



# Public Utilities Commission

**Mike DeWine**, Governor  
**Jenifer French**, Chair

## Commissioners

M. Beth Trombold  
Lawrence K. Friedeman  
Dennis P. Deters  
Daniel R. Conway

June 28, 2021

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. d/b/a/ CenterPoint Energy Ohio for Authority to Issue Long-Term Debt, to Issue and Sell Common Stock, Receive Equity Infusions, Enter into Interest Rate Risk Management Transactions, and for Approval of, and Authority to enter into, a revised Financial Services Agreement, Case No. 21-0299-GA-AIS*

Dear Docketing Division:

Enclosed please find Staff's Review and Recommendation in regard to the application of Vectren Energy Delivery of Ohio, Inc. d/b/a/ CenterPoint Energy Ohio for authority to issue long-term debt, to issue and sell common stock, receive equity infusions, enter into interest rate risk management transactions, and for approval of, and authority to enter into, a revised financial services agreement, Case No. 21-0299-GA-AIS

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David Liphtratt  
Chief, Accounting and Finance Division  
Rates and Analysis Department  
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 Vectren	)	
Energy Delivery of Ohio, Inc. d/b/a	)	
CenterPoint Energy Ohio for Authority to	)	
Issue Long-Term Debt, to Issue and Sell	)	
Common Stock, Receive Equity Infusions,	)	Case No. 21-0299-GA-AIS
and Enter into Interest Rate Risk	)	
Management Transactions, and for Approval	)	
of, and Authority to enter into, a revised	)	
Financial Services Agreement.	)	

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**Staff Review and Recommendation**

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**APPLICATION DESCRIPTION**

Pursuant to the Ohio Revised Code, Sections 4905.40 and 4905.41, Vectren Energy Delivery of Ohio, Inc. d/b/a CenterPoint Energy Ohio ("CEOH") filed an application with exhibits on March 31, 2021 ("Application"). In its Application, CEOH is seeking Public Utilities Commission of Ohio ("Commission") authorization to issue and sell both long-term debt ("Long-Term Debt") and additional common stock ("Common Stock"), as well as receive equity infusions ("Equity Infusions"). The Application also seeks authority to enter into interest rate risk management transactions ("Interest Risk Management Transactions"). Lastly, CEOH seeks approval of, and authority to enter into, a revised Financial Services Agreement ("FSA"). Taken as a whole, the Application seeks approval for a Proposed Financing Program ("Financing Program"). If approved, the Financing Program is to occur during a period that ends June 30, 2022 ("Authorization Period").

The Long-Term Debt would: a) not exceed \$150 million in aggregate principal amount; b) have a maturity not to exceed 40 years; c) have a fixed annual interest rate not to exceed 500 basis points above U.S. Treasuries of a comparable maturity; d) an initial variable rate at issuance that does not exceed 8 percent; e) be issued and sold for cash at not less than 95 percent of the face amount; and f) consist of security types described in the Application. To amend the Application, CEOH filed a letter on June 21, 2021. In its letter, CEOH seeks authority to issue Long-Term Debt bearing interest at a fixed rate not to exceed 400 basis points above U.S. Treasury bonds of comparable maturity at the time of pricing; the initial variable rate at the time of issuance is not to exceed 7 percent.

CEOH is a wholly owned subsidiary of Vectren Utility Holdings, Inc. ("VUHI"). CEOH may choose to increase its equity capitalization by the issuance and sale of Common Stock, or by an Equity Infusion from

VUHI, or a combination of thereof (collectively, “Equity Transactions”). The Application specifies an aggregate amount of Equity Transactions of \$75 million.

CEOH also seeks authority to enter into Interest Risk Management Transactions to better manage interest rate risks associated with debt issued under the Application. The Application identifies financing instruments commonly used in capital markets including interest rate swaps, caps, and collars. The Interest Risk Management Transactions specified in the Application have appeared in previous applications.<sup>1</sup>

The FSA was originally executed in 2001 and amended in 2003. CEOH previously committed that, in the event a material change was made to the FSA, it would file an amended copy of the agreement with the Commission. The revised FSA restructures certain debts owed by participants.

The purposes of the Financing Program are: a) the acquisition of property, materials, or working capital; b) construction, completion, extension or improvement of facilities, plant or distribution system; c) the improvement of service; and d) the discharge or lawful refunding of CEOH’s obligations.

