

FILE



**Public Utilities  
Commission**

Asim Z. Haque, Chairman

**Commissioners**

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Thomas W. Johnson  
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Daniel R. Conway

April 11, 2018

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

PUCO

2018 APR 11 AM 9:28

RECEIVED-DOCKETING DIV

RE: *In the Matter of the Application of Columbia Gas of Ohio, Inc., for Authority to Issue,  
Sell or Enter into Debt Transactions, Case No. 17-1814-GA-AIS*

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendations in regard to the  
Application of Columbia Gas of Ohio, Inc. for authority to issue, sell or enter into debt  
transactions, Case No. 17-1814-GA-AIS.

Doris McCarter

Chief, Capital Recovery and Financial Analysis Division  
Public Utilities Commission of Ohio

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 to Issue, Sell     ) Case No. 17-1814-GA-AIS  
or Enter into Debt Transactions                     )

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**Staff Review and Recommendation**

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**APPLICATION DESCRIPTION**

On September 18, 2017, Columbia Gas of Ohio, Inc. (Columbia) filed an application with attachments (Application) with the Public Utilities Commission of Ohio (Commission) pursuant to Ohio Revised Code (R.C.) 4905.40 and 4905.41 seeking authority through December 31, 2018, to issue long-term unsecured promissory notes (Notes) to Columbia's ultimate parent company, NiSource, Inc. (NiSource), or any one of NiSource's wholly-owned subsidiaries. The aggregate principal amount of the Notes shall not exceed \$300 million.

Columbia sets forth in the Application that the proceeds from the Notes will be used together with internally generated funds to support Columbia's capital expenditure program and for other corporate purposes. The capital expenditures are estimated to total approximately \$342 million in 2018, and will be required for the purposes of the acquisition of property and for the construction, completion, extension, and improvement of company facilities, including Columbia's Infrastructure Replacement Program.

**REVIEW AND ANALYSIS**

Columbia proposes to issue the Notes with maturities of up to 30 years and bear an interest rate corresponding to the price offered by companies with financial profiles similar to NiSource. The interest rate will be determined by utilizing the utility bond yields on the Bloomberg C038 index screen, or comparable screen, for utilities rated the same as NiSource on the date of issuance. This proposed methodology would allow Columbia to price debt based upon market conditions at the time of issuance and to issue debt based on an investment grade profile even though Columbia itself does not have a credit rating. This proposed methodology also enables Columbia to avoid debt issuance costs that are typical with external debt issuances.

The most recent credit ratings for NiSource are investment grade consisting of a 'Baa2' rating from Moody's Investors Service, a 'BBB+' rating from Standard and Poor's Financial Services, and a 'BBB' rating from Fitch Ratings. Each rating agency has assigned a stable outlook for NiSource.

Investment grade ratings such as these are an indication of a low risk of default in servicing debt, and they generally provide debt issuers full credit market access with more attractive terms and covenants.

Below is a table showing the current capital structure of Columbia along with a pro forma forecast of changes resulting from the full utilization of the \$300 million of requested authority as well as anticipated changes in equity during the authorization period.

Columbia Gas of Ohio, Inc. <i>Capitalization Structure</i>				
	Actual as of <u>12/31/2017</u>		Pro forma as of <u>12/31/2018</u>	
		(%)		(%)
Long-Term Debt	\$ 1,162,926,000	48.3%	\$ 1,462,926,000	49.8%
Common Equity	\$ 1,243,234,978	51.7%	\$ 1,474,441,240	50.2%
Total Capitalization	\$ 2,406,160,978	100%	\$ 2,937,367,240	100%

Although Staff believes the methodology proposed by Columbia provides a competitive market rate for its debt issuances, Staff is concerned about Columbia issuing Notes to NiSource at rates higher than rates achieved by NiSource in its recent debt issuances. Staff observed such an issue with Columbia's most recent debt issuance. During September 2017, NiSource issued debt on September 5<sup>th</sup> and then Columbia issued on September 29<sup>th</sup>.<sup>1</sup> The timing difference resulted in Columbia receiving a higher interest rate on its debt due to market movements. Columbia endeavors to secure competitive market rates for its debt issuances that strike a reasonable balance between most favorable terms and lowest cost financing available. Staff also believes NiSource strives to achieve the same result as it issues debt in financial markets. Staff shares the aligned objectives of Columbia and NiSource to achieve the lowest cost financing available. Staff believes that if Columbia could better align its debt issuances with NiSource's debt issuances, then the potential for arbitrage would be removed.

## **RECOMMENDATION**

Upon review of the Application and supporting documentation, Staff believes Columbia's request to issue the Notes appears reasonable and recommends authority to be granted with the following conditions.

- 1) Columbia shall file a summary report, in this case docket, within 30-days of issuing any Note under the authority granted in this case. The report shall summarize the principal

<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. 16-1818-GA-AIS, Report on Its Exercise of Authority Granted by the Commission (Oct. 19, 2017).

amount of the debt issuance, the terms of the Note, and the underlying purpose of the borrowing. The report shall also include supporting documentation showing the calculation of the interest rate of the Note as well as detail any issuance costs, discounts, or premiums. The report shall also include a 45-day view of Bloomberg's C038 index screen (or comparable screen as described in Application) showing the rates surrounding the issuance.

- 2) Columbia shall notify the Commission of any change in the credit rating or outlook for NiSource, or any of NiSource's wholly-owned subsidiaries that may be used as a credit rating proxy for Columbia, by filing a notification in this case docket within ten days of the ratings action by any one of the nationally recognized ratings agencies.
- 3) Staff recommends that the Commission direct Columbia to make every effort during this authorization period to align their issuance of any Note to that of any long-term external debt issuance of matching maturity by NiSource thereby aligning similar interests of low-cost market-rate financing, and avoid Columbia issuing debt at a higher rate due to market movements over a short period of time.