an aggregate principal amount of $7,000,000 in the form of a Revolving Credit Facility with a third-party commercial banking entity. The line of credit would have the following characteristics: (1) extension of the current maturity date by one year to March 30, 2025 (the existing revolving credit facility expires on March 30, 2024), and; (2) variable interest rate, although it will likely consist of both a fixed component and a variable component, and it will be at competitive market rates determined by negotiation between Petitioner and a third-party commercial banking entity; and (3) any initial rate of interest on the revolving debt at market rates not to exceed 8% at the time of commitment.

Finally, Petitioner seeks a final determination that certain confidential information it has submitted in connection with this proceeding is exempt from public disclosure and access under Ind. Code §§ 8-1-2-29, 5-14-3-4 and 170 IAC 1-1.1-4.

4. **Evidence of the Parties.** Jennifer M. Bailey, Petitioner's Treasurer, testified in support of Petitioner's request for authority to sell up to $4,000,000 of Long-Term Debt Securities for a period not to exceed 30 years and to extend its line of credit up to $7,000,000, in the form of an increased Revolving Credit Facility (up from the current limit of $4,000,000), for an additional year until March 30, 2025.

Ms. Bailey testified that Petitioner's current long-term debt financing was approved on January 27, 2021, per the Commission's Order in Cause No. 45409. Ms. Bailey testified that Petitioner had, as of March 15, 2021, the full $4,000,000 of its current revolving credit facility accessed. Currently, the total outstanding balance will come due by March 30, 2024, when the revolving credit facility expires.

Ms. Bailey described Petitioner's proposed Long-Term Debt Securities, which are expected to have an interest rate that will be based on current market conditions at the time of issuance, but not to exceed 8%. Ms. Bailey explained that the maturity date goal of the Long-Term Debt Securities is not exceeding 30 years, with limited or no anticipated amortization. Ms. Bailey stated that Petitioner will pay annual debt service equal to the interest on the borrowing and limited or no principal payments until maturity, and upon maturity, the principal amount outstanding may be refinanced. Ms. Bailey also stated that the Long-Term Debt Securities will be sold as tax-exempt revenue bonds, meaning the debt will be secured by Petitioner's net revenues.

Ms. Bailey explained that the proceeds from the Long-Term Debt Securities will be used to repay the amount borrowed under the existing Revolving Credit Facility. Ms. Bailey testified Petitioner is proposing to issue the Long-Term Debt Securities in one series, by no later than December 31, 2022.

Ms. Bailey noted, with respect to the Long-Term Debt Securities, Petitioner may agree to restrictive covenants customary of market standards. Additionally, to reduce and manage interest costs, Petitioner may utilize Interest Rate Hedges. Ms. Bailey stated Petitioner is seeking authority to enter into such Interest Rate Hedges in this proceeding. Ms. Bailey explained that the objective of any Interest Rate Hedges would be to secure low but also effectively fixed interest rates, if fixed rates are not otherwise available. Ms. Bailey also testified that Petitioner uses industry best practices and techniques to evaluate the efficiency of its hedging strategy, considering a variety of risks prior to entering into any Interest Rate Hedges, and accounts for the resulting strategy in accordance with Generally Accepted Accounting Principles. Ms. Bailey testified that in her opinion, the proposed interest rate and other terms of the Long-Term Debt Securities are reasonable.

Ms. Bailey testified the terms of the proposed extended Revolving Credit Facility are expected to be substantially the same as the terms of Petitioner's existing Revolving Credit Facility. However, Petitioner requests authority to seek a limit of $7,000,000, which is more than the limit of $4,000,000 currently authorized.

Ms. Bailey stated the proposed Revolving Credit Facility would have a variable interest rate, likely consisting of both a fixed component and a variable component, and at competitive market rates determined by negotiation between Petitioner and a third-party commercial banking entity. Ms. Bailey stated that any initial rate of interest on the Revolving Credit Facility will not exceed 8% at the time of commitment. She also noted that Petitioner may agree to covenants in connection with the Revolving Credit Facility that are reasonable and customary.

