

FILE

Ohio

**Public Utilities  
Commission**

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December 3, 2019

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

RE: *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Authority to Issue,  
Sell or Enter into Debt Transactions.*

Dear Docketing Division:

Enclosed please find Staff's Review and Recommendation in regard to the application of Columbia Gas of Ohio, Inc. for authority to issue securities as stated above in Case No. 19-1555-GA-AIS.



Doris McCarter  
Division Chief, Capital Recovery and Financial Analysis  
Rates and Analysis Department  
Public Utilities Commission of Ohio

PUCO

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Enclosure

Cc: Parties of Record

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BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of	)	
Columbia Gas of Ohio, Inc. for Authority	)	Case No. 19-1555-GA-AIS
to Issue, Sell or Enter into Debt	)	
Transactions.	)	

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**Staff Review and Recommendation**

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**APPLICATION DESCRIPTION**

On August 6, 2019, Columbia Gas of Ohio, Inc. ("Columbia") filed an application and supporting attachments ("Application") with the Public Utilities Commission of Ohio ("Commission"), pursuant to Sections 4905.40 and 4905.41 of the Ohio Revised Code. The Application seeks authorization to issue Long-Term Promissory Notes ("Notes") to Columbia's ultimate parent, NiSource Inc. ("NiSource") or any of NiSource's wholly-owned subsidiaries. Subject to Commission authorization, Columbia proposes to issue Notes, by December 31, 2020, in an amount not to exceed \$300 million. The Application represents a renewal of authority granted by the Commission previously ("Current Authority").<sup>1</sup> Columbia has issued \$80 million of Notes under the Current Authority; it expires on December 31, 2019.<sup>2</sup>

The Notes will be unsecured and issued with maturities of up to thirty years. The Notes are expected to bear a coupon interest rate corresponding to that of utilities with credit ratings that are the same as NiSource (currently rated BBB+ with a Negative Outlook by Standard and Poor's); market conditions prevailing at the time of issuance will also play a role. Bloomberg's C038 index screen (or a comparable screen) is to be used to determine the coupon interest rate on the Notes.

The proceeds from the proposed sale of the Notes are to be applied to construction expenditures and other corporate purposes. In 2020, owing to a plan to acquire property and improve company facilities, Columbia expects to make outlays of \$449 million. The debt capacity requested in the Application, in addition to internally generated funds, is anticipated to allow Columbia to finance its capital program.

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<sup>1</sup> See *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Authority to Issue, Sell or Enter into Debt Transactions*, Case No. 18-1409-GA-AIS, Finding and Order (February 6, 2019)(2018 AIS Case)

<sup>2</sup> 2018 AIS Case, Report of Issuance (April 17, 2019)

With the exception of NIPSCO (a regulated utility in Indiana), NiSource secures financing for its system corporate-wide. The timing of its financings may not necessarily align with Columbia's liquidity needs. If Columbia has a need to issue debt within 30 days before or after a NiSource external long-term debt issuance of matching maturity, Columbia will make every effort to issue debt on the same day as NiSource's debt issuance announcement date. However, as described in the Application, if the liquidity needs of either Columbia or NiSource changes unexpectedly, Columbia may need to issue debt without a corresponding external debt issuance made by NiSource. The coupon interest rate associated with such an issuance will be determined by Bloomberg's C038 index screen or a comparable screen.

## **REVIEW AND ANALYSIS**

Columbia's intent with regards to exercising the remainder of its Current Authority (\$220 million) has been considered by Staff. Columbia works with NiSource's Treasury Department to determine its liquidity needs throughout the calendar year and issues debt when necessary. As of the beginning of December, Columbia does not anticipate the need to issue additional debt granted under the Current Authority. For calendar year 2020, Columbia anticipates issuing long-term debt to NiSource. Further, in its Application, Columbia indicates it will continue to comply with conditions approved in its Current Authority. These conditions include providing summary reports of issuance on a timely basis and the determination of coupon interest rates through use of the Bloomberg C038 index screen (or comparable screen).

The summary reports disclose the principal amount of debt issuance, terms of the Note, the purpose of the borrowing, and the calculation of the interest rate of the Note. As external financing is done at the parent level, Columbia receives the benefit of not being charged with issuance costs typically associated with debt issuances in the capital markets.

The use of the Bloomberg C038 index screen (or comparable screen) to determine the coupon rate enables Columbia to issue debt even though Columbia itself is not rated by a nationally recognized statistical ratings organization. Instead, the credit ratings of NiSource (which is an investment grade issuer) determines the cost of Columbia's debt. Staff believes that the methodology that Columbia uses in its debt issuances provides a reasonable proxy for a competitive market rate.

Columbia's Notes will reflect market conditions at the time of issuance. If current market conditions were to persist, a 30-year debt offering would carry a 3.61% coupon. Columbia has selected a 30-year term in recent issuances. According to Columbia, the choice of a 30-year term locks in a favorable rate of financing for an extended period, eliminates interest rate risk during the term, and appropriately matches long-term liabilities to long-term assets.

The following table summarizes Columbia's current capitalization as well as its pro-forma composition, giving effect to the full utilization of the requested \$300 million in Notes during the period that ends December 31, 2020.

	<b>Actual 9/30/2019 (\$ 000s)</b>	<b>(%)</b>	<b>Pro Forma (\$ 000s)</b>	<b>(%)</b>
Long Term Debt	\$ 1,412,926	48%	\$ 1,712,926	49%
Total Equity	\$ 1,548,205	52%	\$ 1,807,835	51%
Total Capitalization	\$ 2,961,131	100%	\$ 3,520,761	100%

As shown on a pro forma basis, the proposed financing will increase the use of debt in Columbia's capitalization; the accumulation in total equity is the result of the retention of internally generated funds.

Since Columbia secures its long-term debt through NiSource, the credit ratings of NiSource influences the cost of debt. The table below provides information concerning NiSource's credit ratings.

	<b><u>Rating</u></b>	<b><u>Outlook</u></b>	<b><u>As of Date</u></b>
Moody's	Baa2	Stable	2/28/2018
Fitch	BBB	Stable	10/16/2018
Standard & Poor's	BBB+	Negative	9/18/2018

The outlook from Standard & Poor's reflects a belief that NiSource could face greater operating and regulatory risks and potential financial contingencies due to gas line explosions in Massachusetts in 2018. Standard & Poor's Negative outlook is a concern. However, NiSource would need to be dropped by three ratings grades for it to lose its status as an investment grade issuer.

## **RECOMMENDATION**

Upon review of the Application, Staff believes Columbia's request appears reasonable and recommends approval.