## **REVIEW AND ANALYSIS**

VUHI is a wholly owned indirect subsidiary of CenterPoint Energy, Inc. (“CenterPoint”), and VUHI serves as an intermediate holding company for three regulated utilities. The three regulated utilities are Indiana Gas Company (d/b/a CenterPoint Energy Indiana South), Southern Indiana Gas & Electric Company (d/b/a CenterPoint Energy North), and CEOH. VUHI provides shared services to its regulated utilities, including the pooling of debt arrangements. As noted, the FSA sets forth the terms and methods that enable CEOH to secure short and long-term financing through VUHI.

The FSA allows CEOH and the regulated utilities to combine their financing requirements to acquire favorable interest rates and lower debt issuance costs. Under the terms specified in the FSA, VUHI issues debt on behalf of its subsidiaries based upon the individual funding needs of each regulated utility. The terms of financing and the allocation of expenses are described in the FSA, which has been previously acknowledged by the Commission.<sup>2</sup>

Amending the FSA is a measure designed to simplify the debt structure of VUHI and the regulated utilities. FINCO-V, a wholly owned financing subsidiary of CEOH, is to be removed under the revised FSA. FINCO-V was created several years ago to avoid the adverse tax consequences of transferring an ownership interest in CEOH held by Indiana Gas Company. With the amended FSA, certain debt securities will be held by VUHI and not FINCO-V. This restructuring has the benefits of simplifying financial reporting and eliminating an unneeded structure.

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<sup>1</sup> See *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 Stock, Receive Equity Infusions, and Enter into Interest Rate Risk Management Transactions*, Case No. 20-1022-GA-AIS, Finding and Order (September 9, 2020) (VEDO 2020 AIS)

<sup>2</sup> *Id*

According to the FSA, CEOH and the regulated utilities may guarantee VUHI's debt to third parties in order to obtain favorable terms. However, the FSA also provides a level of protection to CEOH in that VUHI is prohibited from pledging or mortgaging CEOH's assets in connection with any guarantee. VUHI's long-term credit ratings are investment grade: *A3* from Moody's with a Stable outlook and *BBB+* by Standard and Poor's with a Stable outlook.

The outlook for VUHI from Standard and Poor's reflects that of its parent, CenterPoint. According to Standard and Poor's, CenterPoint is expected to experience more predictable financial measures owing to the sale of its partnership interests in a midstream energy business. Standard & Poor's deems the sale a positive step that brings a greater focus to lower risk regulated operations and positions CenterPoint in the lower end of the benchmark range for significant financial risk. The outlook revision occurred in February 2021 and applies to VUHI. In the context of the Application, Standard & Poor's would need to drop VUHI by three ratings grades for it to lose its status as an investment grade issuer.

The Application, as amended, identifies a fixed coupon rate that is not to exceed 400 basis points above U.S. Treasuries of a comparable maturity. A widely recognized bond pricing methodology, as recently as April 2021, estimated that the appropriate spread above U.S. Treasuries would be 53, 93, and 121 basis points for five, ten, and thirty-year terms, respectively. Thus, Staff anticipates that the issuance of any Long-Term Debt will reflect an annual coupon interest rate (and resulting financing cost) that is much lower than that described in the Application.

The intent of the Financing Program is to fund capital expenditures, repay outstanding long-term and short-term debt, and fund working capital needs. CEOH's capital expenditure budget is estimated to be \$159 million during the Authorization Period. As stated in the Application, outlays devoted to the improvement of service are anticipated, but modernization initiatives, which includes the distribution replacement program, are to contribute a larger portion of capital expenditures. There are no maturities in 2021 or 2022 that require refinancing.

Equity Infusions received from VUHI are recognized as additions to CEOH's capital. As CEOH is wholly owned by VUHI, new shares of CEOH are not typically issued. Historically, Vectren had contributed capital generated by its dividend reinvestment plan to VUHI and then to CEOH. That arrangement is no longer in place now that Vectren is a wholly owned subsidiary of CenterPoint and Vectren stock is no longer publicly traded. It is CEOH's expectation that equity needs will be satisfied via Equity Infusions and not a sale of Common Stock.