Ms. Bailey testified that, given the unavailability of a London Interbank Offered Rate ("LIBOR") benchmark rate, the Federal Reserve Board, the Office of the Comptroller of the Currency and the FDIC have given banks and borrowers guidance to determine the best option for lending. Ms. Bailey stated that, at this time, it appears an appropriate alternative reference rate will apply to the extended Revolving Credit Facility, through the end of its term. Ms. Bailey testified that a credit sensitive rate such as Bloomberg Short-Term Bank Yield Index, or another commercially accepted alternative benchmark rate, is the most likely option at this time. She explained that banks and borrowers will determine the appropriateness of the index based on funding cost and customer needs, and although it is anticipated the replacement benchmark may diverge from the LIBOR rate, there is sufficient market data to compare rates in order to ensure a comparable borrowing cost.

Ms. Bailey described Petitioner's actual capital structure. She stated that, in her opinion, Petitioner's current capital structure is reasonable, and will continue be reasonable and in the public interest after giving effect to the proposed financings.

Ms. Bailey stated that Petitioner plans to use the Revolving Credit Facility for internal working capital purposes, including day-to-day operating needs and construction work-in-progress. She testified that the Revolving Credit Facility ensures Petitioner has adequate liquidity and allows for simultaneous construction of multiple projects. She stated that she considers the Program to be in the public interest and reasonably necessary in the operation and management of Petitioner's business for Petitioner to provide adequate and reliable service and facilities.

Michael W. Bartone, Petitioner's Vice-President, testified in support of the Proposed Financing Program. Mr. Bartone described Petitioner's current capital investments and its projected capital needs through 2025. Mr. Bartone explained why meeting those needs through a strategy that includes the Proposed Financing Program is essential for Petitioner to continue to provide adequate and reliable natural gas service to its customers.

Mr. Bartone testified that since Petitioner's last financing proceeding in Cause No. 45409, which concluded in January 2021, Petitioner has made in excess of $2.7 million in capital investment. He testified that this largely has been driven by the significant growth in the Westfield service area. Mr. Bartone stated that Petitioner forecasts capital expenditures of $2.2 million taking place in fiscal year 2023 (which commences on October 1, 2022), with similar forecasts for each of fiscal years 2024 and 2025. Mr. Bartone testified that approximately $1.9 million of the improvements in fiscal year 2023 are projected for necessary upgrades to Petitioner's distribution system, consisting of investments for construction of new mains and services for new customers. Mr. Bartone stated that such investment in Petitioner's distribution system will continue in fiscal years 2024 and 2025, for a projected 300 to 400 new residential customers and businesses expected to connect to the system each year.

Mr. Bartone stated that, in his opinion, the improvements to Petitioner's gas system are necessary for Petitioner to continue providing adequate and reliable gas service in and around the growing City of Westfield. Specifically, the investments proposed are necessary to ensure Petitioner's facilities are adequately maintained, and to replace facilities at the end of their useful life, according to Mr. Bartone. He testified the capital improvements will become used and useful in providing gas service to customers, as they are individually completed and placed into service.

Mr. Bartone explained that other needs are also driving Petitioner's request for an increase and extension of its current Revolving Credit Facility. He testified that recent volatility in the natural gas markets has emphasized the need for Petitioner to have sufficient working capital in scenarios of rapid and substantial gas price fluctuations, such as was experienced last year in February 2021. During that time, a significant expenditure of funds by Petitioner was necessary in order to procure incremental natural gas supply, the cost of which Petitioner elected to collect over a 24-month period to lessen the burden on its customers. Mr. Bartone explained that Petitioner entered into various transactions to acquire natural gas storage services and wholesale gas sales from Citizens Gas (in conjunction with the Commission's final Order in Cause No. 45577), which was done to further protect Petitioner and its customers from gas market volatility. According to Mr. Bartone, procuring such storage helps Petitioner manage its costs despite sometimes unpredictable and adverse conditions. However, the purchase of such storage services, while ultimately beneficial to and in the best interest of Petitioner's customers, requires adequate liquidity, explained Mr. Bartone. For such purposes, he explained, the requested extended and increased revolving credit facility is particularly useful. Mr. Bartone concluded his testimony by recommending that the Commission authorize the Petitioner's Proposed Financing Program.

Leja D. Courter, Chief Technical Advisor with the OUCC's Natural Gas Division, recommended the Commission grant Petitioner authority to issue the proposed debt, subject to certain reporting requirements and conditions. He summarized the relief being sought by Petitioner, including authority to use Interest Rate Hedges in connection with the Program. Mr. Courter expressed his approval with respect to Petitioner's request for authority to utilize Interest Rate Hedges. He stated the primary reason for using such hedging would be to obtain low, effectively fixed interest rates, if Petitioner were unable to do so directly through the capital market (if the market views Petitioner as too much of a credit risk). He stated Petitioner has not previously acquired long-term debt through the capital markets.

