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(4)

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PUCO

November 28, 2016

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 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 for authority to issue securities as described above in Case No. 16-1818-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

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbia Gas of Ohio, Inc. for Authority to Issue, Sell or Enter into Debt Transactions	)))	Case No. 16-1818-GA-AIS

Staff Review and Recommendation

APPLICATION DESCRIPTION:

On September 1, 2016, Columbia Gas of Ohio, Inc. ("Columbia") filed an application with attachments ("Application") with the Public Utilities Commission of Ohio (the "Commission"), pursuant to Sections 4905.40 and 4905.41 of the Ohio Revised Code, seeking authority to issue up to $300 million of unsecured promissory notes ("Notes") through December 31, 2017. The Notes would: a) not exceed $300 million in aggregate principle amount; b) have a maturity not to exceed 30 years; c) have interest rates that reflect market conditions at the time of issuance for companies with similar financial profiles; and d) reflect other conditions listed in the Application.

On December 9, 2015, the Commission granted authority to Columbia to issue and sell notes of up to $300 million through December 31, 2016. Although Columbia has not used any of their existing authority as of October 31, 2016, they anticipate issuing a $150 million note on or around December 1, 2016. Furthermore, Columbia plans to retire a $30.6 million maturing note on November 28, 2016.

REVIEW AND ANALYSIS:

Columbia is a direct subsidiary of NiSource Gas Distribution Group, Inc. ("NGD"), which is a wholly-owned subsidiary of NiSource Inc. ("NiSource"), Columbia's ultimate parent company. NiSource also owns NiSource Finance Corporation ("NFC"). NFC engages in financing activities to raise funds for the business needs of NiSource and its subsidiaries.

Columbia proposes to use the proceeds from the Notes to acquire property, and for the construction, completion, extension and improvement of company's facilities, including the continuation of the Company's Infrastructure Replacement Program. Columbia's construction program for 2017 is estimated to total $324 million.

The Notes' interest rate will be determined by utilizing the utility bond yields on the Bloomberg C038 index screen for utilities rated as BBB+ on the date of issuance. The use of BBB+ rated utilities as a market proxy is tied to the credit rating and financial profile of NFC.

In 2015, and in recent years past, the Notes' interest rates were determined by the applicable Treasury yield effective on the date each Note was issued plus the yield spread on corresponding maturities for credit risk profiles equivalent to NFC. Columbia used Reuters as a source for the spreads. However, in August 2015, Reuters changed its methodology for reporting yield spreads by no longer producing spreads for each ratings notch and simply provided spreads for basic ratings ranges (i.e. one rating for BBB+, BBB, and BBB- instead of a rating for each notch). Continued use of the Reuters methodology would require the data to be interpolated in a manner that would lead to artificially higher interest rates than one would expect in the current rate environment and thus adversely affect Columbia customers.

In the same manner as last year, underwriting fees, discounts (if any), legal, audit and rating agency fees incurred by NFC are absorbed at the NFC entity level, and thus not passed on to Columbia. The Notes become callable at par on the one-year anniversary of their issuance date.

The following table summarizes Columbia's actual capitalization as of June 30, 2016, as well as a projected capitalization for year end 2016 resulting from debt issuances under their existing authority and equity contributions, and a pro forma capitalization for 2017 showing the effects of the requested authority and anticipated equity contributions during the authorization period.

Columbia Gas of Ohio, Inc.
Pro-forma Capitalization

	Actual		Projected		Pro forma	
	06/30/2016		12/31/2016		12/31/2017	
	(000)	(%)	(000)	(%)	(000)	(%)
Long-Term Debt	$ 893,526	47%	$ 1,012,926	49%	$ 1,312,926	53%
Common Equity	$ 987,417	53%	$ 1,035,987	51%	$ 1,151,947	47%
Total Capitalization	$ 1,880,943	100%	$ 2,048,913	100%	$ 2,464,873	100%

As of June 30, 2016, the Company had $893,526,000 of outstanding long-term debt with a current portion of $30,600,000 due to mature and be retired on November 28, 2016. Columbia is currently planning to issue a $150 million note on or around December 1, 2016, under their existing authority. The projected capitalization shown in the chart above reflects Columbia's planned issuance and the retirement of their current portion of long-term debt as well as equity build-up resulting from retained cash from operations. The pro forma capitalization shows the effects of Columbia fully utilizing the requested authority in addition to the estimated growth in equity. At the time of application (as shown in Attachment G of the Application), Columbia planned to use $108 million rather than the full $300 million for new debt issuance, which would result in debt increasing to 49% of total capitalization provided equity increases as estimated.

RECOMMENDATION:

Upon review of the Application, Staff believes it to be reasonable and recommends its approval. Staff's recommendation is based upon the premise that the authority granted by the Commission would replace any existing unused authority granted in Case No. 15-1548-GA-AIS. Staff further recommends the Commission consider including a condition as part of any authorization of Columbia's Application that in the event the credit rating of NiSource and/or NFC falls below investment grade, NiSource will notify the Commission by docketing the change within 10 days of such change, so that the Commission may consider whether any safeguards need to be imposed on NiSource, NFC or Columbia.