CEOH is seeking authority to enter into Interest Risk Management Transactions including interest rate swaps, caps, floors, and collars, among others. The purpose of these transactions is to better manage interest rate risks associated with debt issues. They allow, for example, converting variable rate debt to fixed rate debt. Interest Risk Management Transactions do not create additional claims on CEOH's cash flow nor influence the level of debt outstanding. The Commission has authorized these activities in prior applications.<sup>3</sup>

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<sup>3</sup> See VEDO 2020 AIS

Since the merger, CenterPoint has not materially changed the way CEOH finances its operations through VUHI. As such, CEOH relies upon VUHI's credit rating to secure financing as CEOH is not rated. CenterPoint is working to improve CEOH's financing model as a means to benefit Ohio customers while giving consideration to tax, regulatory, and legal issues regarding VUHI's outstanding debt. CEOH will not implement change without first informing the Commission.

The following table summarizes the actual and pro forma capital structure, assuming full utilization of the requested authority to issue \$150 million in Long-Term Debt and \$75 million in Equity Transactions\*:

	<b>Actual 03/31/2021 (\$ 000s)</b>	<b>(%)</b>	<b>Pro Forma (\$ 000s)</b>	<b>(%)</b>
Long-Term Debt	\$ 533,195	50%	\$ 683,195	53%
Common Equity	\$ 530,159	50%	\$ 605,159	47%
Total Capitalization	\$ 1,063,354	100%	\$ 1,288,354	100%

\*Pro forma column assumes no contribution of retained earnings during the Authorization Period.

CEOH is managed to a targeted capital structure of 50/50 debt/equity, plus or minus five percent. However, throughout the year, capital structure percentages will vary from the single point target as new debt is issued or retained earnings accumulate. As shown in the table, the proposed financing will raise CEOH's debt percentage and lower its equity percentage. However, the pro forma result does not incorporate any contribution from retained earnings. In addition, on an annual basis, CEOH is evaluated to determine if an equity true up is warranted to maintain adherence to the targeted capital structure.

## **RECOMMENDATION**

Upon review of the amended Application and supporting documentation, Staff believes CEOH's request appears reasonable and recommends approval with the following conditions:

1. In the event that the credit rating of VUHI is downgraded or goes on credit watch with negative implications, CEOH will file such notice in this docket within 10 days of such change and apprise the Commission of CEOH's projected course of action to insulate CEOH from any negative consequences of such downgrade. Based upon the filing of CEOH, the Commission will then determine whether any additional Commission action is warranted.
2. The authorization to consummate the financing transaction(s) to issue the Long-Term Debt within the parameters set forth in the amended Application in no way relieves CEOH of its responsibility to negotiate and obtain the best competitive market terms available.
3. In the event that CEOH enters into interest rate management agreements, it will report the terms and full particulars to the Commission within 30 days of executing the transaction(s).

4. CEOH shall file a summary report, in this case docket, within 60 days of issuing any Long-Term Debt under the authority granted in this case. The report shall summarize the principal amount, interest rate and type of security issued; the other terms and full particulars of the Long-Term Debt including a description of any collateral required, issuance expenses, any discounts or premiums, any credit enhancements, and any other pertinent repayment terms; and the use of proceeds from the Long-Term Debt in broad categories.
5. To the extent that CEOH's Board of Directors has not yet authorized the type, number, or value of shares of Common Stock, the Commission's approval is limited to an aggregate amount of Common Stock for the purposes stated in the Application and should not be construed as an endorsement of the Common Stock issuance; and
6. Upon CEOH's Board of Directors approval of the issuance of the Common Stock, CEOH, shall within a timely manner, notify the Commission by docketing a report in this case docket.
7. As referenced in the Application, CenterPoint is assessing the appropriateness of alternative financing models to the current FSA. If CenterPoint's assessment analysis identifies a more advantageous financing model, then CEOH should notify the Commission and thoroughly review the details of the new potential financing model with Staff prior to binding itself to any new alternative financing arrangements.

**This foregoing document was electronically filed with the Public Utilities**

**Commission of Ohio Docketing Information System on**

**6/28/2021 10:12:00 AM**

**in**

**Case No(s). 21-0299-GA-AIS**

Summary: Staff Review and Recommendation in regard to the application of Vectren Energy Delivery of Ohio, Inc. d/b/a/ CenterPoint Energy Ohio for authority to issue long-term debt, to issue and sell common stock, receive equity infusions, enter into interest rate risk management transactions, and for approval of, and authority to enter into, a revised financial services agreement electronically filed by Zee Molter on behalf of PUCO Staff