He cited Ms. Bailey as saying that the long-term debt securities sought by Petitioner will have a term not exceeding 30 years, and an interest rate not exceeding 8%. He explained Petitioner intends to sell the long-term debt securities as either tax-exempt or taxable revenue bonds as determined by market conditions. Mr. Courter noted the proceeds from the long-term debt securities will be used by Petitioner to re-pay the amount borrowed under the revolving credit facility. He stated Petitioner's current revolving credit facility is booked as long-term debt in the amount of $4,000,000, and since Petitioner will use the $4,000,000 long-term debt proceeds to pay off the current revolving credit facility, the long-term debt portion of Petitioner's capital structure will not change if Petitioner's request for debt financing is approved.

Mr. Courter evaluated whether Petitioner has sufficient net revenues to repay the proposed long-term debt obligation, given that Petitioner would pledge its net revenues and accounts receivable as collateral for the amounts borrowed. Mr. Courter concluded Petitioner's testimony, in which Petitioner explained it will pay annual debt service equal to the interest on the borrowing and limited or no principal until maturity, shows Petitioner has sufficient funds to make annual interest payments on the proposed debt.

Mr. Courter explained Petitioner will use the revolving credit facility funds for internal working capital needs, including day-to-day operating needs and construction work-in-progress needs. He also noted Petitioner provided detail of its expected capital improvements to its natural gas system through 2025.

Mr. Courter also recommended Petitioner comply with a reporting requirement, as follows: Provide a written report to both the Commission and OUCC within thirty (30) days of incurring/issuing the debt, and the report should include all the terms of the debt, including the amount and use of the debt, maturity period, interest rate, hedging costs, premium/discounts, issuance expenses, collateral details, repayment terms, and any other terms.

Subject to the foregoing, Mr. Courter recommended the Commission approve Petitioner's proposed financing authority.

5. <u>Commission Discussion and Findings</u>. Pursuant to Indiana Code §§ 8-1-2-76 through 8-1-2-81, the Commission has the authority, after consideration of all information that may be relevant or required, to investigate and approve or disapprove a proposal by a public utility to issue bonds, notes, or other evidence of indebtedness payable at periods of more than one year. The Commission must determine whether the proposed issue is in the public interest in accordance with the laws addressing the issuance of securities by public utilities and whether the proposed issuance 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 Ind. Code § 8-1-2-78, the Commission may approve requested issuances to the extent required for the following: obtaining sufficient funds for: (1) the acquisition of property, material, or working capital; (2) the construction, completion, extension, or improvement of facilities, plant, or distributing system; (3) the improvement of its service; (4) the discharge or lawful refunding of its obligations; and (5) the reimbursement of its treasury as provided under Ind. Code § 8-1-2-78(e). Based on the evidence presented, Petitioner's plan to use the funds obtained through the Proposed Financing Program to refund outstanding debt of Petitioner, for day-to-day operating needs, for construction-work-in-progress needs, and to fund ongoing capital needs, is reasonable, supported by sufficient evidence, and in the public interest. The Commission finds that these purposes comply with the purpose requirements of Ind. Code § 8-1-2-78. We also find that Petitioner's Proposed Financing Program is reasonably necessary in the operation and management of Petitioner's business. Thus, we find the proposed uses of these funds will serve the public interest and Petitioner's requested financing should be approved.

Ms. Bailey testified that the Long-Term Debt Securities will have a term not to exceed 30 years, and the interest rate will be based on current market conditions at the time of issuance, but not to exceed 8% at issuance. Ms. Bailey also testified that the Long-Term Debt Securities will be accompanied by Interest Rate Hedges to reduce and manage interest costs. The proposed Revolving Credit Facility will have a variable interest rate, likely consisting of both a fixed component and a variable component, and at competitive market rates determined by negotiation between Petitioner and a third-party commercial banking entity. Ms. Bailey stated that any initial rate of interest on the Revolving Credit Facility will not exceed 8% at the time of commitment and Petitioner may agree to covenants in connection with the Revolving Credit Facility that are reasonable and customary. Based upon our review of the evidence, we also find that the terms and conditions of the Proposed Financing Program are reasonable. Thus, Petitioner's Proposed Financing Program should be approved.

