

# THE PUBLIC UTILITIES COMMISSION OF OHIO

IN THE MATTER OF THE NOTICE OF A  
MERGER INVOLVING THE PARENT  
COMPANY OF VECTREN ENERGY  
DELIVERY OF OHIO, INC.

CASE No. 18-1027-GA-UNC

## FINDING AND ORDER

Entered in the Journal on January 30, 2019

### I. SUMMARY

{¶ 1} The Commission approves, subject to certain conditions, the Notice of Parent Company Merger filed by Vectren Energy Delivery of Ohio, Inc. and finds that the merger is reasonable and should not adversely impact Ohio customers.

### II. DISCUSSION

{¶ 2} Pursuant to R.C. 4905.04, 4905.05, and 4905.06, the Commission is vested with the power and jurisdiction to supervise and regulate public utilities.

{¶ 3} Vectren Energy Delivery of Ohio, Inc. (VEDO or the Company) is a natural gas company and a public utility as defined in R.C. 4905.03 and R.C. 4905.02, respectively. As such, VEDO is subject to the jurisdiction of this Commission. VEDO's stock is owned by Vectren Utility Holdings, Inc. (VUHI), which is a wholly owned subsidiary of Vectren Corporation (Vectren). Vectren is a holding company that is not engaged in the business of supplying natural gas for lighting, power, or heating purposes to consumers within Ohio; therefore, it is not a public utility as defined in R.C. 4905.02.

{¶ 4} CenterPoint Energy, Inc. (CenterPoint Energy)—a public utility holding company headquartered in Houston, Texas—is a domestic energy delivery company that includes electric transmission and distribution, natural gas distribution, and energy services operations. CenterPoint Energy's natural gas distribution operations engage in natural gas sales to, and transportation for, approximately 3.5 million residential, commercial, and industrial customers in Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma, and Texas.

{¶ 5} On June 15, 2018, VEDO filed a Notice of Parent Company Merger (Notice) regarding the execution of a merger agreement between Vectren and CenterPoint Energy. According to the Notice, Vectren and CenterPoint Energy entered into an Agreement and Plan of Merger (Merger Agreement) on April 21, 2018, with the approval and authorization of the board of directors of each company. Under the Merger Agreement, upon closing of the merger, Vectren will continue to exist, but as a wholly owned subsidiary of CenterPoint Energy. Similarly, VEDO and its affiliates will continue to be subsidiaries of VUHI, which will remain as a subsidiary of Vectren. With the Notice, VEDO seeks a finding from the Commission that the merger will not adversely impact the Company's customers.

{¶ 6} On June 28, 2018, the City of Dayton (Dayton or the City) filed a motion to intervene. Dayton asserts that it is entitled to intervene under R.C. 4903.221 and Ohio Adm.Code 4901-1-11. The motion is unopposed.

{¶ 7} On October 5, 2018, the Federal Energy Regulatory Commission issued an order finding that the merger is consistent with the public interest.

{¶ 8} On January 17, 2019, Staff filed comments regarding the Company's Notice. Based on its review, and citing the lack of impact on the rates, terms or conditions of service to VEDO customers resulting from the merger, Staff does not believe the proposed merger is unreasonable. Staff does, however, temper its approval. Specifically, Staff recommends that approval of the merger be subject to the following conditions:

- VEDO should not seek recovery of any Transaction Costs from Ohio customers.
  - Transaction Costs should include the costs incurred to structure, negotiate, and execute the transaction; professional services fees, including investment banker fees, counsel fees, audit fees, accounting fees, and the like; and direct internal labor and external services needed to evaluate the merger, negotiate its terms, obtain

