



**Public Utilities
Commission**

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January 17, 2019

PUCO

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 O, Inc. for Authority to Issue Long-Term Debt, to Issue, Sell or Enter into Debt Transactions*

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendations in regard to the Application of Columbia Gas of Ohio for Authority to issue Long-Term Debt, to Issue, Sell or Enter into Debt Transactions in Case No. 18-1409-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)	Case No. 18-1409-GA-AIS
Long-Term Debt, to Issue, Sell or Enter into)	
Debt Transactions)	

Staff Review and Recommendation

APPLICATION DESCRIPTION

On September 12, 2018, Columbia Gas of Ohio, Inc. ("Columbia") filed an application with attachments ("Application") with the Public Utilities Commission of Ohio (the "Commission") pursuant to Ohio Revised Code (R.C.) 4905.40 and 4905.41, requesting authorization through December 31, 2019, to issue unsecured Long-Term Promissory Notes (the "Notes") to Columbia's ultimate parent company NiSource, Inc. ("NiSource"), or any NiSource's wholly-owned subsidiaries for an aggregate principal amount of \$300 million.

Columbia proposes to use the proceeds from the sales of the Notes to partially fund Columbia's capital expenditure programs for 2019, and to finance the acquisition of property, for the construction, completion, extension or improvement of Columbia's facilities. Columbia's capital construction expenditures for 2019 are estimated to be approximately \$371 million.

REVIEW AND ANALYSIS

Pursuant to the Commission's Order in Case No. 17-1814-GA-AIS (the "Prior Order")¹ Columbia was authorized with certain conditions to issue an aggregate amount of \$300 million of unsecured notes through December 31, 2018. During 2018, Columbia issued an aggregate amount of \$170 million of unsecured notes.² In its Application, Columbia indicates its intent to continue to comply with the conditions laid out in the Prior Order.

The Notes will have maturities of up to 30 years. The Notes will carry an interest rate that will be corresponding to the price offered by companies with financial profiles similar to NiSource. The interest rate on the Notes will be determined by utilizing the utility bond yields on the

¹ See *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Authority to Issue and Sell or Enter into Debt Transactions*, Case No. 17-1814-GA-AIS, Finding and Order (May 9, 2018).

² See *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Authority to Issue and Sell or Enter into Debt Transactions*, Case No. 17-1814-GA-AIS, Report (July 24, 2018).

Bloomberg C038 index screen, or comparable screen, for utilities rated the same as NiSource on the date of issuance.

This methodology of issuing the Notes has enabled Columbia to price debt based on 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 rating from any dominant credit rating agencies. This methodology also enables Columbia to avoid debt issuance costs that are typical with external debt issuances as NiSource does not pass any debt issuance costs to Columbia. Staff believes that the methodology that Columbia proposes using in its debt issuances provides a reasonable proxy for a competitive market rate.

The following table summarizes Columbia's current capitalization structure as well as on a pro-forma basis reflecting the full utilization of the requested \$300 million Notes during the authorization period.

Columbia Gas of Ohio
Capitalization Structure

	Actual 12/31/2018 (\$000's)	(%)	Pro-forma (\$000's)	(%)
Long Term Debt	\$1,332,926	45.44%	\$1,632,926	50.49%
Common Equity	\$1,600,686	54.56%	\$1,601,263	49.51%
Total Capitalization	\$2,933,612	100.0%	\$3,234,189	100.0%

To the extent Columbia secures its long-term debt through NiSource, the credit ratings of NiSource factors into the cost of Columbia's borrowings. On September 18, 2018, S&P Global Ratings affirmed NiSource's current ratings (BBB+) and revised the NiSource outlook to 'Negative', following a series of gas explosions on September 13, 2018, in Bay State Gas Company's (a NiSource Subsidiary) service territory in Massachusetts. In their most recent credit ratings, Moody's Investors Service (September 17, 2018) and Fitch Ratings (October 29, 2018) both assigned NiSource an investment grade with positive outlook, Baa2 and BBB, respectively. The Staff is concerned about S&P's current credit outlook for NiSource, which can impact the cost of the Columbia Notes since NiSource's rating is a direct proxy to establish the market based rate of said Notes.

STAFF RECOMMENDATION

Upon review of the Application and supporting documentation, Staff believes Columbia's request to issue the Notes appears to be reasonable and recommends its approval with the following condition:

- If for any reason, the credit rating of NiSource is downgraded or placed on credit watch with negative implications within the authorization period granted by the Commission, then Columbia shall notify the Commission in this docket within 10 days of such occurrence, so that the Commission may consider whether additional safeguards or conditions should be imposed upon Columbia's authorization to borrow through the Notes.