Pursuant to Ind. Code § 8-1-2-79, Petitioner properly filed with the Commission a verified Petition and set forth the required description of the utility's proposed financing. Petitioner also provided evidence regarding the current capital structure of the utility. Ms. Bailey testified that, in her opinion, the capital structure is and will continue to be reasonable. Mr. Courter noted the long-term debt portion of Petitioner's capital structure will not change if Petitioner's request for debt financing is approved. Thus, we find the resulting capital structure is reasonable. We also find that Petitioner is financially capable of paying the interest obligations proposed for the long-term debt securities it intends to issue, out of its net revenues and accounts receivable.

Pursuant to Ind. Code § 8-1-2-80(b), the Commission has authority to impose conditions upon a public utility issuing securities as the Commission deems reasonable. The OUCC's proposed conditions as provided herein are deemed reasonable; the Commission's approval is subject to Petitioner's compliance with the OUCC's proposed conditions.

Therefore, we authorize Petitioner to issue Long-Term Debt Securities in one series with an aggregate principal amount of up to $4,000,000 through December 31, 2022, with an expected interest rate based on current market conditions at the time of issuance, but not to exceed 8%. We further authorize Petitioner to enter into Interest Rate Hedges to reduce and manage interest costs with respect to the Long-Term Debt Securities. In connection with its issuance of the Long-Term Securities or closing on any Interest Rate Hedging Transaction, Petitioner shall comply with the reporting requirements recommended by OUCC witness Mr. Courter.

We further authorize Petitioner to secure a one-year extension for its Revolving Credit Facility, a line of credit, up to an aggregate principal amount of $7,000,000, through March 30, 2025, at competitive market interest rates and according to the terms discussed above.

6. Confidential Information. On January 24, 2022, the Presiding Officers made a preliminary finding that certain designated evidentiary material, as requested in Petitioner's amended motion for protection, should be treated as confidential in accordance with Ind. Code §§ 8-1-2-29 and 5-14-3-4, and that confidential procedures should be followed with respect to this Confidential Information. Upon review of the Confidential Information submitted and specifically designated pursuant to the Presiding Officers' preliminary determination, the Commission confirms its prior preliminary finding. The Commission concludes that the material for which Petitioner sought confidential treatment in its amended motion for protection contains confidential, proprietary and sensitive information. It should be protected from being known to, or ascertainable by the general public. The Commission finds that the public disclosure of such information would have a substantial detrimental effect on Petitioner, and that the information is subject to Petitioner's efforts to maintain its secrecy that are reasonable under the circumstances. Accordingly, the Confidential Information submitted to the Commission is exempt from the public access requirements of Ind. Code §§ 5-14-3-1, *et seq.*, and 8-1-2-29, and shall continue to be held as confidential by the Commission.

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

1. Petitioner is authorized, during the period from the effective date of this Order through December 31, 2022, to carry out and consummate the issuance of Long-Term Debt Securities up to an aggregate principal amount of $4,000,000 on terms described above, including entering into and executing appropriate transaction documents and evidence of indebtedness in order to effectuate the issuance of the indebtedness.

2. Petitioner is authorized to utilize Interest Rate Hedges on the Long-Term Debt Securities as proposed in its case-in-chief.

3. Petitioner is authorized to secure an extension for one (1) year of its Revolving Credit Facility up to an aggregate principal amount of $7,000,000 on the terms described above, through March 30, 2025, including entering into and executing appropriate transaction documents and evidence of indebtedness in order to effectuate the line of credit.

4. This Order is the sole evidence of our approvals and shall constitute certificates of authority granted to Petitioner as provided in Indiana Code § 8-1-2-80.

5. Petitioner's indebtedness shall be issued at a competitive, market rate, not to exceed 8%.

6. Within thirty (30) days of closing on newly-approved debt, Petitioner shall file a report with the Commission and serve a copy on the OUCC, explaining the terms of the new debt, including the amount and use of the debt, maturity period, interest rate, hedging costs, premium/discounts, issuance expenses, collateral details, repayment terms, and any other terms.

7. The information filed in this Cause pursuant to the *Motion for Protection* under Ind. Code § 5-14-3-4 is exempt from public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.

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

<u>HUSTON, FREEMAN, KREVDA, AND ZIEGNER CONCUR:</u>

APPROVED: JUN 28 2022

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

Dana Kosco

Digitally signed by Dana Kosco
Date: 2022.06.28 14:19:20 -04'00'

Dana Kosco
Secretary of the Commission