

FILE



**Public Utilities  
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May 27, 2016

Docketing Division  
Public Utilities Commission of Ohio  
180 East Broad Street  
Columbus OH 43215

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PUCO

RE: *In the Matter of the Application of Vectren Energy Delivery of Ohio for Authority to long-term debt, issue and sell common and/or preferred stock, receive equity infusions and enter into interest rate risk management transactions.*

Dear Docketing Division:

Enclosed please find Staff's Review and Recommendation in regard to the application of Vectren Energy Delivery of Ohio for authority to issue securities as described above in Case No. 16-0572-GA-AIS.

Doris McCarter

Division Chief, Forecasting, Markets and Corporate Oversight  
Rates and Analysis Department  
Public Utilities Commission of Ohio

Enclosure

Cc: Parties of Record

This is to certify that the enclosed is a true and accurate and complete reproduction of a case file document delivered in the regular course of business.  
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BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren	)	
Energy Delivery of Ohio, Inc. for Authority to	)	
Issue Long-Term Debt, Issue and Sell	)	Case No. 16-0572-GA-AIS
Common and/or Preferred Stock, Receive	)	
Equity Infusions, and Enter into Interest Rate	)	
Risk Management Transactions.	)	

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**Staff Review and Recommendation**

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**APPLICATION DESCRIPTION:**

On March 16, 2016, Vectren Energy Delivery of Ohio ("VEDO") filed its application and exhibits ("Application"), pursuant to Ohio Revised Code sections 4905.40 and 4905.41, requesting Public Utilities Commission of Ohio ("Commission") authorization through June 30, 2017 to: a) issue long-term debt ("Debt"), b) issue and sell additional common or preferred stock (including tax-deductible preferred stock or similar hybrid securities) (collectively, "Stock"), c) receive equity infusions, and d) enter into interest rate risk management transactions.

The Debt would: a) not exceed \$70 million in aggregate principle amount, b) have a maturity not to exceed 40 years, c) have a fixed or variable annual interest rate not to exceed 7.0%, d) be issued and sold for cash at not less than 95% of the face amount, and e) other conditions listed in the Application.

The aggregate sale price of the Stock will not exceed \$75 million and will be subject to the conditions set forth in the Application.

**REVIEW AND ANALYSIS:**

VEDO is a subsidiary of Vectren Utility Holdings, Inc. (VUHI), which in turn, is a wholly owned subsidiary of Vectren Corporation, an energy holding company and ultimate parent company of VEDO. VUHI secures funding from capital markets for its three regulated utility subsidiaries: Indiana Gas Company, Southern Indiana Gas & Electric Company and VEDO. VUHI provides short-term loans, long-term borrowings and cash management services for its subsidiaries. VUHI may also periodically finance the acquisition of assets to provide shared services requested by its subsidiaries. VEDO's obligations to VUHI are several and not joint and are therefore limited to

the amounts that reflect VEDO's borrowings from VUHI. However, VEDO, together with the other utility operating subsidiaries of VUHI, has entered into joint and several guarantees of all material indebtedness of VUHI to third parties incurred by VUHI on behalf of its subsidiaries. As part of the financing agreement, VUHI is prohibited from pledging the assets of its utility operating subsidiaries. VUHI's A2 rating from Moody's and A- rating from Standard & Poor's reflect the subsidiaries' guarantee.

Debt and Stock would be issued according to the terms described in the Application. VUHI lends funds to VEDO on the same terms (including maturity and interest rates) that it obtains in the marketplace. VUHI's debt issuances include legal and underwriting fee expenses which are passed on to VUHI's subsidiaries. Allocation of expenses are described in the Financial Services Agreement filed with the Application. The pooling of debt by VUHI's subsidiaries allows VUHI to increase its access to capital markets and realize more favorable interest rates and terms than would be available to the individual subsidiaries.

VEDO proposes to use the proceeds from the Debt and Stock sales to: a) finance the acquisition of property, materials or working capital; b) the construction, completion, extension, or improvement of facilities, plant or distribution system; c) the improvement of service; and d) the discharge or lawful refunding of its obligations. For the six-month periods ending on December 31, 2016 and June 30, 2017, VEDO estimates capital expenditures of \$89 million and \$49 million, respectively. The capital expenditures reflect increased investment in gas system infrastructure and acceleration in bare steel/cast iron pipeline replacement.

The following table summarizes VEDO's capitalization structure as of March 31, 2016, and shows the pro forma impacts after full utilization of the requested authority for \$70M of Debt and \$75M of Stock (for a total of \$145M) issuances:

	<b>Actual 3/31/2016 (\$ 000's)</b>	<b>(%)</b>	<b>Pro forma (\$ 000's)</b>	<b>(%)</b>
<b>Long Term Debt</b>	<b>\$ 313,189</b>	<b>56.2%</b>	<b>\$ 383,189</b>	<b>54.6%</b>
<b>Common Equity</b>	<b>\$ 244,220</b>	<b>43.8%</b>	<b>\$319,220</b>	<b>45.4%</b>
<b>Total Capitalization</b>	<b>\$ 557,409</b>	<b>100.0%</b>	<b>\$ 702,409</b>	<b>100.0%</b>

VEDO stated that it anticipates balancing new Debt with incremental new equity if it is granted the requested authority. Historically, VEDO's permanent debt/equity capital structure ratio has been in the 45-55% long-term debt/equity range. VEDO states that it would expect to maintain this range in the future. This goal is aligned with Vectren Corporation's public disclosure of 45-55% consolidated equity capitalization objective, as stated in its Form 10-K and Form 10-Q.

VEDO also requests Commission authorization to enter into interest rate risk management transactions to lower its overall effective interest costs. In general, these transactions will not impact the capitalization of VEDO as there are no proceeds associated with the interest rate risk management transactions since no new obligations are created during the process. VEDO was previously authorized by this Commission to enter into Interest Transactions in Case No. 15-0117-GA-AIS.

RECOMMENDATION:

Upon review of the Application, Staff believes it to be reasonable and recommends its approval.

However, Staff further recommends the Commission consider including the following conditions as part of any authorization of VEDO's Application: a) in the event the credit rating of VUHI falls below investment grade, VEDO will notify the Commission by docketing the change within 30 days of such change, so that the Commission may consider whether any safeguards need to be imposed on VEDO; b) to the extent that VEDO's Board of Directors has not yet authorized the type, number, or value of shares of Stock, the Commission's approval is limited to an aggregate amount of Stock for the purposes stated in the Application and should not be misconstrued as an endorsement of the Stock issuance; and c) VEDO should notify the Commission in a timely manner as soon as VEDO's Board of Directors approves the issuance of the Stock.