



**Public Utilities  
Commission**

Asim Z. Haque, Chairman

**Commissioners**

M. Beth Trombold  
Thomas W. Johnson  
Lawrence K. Friedeman  
Daniel R. Conway

2017 MAY 31 PM 1:56

May 31, 2017

PUCO

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

RE: *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Issue Long-Term Debt, to Issue and Sell Common and/or Preferred Stock, Receive Equity Infusions, and Enter into Interest Rate Risk Management Transactions Pursuant to the Previously Approved Financial Services Agreement.*

Dear Docketing Division:

Enclosed please find Staff's Review and Recommendation on the application of Vectren Energy Delivery of Ohio, Inc. for Authority to Issue Long-Term Debt, Common and/or Preferred Stock, Receive Equity Infusion and to Enter into Interest Rate Management Agreements in Case No. 17-0776-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

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Technician Am Date Processed 5/31/17

BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren	)	
Energy Delivery of Ohio, Inc. for Authority	)	Case No. 17-0776-GA-AIS
to Issue Long-Term Debt, to Issue and Sell	)	
Common and/or Preferred Stock, Receive	)	
Equity Infusions, and Enter into Interest Rate	)	
Risk Management Transactions Pursuant to	)	
the Previously Approved Financial Services	)	
Agreement	)	

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**Staff Review and Recommendation**

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**APPLICATION DESCRIPTION:**

On March 15, 2017, Vectren Energy Delivery of Ohio, Inc. ("VEDO") filed its application and exhibits ("Application"), pursuant to Ohio Revised Code 4905.40 and 4905.41, requesting Public Utilities Commission of Ohio ("Commission") authorization through June 30, 2018 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 ("Interest 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 \$65 million. The preferred stock will bear dividends at an annual rate not to exceed 7%. The issuance of Stock will be subject to the conditions set forth in the Application.

VEDO proposes to use the proceeds from the sales of Debt and Stock (collectively, "Securities") 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.

## REVIEW AND ANALYSIS:

The Debt and Stock would be issued within the parameters set forth in the Application. Some or all of the Debt may be issued to VEDO's immediate parent company Vectren Utility Holdings, Inc. ("VUHI") pursuant to the debt pooling arrangement through a Financial Service Agreement ("FSA") between VUHI and its utility operating subsidiaries: VEDO, Indiana Gas Company, and Southern Indiana Gas & Electric Company ("Participants"). By pooling their debt requirements through VUHI, the Participants are expected to increase their access to the debt market and realize favorable interest rate and financing flexibility. VUHI would lend 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 FSA.

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 VUHI utility operating subsidiaries have 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.

VEDO proposes to issue Stock to VUHI. There is no preferred stock currently outstanding at VEDO. The par value and the number of shares for preferred stock will be determined at the time of the issuance, based on financial market conditions.

VEDO anticipates using most of the proceeds of the Securities to support its capital expenditure programs. VEDO's estimated capital expenditures during the requested authorization period is approximately \$130 million. In 2016, VEDO spent approximately \$124 million in capital expenditures. The capital expenditures reflect increased investment in gas system infrastructure and acceleration in bare steel/cast iron pipeline replacement, as well as modernization of its gas transmission and distribution systems.

The following table summarizes the capitalization structure as of March 31, 2017, and the pro forma capitalization structure assuming full utilization of the requested authority to issue \$70 million in Debt and \$65 million in Stock:

	Actual 03/31/2017 (\$000's)	(%)	Pro forma (\$000's)	(%)
Long Term Debt	\$313,195	53.7%	\$383,195	53.4%
Common Equity	\$269,539	46.3%	\$334,539	46.6%
Total Capitalization	\$582,734	100.0%	\$717,734	100.0%

The proposed issuance of the Securities will not cause any significant change to VEDO's capitalization ratios. VEDO's historical average debt ratio of 53% is consistent with actual balances at December 2016 and March 2017 and the pro forma calculation.

VEDO also requests Commission authorization to enter into Interest 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 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. 16-0572-GA-AIS.

#### STAFF RECOMMENDATION:

Upon review of the Application, Staff believes it to be reasonable and recommends its approval. Staff also recommends that the Commission direct VEDO to file a report in this case docket within a month of the consummation of the transaction(s). Staff further recommends the Commission to consider including the following conditions as part of the Commission's 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 10 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 by docketing a report in a timely manner as soon as VEDO's Board of Directors approves the issuance of the Stock.