

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Vectren)	
Energy Delivery of Ohio, Inc. for Approval)	Case No. 18-0298-GA-AIR
of an Increase in Gas Rates)	

In the Matter of the Application of Vectren)	
Energy Delivery of Ohio, Inc., for Approval)	Case No. 18-0299-GA-ALT
of an Alternative Rate Plan)	

**DIRECT TESTIMONY OF
PATRICK C. EDWARDS
ON BEHALF OF
VECTREN ENERGY DELIVERY OF OHIO, INC.**

<u> </u>	Management policies, practices, and organization
<u> </u>	Operating income
<u> X </u>	Rate base (cash working capital)
<u> </u>	Allocations
<u> X </u>	Rate of return (capital structure)
<u> X </u>	Rates and tariffs
<u> </u>	Other

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**Direct Testimony of
Patrick C. Edwards**

I. BACKGROUND AND QUALIFICATIONS

Q1. Please state your name and business address.

A. Patrick C. Edwards, One Vectren Square, Evansville, Indiana 47708.

Q2. What position do you hold with Vectren Energy Delivery of Ohio, Inc. (VEDO)?

A. I am Vice President and Treasurer of VEDO. I also hold this same position with Vectren Corporation (Vectren), Vectren Utility Holdings, Inc. (VUHI), Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. (Vectren North) and Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. (Vectren South).

Q3. Please describe your educational background.

A. I graduated with honors from Southern Methodist University with a Bachelor of Business Administration with a major in accounting and a minor in political science. I am a certified public account licensed in the State of Texas.

Q4. Please describe your professional experience.

A. I have over 15 years of experience in various financial and administrative roles at Vectren and over 20 years of total experience in finance and accounting. I began working for Vectren Corporation in February 2001 and from 2001 to 2012, I worked in a variety of accounting leadership positions, including the Director of Corporate Services and Management Reporting. In 2012, I assumed responsibility for Vectren's internal audit function and was promoted to Vice President of Corporate Audit in 2013. In April 2017, I was promoted into my current role as Treasurer of Vectren, VUHI, and its three operating utilities, as well as a number of its non-regulated subsidiaries. In addition, I

1 have also been appointed to the board of directors of Vectren Capital Corporation. Prior
2 to joining Vectren, I was employed by PricewaterhouseCoopers and its predecessor
3 Coopers and Lybrand, working in both the Louisville, Kentucky and Dallas, Texas
4 offices.

5 **Q5. What are your present duties and responsibilities as Vice President and Treasurer**
6 **of Vectren, VUHI, Vectren North, Vectren South and VEDO?**

7 A. I am responsible for maintaining the security and liquidity of the various companies'
8 working capital resources. This includes having responsibility for cash management,
9 bank relations, short-term borrowings, long-term capital financing, leasing, capital
10 allocation, capital resource planning, credit rating agency relations and a variety of other
11 finance-related activities. In addition, I am responsible for Vectren's enterprise-wide risk
12 management function, and I chair Vectren's Risk Management Committee and its
13 Investment Committee.

14
15 **II. SUMMARY OF PRESENTATION**

16 **Q6. What is the purpose and scope of your testimony in this proceeding?**

17 A. My testimony will provide an overview of the components of Vectren's capital structure
18 and its weighted average cost of capital. I am also responsible for various Standard
19 Filing Requirements (SFR) schedules including Schedule D-1; Schedule D-1.1;
20 Schedules D-1A through D-5A; and Schedules D-1B through D-5B which were prepared
21 either by me or under my direction or supervision. I am also sponsoring those portions of
22 Schedule E-3 that are identified in that schedule and in the direct testimony of Scott
23 Albertson.

1

2 **III. COST OF CAPITAL**

3 **Q7. How does VEDO finance its operations?**

4 A. VEDO finances its operations through internally-generated funds and the proceeds from
5 the issuance of securities (long-term debt at VUHI and common stock at Vectren
6 Corporation) that are issued on behalf of VEDO. VEDO obtains common equity through
7 the sale of its shares of common stock to VUHI. VEDO's short-term and long-term debt
8 financing requirements have been accomplished through debt issuances by VUHI. A
9 portion of the net proceeds from the VUHI financings are then allocated to VEDO in
10 accordance with VEDO's needs to meet its short and long-term debt financing
11 requirements. Vectren intends to continue to use VUHI as the principal entity to provide
12 short-term and long-term debt financing for all of Vectren's utility subsidiaries, including
13 VEDO as this approach is the most efficient and cost effective means of issuing debt and
14 securing debt capital.

15 **Q8. Please describe the process and benefits to VEDO of utilizing the "debt pooling**
16 **arrangements" available through VUHI.**

17 A. VEDO, Vectren North, and Vectren South have jointly entered into a Financial Services
18 Agreement among themselves and VUHI. Each of the three utilities issue new short-term
19 debt and long-term debt through VUHI under an arrangement in which their debt
20 requirements are pooled, thereby creating larger debt issues at more attractive interest
21 rates and lower transaction costs than would otherwise be available. By pooling their
22 debt requirements through VUHI and providing guarantees of the joint VUHI debt
23 obligations, the utilities are able to increase their access to the debt markets, which is
24 advantageous as to both interest rates and financing flexibility. Furthermore, the size of

1 the combined debt offerings under VUHI generates greater interest from lenders than
2 would be the case if each utility financed on its own.

3 With respect to long-term debt, VUHI satisfies the utilities' combined
4 requirements by selling its own long-term debt securities in the public or private markets.
5 The proceeds from such borrowings are passed through to the utilities to meet their long-
6 term debt requirements on a dollar-for-dollar basis.