- regulatory approvals, obtain shareholder approvals, and execute transaction contracts.
- In the next general rate case, VEDO should provide testimony and schedules, as necessary, to demonstrate that any Transaction Costs have been removed from the test period in that case.
  - VEDO should provide testimony and schedules, as necessary, to identify any Transition Costs for which recovery is sought.
    - Transition Costs should include costs that are related to or incurred as a result of the merger, such as costs to combine, integrate or align Vectren and CenterPoint following the merger. VEDO should also include in its requests for recovery how it determined what costs should be considered Transition Costs.
    - VEDO should demonstrate that the Transition Costs sought for recovery from Ohio customers do not exceed the benefits received or to be received by Ohio customers. VEDO should also demonstrate that the Transition Costs were reasonable, were prudently incurred, and were necessary.
    - VEDO should provide testimony regarding its efforts to achieve net cost savings and demonstrate that any net cost savings achieved have been reflected in proposed rates.
  - VEDO should continue to maintain its level of investment in its Ohio infrastructure and also continue the capital investment plans as outlined in its Distribution Replacement Rider.
  - VEDO shareholders should make charitable contributions to the VEDO service territory in the amount of \$6.95 million over the next five years.

Such commitment reflects a \$1.95 million increment to the annual \$1 million charitable contributions made to Ohio. Specifically, the additional \$1.95 million reflects a share of CenterPoint Energy's \$15 million overall charitable pledge to Vectren customers, which is based upon VEDO's contribution to Vectren's total net operating income.

- VEDO should notify the Commission of any material changes in current accounting practices.
- VEDO should meet with Staff every six months after the merger until it files its next rate case to update Staff on capital plans, financing, and the process of integrating Vectren into CenterPoint Energy.

Subject to the adoption of these conditions, Staff concludes that the merger will promote public convenience and result in the provision of adequate natural gas service by VEDO in Ohio.

{¶ 9} On January 18, 2019, VEDO filed reply comments. Therein, the Company indicates that it has reached a general consensus with Staff on several of the conditions reflected in Staff's comments, to which VEDO will adhere when it files its next base rate case. The Company does, however, object to Staff's proposed condition that VEDO demonstrate Transition Costs sought for recovery from Ohio customers do not exceed the benefits received by those customers (Cost/Benefit Condition).

{¶ 10} VEDO asserts that the Cost/Benefit Condition raises a number of legal and practical concerns, as well as issues not ripe for Commission review at this time. The Company contends that the imposition of any standards under which costs related to or resulting from a merger may be recovered—outside of the Commission's existing ratemaking authority—exceeds the Commission's statutory powers. The Company further contends that applying the Cost/Benefit Condition would be problematic, as monetizing certain benefits resulting from the merger is not a straightforward endeavor. Finally, VEDO

argues that the Cost/Benefit Condition is simply outside the scope of the matter at hand – the Notice – and is better addressed in a case in which the Company actually seeks to defer or recover costs.

{¶ 11} The Cost/Benefit Condition aside, VEDO expresses general consensus with Staff’s position. To that end, VEDO requests that the Commission conclude its investigation, disregard as unripe the Cost/Benefit Condition, determine that no hearing is necessary, and find that the merger is not expected to adversely impact the Company or its customers. Finally, VEDO requests that a final order concluding this matter be issued no later than January 31, 2019.

{¶ 12} On January 25, 2019, Dayton filed a letter to clarify its June 28, 2018 motion to intervene. In the letter, Dayton explains that it sought intervention in this matter to ensure that the merger does not impair or adversely affect the rates and charges paid by the City and its residents; to ensure that merger-related costs are not imposed on customers; and to ensure that the merger will promote public convenience and the provision of adequate natural gas service to Dayton and its residents. Dayton also expresses its satisfaction with the progress of this case in the period between its original motion and its clarifying letter. Dayton represents that it will not make any substantive response to the comments filed by Staff or VEDO. Upon consideration of the motion and clarifying letter, Dayton’s request to intervene in this matter is reasonable and should be granted.

