4

Ohio | **Public Utilities Commission**

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FILE

October 6, 2016

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

RE: *In the Matter of the Application of the East Ohio Gas Company d/b/a/ Dominion East Ohio for Consent and Authority to Issue Long-Term Notes Pursuant to O.R.C. § 4905.02(A) and 4905.03(E)*

Dear Docketing Division:

Enclosed please find Staff's Review and Recommendation in regards to the Application of East Ohio Gas Company d/b/a Dominion East Ohio for consent and authority to issue long-term debt in Case No. 16-1707-GA-AIS.

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

Cc: Parties of Record

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of the East	)	
Ohio Gas Company d/b/a Dominion East Ohio	)	Case No. 16-1707-GA-AIS
for Consent and Authority to Issue Long-Term	)	
Notes	)	

Staff Review and Recommendation

APPLICATION DESCRIPTION:

On August 9, 2016, The East Ohio Gas Company d/b/a/ Dominion East Ohio ("DEO" or the "Company") filed its application and exhibits ("Application"), pursuant to Ohio Revised Code 4905.40 and 4905.41, requesting Public Utilities Commission of Ohio ("Commission") authorization to issue and sell, a long-term note ("Note"), to its immediate parent company Dominion Gas Holdings, LLC (DGH) in an aggregate principal amount of up to $700 million. The Note will be issued with a maturity of not more than 30 years from the date of issuance and will carry an interest rate not to exceed 4.35%.

DEO proposes to use the proceeds from the Note to finance the acquisition of property, finance construction, completion, extension, renewal, and improvement of its facilities; for the reorganization or readjustment of DEO's indebtedness and capitalization to more closely align DEO's actual capital structure with the capital structure approved by the Commission in DEO's most recent rate case.

REVIEW AND ANALYSIS:

The interest rate for the Note will be determined at issuance and will be based on the actual 30-year Treasury rate (currently the 30-year treasury rate is approximately 2.34%) plus an indicative credit spread as provided by investment banks. This spread represents the investment banks' view of the level at which DGH would be able to issue new senior unsecured notes. This spread is based on the implied credit risk of DGH and secondary trading levels of outstanding DGH bonds. The interest rate is founded on, and substantially equal to, the effective cost at the corporate level of DGH, as such there will be no mark up on DGH's cost to lend to DEO. The Note will be non-amortizing (interest only) 30 year term with the principal amount of the $700 million being due and payable on the maturity date. The interest rate is currently forecasted to be 4.35% resulting in monthly interest of approximately $2.5 million.

DEO proposes to use the proceeds to pay off its short-term debt owed to DGH. The short-term debt has accumulated primarily due to the financing of DEO's capital expenditures to date and also to pay an existing long-term note with a principal balance of $259 million that matured on October 1, 2016. For these reasons, the proceeds from the notes expected to be issued on November 1, 2016, or upon approval of the Commission, will be used to pay down the short-term debt incurred for the purposes as stated above. As the proceeds are going to be used to pay off short-term debt used to fund the Company's construction projects, it is worth mentioning that the Company's construction expenses in 2015 and 2016 were $428 million and $356 million respectively. DEO's projected capital expenditures for 2017 is approximately $338 million.

The following table summarizes the pro forma capitalization structure of the Company showing before and after effect of the issuance of the Note:

	Actual 06/30/2016 (MM's)	**(%)**	**Pro forma (MM's)**	**(%)**
Long Term Debt	$974	41.2%	*$1,415	50.4%
Common Equity	$1,393	58.8%	$1,393	49.6%
Total Capitalization	$2,367	100.0%	$2,808	100.0%

**Reflects the issuance of $700 million Note to pay off Short-term debt to DGH borrowed to fund capital expenditure and to repay an existing long-term note of approximately $259 million.*

The proposed financing will make a noticeable change in DEO's capitalization on a pro forma basis. The pro forma capitalization structure demonstrates that the financing will more closely align DEO's capital structure and the capital structure approved by the Commission in DEO's most recent rate case (PUCO Case No. 07-829-GA-AIR) which was 48.66% debt and 51.34% equity.

STAFF RECOMMENDATION:

Upon review of the Application and subsequent investigation, the Staff believes that the proposed issuance of the Note will facilitate DEO to pay on time its short-term debts incurred for the purposes stated above and this will help it to rebalance its capitalization structure to more closely align with the capitalization structure approved in the most recent rate case. However, the Applicant does not request a maximum allowable interest rate parameter, which is typically provided in debt authorizations given the ever changing landscape of financial markets. Although DEO anticipates issuing the Note soon after Commission authorization and the interest rate is likely to be similar to the rate stated in the Application, the Staff believes it to be prudent to provide DEO with a maximum interest rate parameter of 5.0%. The Staff's recommendation of a maximum allowable parameter in no way relieves DEO from obtaining the best terms available and it is Staff's expectation that the actual rate obtained will be much lower than the maximum parameter. With the addition of this maximum parameter, Staff believes the Application is reasonable and recommends its approval. Staff also recommends that the Commission direct DEO to file a report in this Case within a month of the consummation of the transaction.