7 As for short-term borrowings, the Financial Services Agreement between VUHI
8 and the utilities also provides benefits to the three utilities. VUHI arranges for access to
9 short-term borrowings through commercial paper issued in the public market with such
10 issuances backed by a syndicated bank credit facility. This syndicated credit facility may
11 also be utilized, if needed. The proceeds of VUHI's short-term borrowings are made
12 available to each utility through short-term loans on the same basis as that on which
13 VUHI has borrowed. The costs of these short-term borrowings likewise reflect
14 efficiencies that would be unavailable if each operating utility, such as VEDO, were to
15 obtain these funds on its own.

16 **Q9. Please describe the calculation of VEDO's weighted average cost of capital.**

17 A. VEDO's weighted cost of capital is 7.97 percent, based on Vectren's consolidated capital
18 structure and VEDO's cost rates for long-term debt and common equity capital.

19 Schedule D-1 shows how the cost of capital was derived, which is based upon the cost
20 weights established by reference to Vectren's consolidated capital structure at December
21 31, 2017. For the long-term debt cost, VEDO's actual embedded cost of 5.07 percent is
22 used. VEDO's actual embedded debt cost is based on debt issuances on November 30,
23 2011; February 1, 2012; June 5, 2013; December 5, 2013; and December 15, 2015.

24 These debt financings were undertaken by VUHI and allocated to VEDO in accordance

1 with authorizations secured from the Public Utilities Commission of Ohio (Commission)
2 in Case Nos. 09-655-GA-AIS, 10-3120-GA-AIS, 12-2540-GA-AIS, 14-110-GA-AIS, and
3 15-117-GA-AIS. The 10.75 percent cost rate for VEDO's common equity reflects the
4 recommendation of VEDO Witness Dr. Michael Vilbert, as supported by his testimony in
5 this case. The overall weighted cost of capital of 7.97 percent is based on actual cost data
6 and current and known conditions, and is appropriate for the purpose of establishing just
7 and reasonable rates. Accordingly, this cost of capital has been incorporated on Schedule
8 A-1, "Overall Financial Summary," for this purpose and in the computation of the
9 revenue deficiency for this filing.

10 **Q10. Why is the Vectren capital structure used to calculate VEDO's weighted average**
11 **cost of capital?**

12 A. The consolidated capital structure and the resulting capitalization ratios of Vectren were
13 used to develop the appropriate weighting factors in determining the weighted average
14 cost of capital. VEDO utilized this approach in its prior rate cases, most recently in 2007,
15 and this approach is consistent with PUCO precedent. The consolidated capital structure
16 reflects the most reasonable means to analyze the costs of financing VEDO's operations
17 and investor expectations since the consolidated parent, and not the individual
18 subsidiaries, issues both equity securities and debt (through VUHI). The same cannot be
19 said for VEDO's standalone capital structure, which is not relied on by the investment
20 community, and thus has varied over a wider range as compared to the consolidated
21 capital structure.

22 **Q11. Please explain the use of VEDO's embedded cost of debt to calculate the weighted**
23 **average cost of capital.**

24 A. The embedded cost of debt of 5.07 percent that was used to calculate capital structure is
25 the actual cost of debt that finances VEDO's operations. The use of the actual embedded

cost of debt is also consistent with my understanding of the requirements of Section 4909.15(D)(2)(a), Ohio Revised Code, based on the advice of counsel, which states that the Commission must give due regard to certain facts in setting rates, “[i]ncluding a fair and reasonable rate of return determined by the Commission with reference to a cost of debt equal to the actual embedded cost of debt of such public utility.”

Q12. What is represented on Schedules D-1A through D-5A?

A. These Schedules represent VEDO’s capital structure and related costs.

Q13. Please describe the information contained on Schedules D-1A through D-4A.

A. Schedule D-1A sets forth VEDO’s consolidated capital structure and capitalization ratios at the date certain, December 31, 2017. The costs of the various capitalization components, excluding common equity, are the costs as developed on Schedules D-2A through D-4A. As explained above, the weighted cost of the various capital components is computed by multiplying the respective capitalization ratio by the computed average annual cost rate.

Schedule D-2A entitled “Embedded Cost of Short-Term Debt,” Schedule D-3A entitled “Embedded Cost of Long-Term Debt,” and Schedule D-4A, entitled “Embedded Cost of Preferred Stock,” set forth the calculations of the cost of short-term debt, long-term debt, and preferred stock, respectively. The information set forth on these Schedules was computed at the date certain, December 31, 2017, in accordance with the SFR.

Q14. Please describe Schedule D-5A.

A. Schedule D-5A contains comparative financial data for VEDO for the years 2007 through 2016 and the test year ending December 31, 2017. I am also responsible for certain of

the data on this schedule, particularly those sections dealing with capital structure and cost of capital.

Q15. Please describe Schedules D-1B through D-5B.

A. Schedules D-1B through D-5B are similar to those already described in conjunction with Schedules D-1A through D-5A. The “B” Schedules in the D section reflect the various data required by the SFR for Vectren Corporation, including Vectren’s credit ratings, and consolidated capital structure and consolidated cost rates.

IV. CASH WORKING CAPITAL

Q16. Is VEDO requesting that a cash working capital component be added to the rate base in this proceeding?

A. No. VEDO determined that it would not seek a cash working capital component to rate base in this proceeding. This is consistent with VEDO’s last rate case proceeding in Case No. 07-1080-GA-AIR.

V. CONCLUSION

Q17. Does that conclude your prepared direct testimony?

A. Yes, it does.

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Summary: Exhibit 4.0 - Direct Testimony of Patrick C. Edwards electronically filed by Ms. Rebekah J. Glover on behalf of Vectren Energy Delivery of Ohio, Inc.