{¶ 13} As to the Notice, the Commission finds merit in both Staff’s comments and VEDO’s comments in reply. The Notice should be scrutinized with a broad lens that takes into consideration all of the issues raised in Staff’s comments. Nevertheless, we agree that the Cost/Benefit Condition presents issues that are inherent to and better examined in the context of a base rate proceeding. As such, we will not condition our approval of the Notice or the merger it represents on the implementation of the Cost/Benefit Condition. Instead, the Commission directs Staff to look at the complex matters encompassed within the Cost/Benefit Condition and make recommendations regarding the same during VEDO’s

next base rate proceeding.<sup>1</sup> Further, in undertaking that review, Staff should look at both the quantitative and qualitative benefits to VEDO's customers. Similarly, though not directly challenged in the reply comments, the Commission has concerns about conditioning, and declines to condition, our approval of the Notice upon required charitable contributions. To the extent VEDO's shareholders have made any pledge to the communities VEDO serves within Ohio, that pledge should be honored. Certainly, the Commission would not look unfavorably upon VEDO's shareholders surpassing existing philanthropic obligations. Charity, however, loses its purpose when forced.

{¶ 14} Upon review of the Notice and filed comments, and in light of the general supervisory and regulatory powers granted by R.C. 4905.04, 4905.05, and 4905.06, the Commission approves the Notice filed by VEDO, subject to Staff's conditions except as discussed herein. In this, the Commission finds that the merger identified within the Notice is reasonable and should not adversely impact Ohio customers. Finally, the Commission finds that it is not necessary to hold a hearing in this matter.

### III. ORDER

{¶ 15} It is, therefore,

{¶ 16} ORDERED, That the Notice filed by VEDO be approved, subject to Staff's conditions except as discussed in Paragraph 13. It is, further,

{¶ 17} ORDERED, That Dayton's motion to intervene be granted. It is, further,


{¶ 18} ORDERED, That nothing in this Finding and Order shall be binding upon this Commission in any future proceeding or investigation involving the justness or reasonableness of any rate, charge, rule, or regulation. It is, further,

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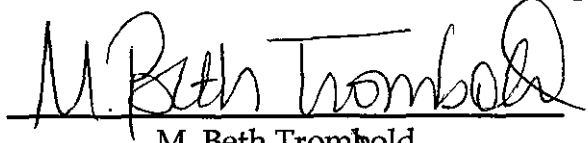
<sup>1</sup> In a Stipulation and Recommendation filed on January 4, 2019, in Case Nos. 18-298-GA-AIR, 18-299-GA-ALT, and 18-49-GA-ALT, VEDO committed to filing its next application to increase base rates such that the date certain is no later than December 31, 2024.

{¶ 19} ORDERED, That a copy of this Finding and Order be served upon all parties of record.

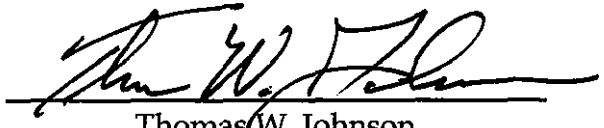
THE PUBLIC UTILITIES COMMISSION OF OHIO



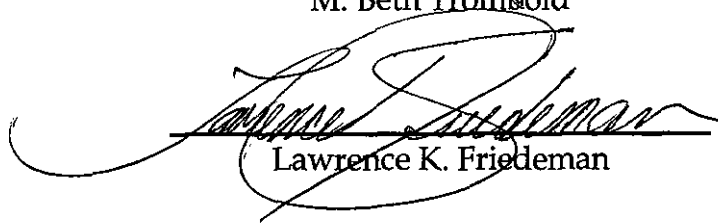
Asim Z. Haque, Chairman



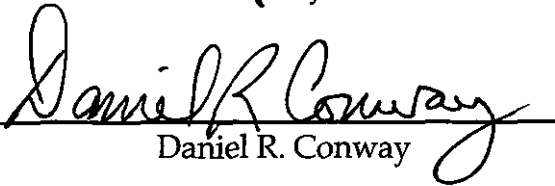
M. Beth Trombold



Thomas W. Johnson



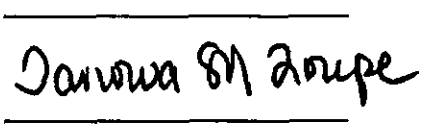
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Secretary