



Public Utilities Commission

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July 13, 2021

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

RE: *In the Matter of the Joint Application of Northeast Ohio Natural Gas Corp., Ullico Infrastructure Master Fund, L.P., and Ullico Infrastructure Hearthstone Holdco, LLC for Approval of the Sale and Transfer of GEP Bison Holdings, Inc. and Request for Expedited Approval, Case No. 21-0093-GA-UNC*

Dear Docketing Division:

Enclosed please find Staff's Review and Recommendation in regard to the application of Northeast Ohio Natural Gas Corp. for approval of the sale and transfer of ownership interest at an intermediate holding company level, Case No. 21-0093-GA-UNC.

A handwritten signature in black ink, appearing to read "DL", with a horizontal line underneath.

David Liphtratt
Chief, Accounting and Finance Division
Rates and Analysis Department
Public Utilities Commission of Ohio

Enclosure
Cc: Parties of Record

BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Joint Application of)	
Northeast Ohio Natural Gas Corp., Ullico)	
Infrastructure Master Fund, L.P., and Ullico)	Case No. 21-0093-GA-UNC
Infrastructure Hearthstone Holdco, LLC for)	
Approval of the Sale and Transfer of GEP)	
Bison Holdings, Inc. and Request for)	
Expedited Approval)	

Staff Review and Recommendation

APPLICATION DESCRIPTION

On January 27, 2021, Northeast Ohio Natural Gas Corp. (“NEO”) along with its parent company Hearthstone Utilities, Inc. (“HUI”), Ullico Infrastructure Master Fund, L.P. (together with its general partner UIF GP, LLC (collectively, “UIF”) and Ullico Infrastructure Hearthstone Holdco, LLC (“UIHH”) (collectively referred to as “Applicants”) filed a joint application with exhibits (“Application”) with the Public Utilities Commission of Ohio (“Commission”) seeking an expedited approval of a transaction in which UIHH, a wholly owned subsidiary of Ullico Infrastructure Master Fund, L.P., is acquiring HUI parent company GEP Bison Holdings, Inc. (“GBH”), such that HUI and its subsidiaries will become wholly owned subsidiaries of UIHH (the “Transaction”).¹

NEO is owned by its parent company, PHC Utilities, Inc. (“PHC”), which is a wholly owned subsidiary of HUI. HUI is owned by GBH, and GBH is owned by GEPIF II ECHO AIV, L.P., an infrastructure fund managed by an investment management subsidiary of BlackRock, Inc.² PHC and GBH are intermediary holding companies that do not have employees, do not provide utility service in any of the states in which their utility subsidiaries operate, and do not make operational, regulatory, or financial decisions for any of the operating utilities they hold, including NEO. Instead, HUI has employees and is actively engaged in providing services and oversight for its subsidiary utilities, including NEO.

GBH and HUI, including all of its subsidiaries, including PHC and NEO, will remain as currently structured as wholly owned subsidiaries of UIHH, which is ultimately owned by Ullico

¹ See Application Exhibit C attached below.

² See Application Exhibit A attached below.

Infrastructure Master Fund, L.P. and controlled by UIF GP, LLC. UIF is experienced in owning and financing a mixture of energy-related firms. UIF's investment vehicle, of which UIHH is a wholly owned subsidiary, is a long-term and open-ended investment fund that makes investments in infrastructure businesses that provide essential services to communities, governments, and businesses.

UIHH intends to retain the current group of experienced managers within HUI and NEO, along with Luvian Partners at GBH. The current plan is for the existing HUI management team to continue to provide support services and custodial management of the operations of the regulated utility companies post-Transaction. NEO is expected to continue with the same management and corporate structure. While UIHH and UIF plan to transition over time from a third party executive management firm of HUI to a dedicated, full-time executive management team, no changes in leadership or management that would affect GBH or any of its subsidiaries, including HUI and NEO, are currently expected.

According to the Application, the Transaction will provide NEO and the other HUI regulated utilities with the stable financial support and managerial experience of a perpetual fund with experience across transportation, energy, and utilities sectors in the United States and in Canada. The Transaction will also support the continued provision of safe, reliable, and adequate utility service in order to ensure customer satisfaction at just and reasonable rates, and the potential for economically viable expansion of services throughout Ohio.

The Application also indicates that the Transaction will provide benefits to NEO customers in the following ways: a) UIF's broad energy expertise; b) financial stability by becoming a subsidiary of a multi-national, broadly diversified equity investment vehicle; c) access to stable capital and additional financial backing from a perpetual investment fund; and d) leadership, guidance, and resources necessary to ensure innovation and continuity of best practices for NEO in the provision of safe and reliable service to its customers.

In addition to the stated benefits, the Applicants make the following commitments: a) NEO will not seek to recover any acquisition premium or transaction costs associated with the Transaction in rates; b) NEO will not seek any changes in rates, terms, or conditions of service as a result of the Transaction; c) there will be no change to the principal place of business or corporate office of NEO as a result of the Transaction; and d) the Transaction will not change the terms of the Intercompany Agreement executed with HUI by NEO (subject to acceptance of change of control provisions by the current lenders). The Applicants also state that Ohio customers will experience no immediate rate or service changes as a result of this Transaction. NEO does not anticipate any material, immediate changes to the rate base, operations, or customer service as a result of the Transaction. NEO does not anticipate any changes of employment status of utility employees in Ohio as a result of the Transaction, and it expects continued compliance with all rules, regulations, and applicable Commission orders.

REVIEW AND ANALYSIS

As stated in the Application, UIF is a long-term open-ended investment fund that makes investments in infrastructure businesses that provide essential services to communities, governments, and businesses. As such, UIF has indicated that it evaluates investment decisions with a long-term view using a buy-and-hold strategy. Since its inception in 2012, UIF has invested over \$2.4 billion in investments across the transportation, energy, and utilities sectors in the United States and Canada, each investment utilizing a buy-and-hold strategy.

UIF has indicated that the acquisition of HUI will be funded through a combination of equity, continuation of existing HUI debt, and the issuance of approximately \$110 million of new debt. The new debt would be issued by HUI and would be maintained on the balance sheet of HUI. The Applicants have indicated that the new debt issuance will have no impacts to the balance sheet of NEO or any other utility operating company subsidiaries of HUI. The Applicants have also indicated that the available source of cash flows to service the new debt will primarily come from the utility operating subsidiaries of HUI, which includes NEO.

In the Application and in response to Staff interrogatories, the Applicants have identified potential benefits that may result from the Transaction. The primary benefits associated with the Transaction appear to be enhanced access to capital, managerial expertise, and long-term investment horizon. The Applicants were unable to quantify the full economic impact of the stated benefits at this time. As such, Staff is unable to confirm whether the qualitative and quantitative benefits will be sufficient to offset the economic costs associated with the Transaction.

RECOMMENDATION

Staff has reviewed the Application and supporting information provided by the Applicants as well as information filed by the Applicants in case dockets in other jurisdictions. Based upon our review, Staff concludes that the proposed Transaction does not appear to be harmful to the public interest given the affirmative commitments made by the Applicants. However, the Transaction also does not appear to provide many, if any, quantifiable benefits to NEO or its customers at this time. Additionally, Staff is concerned about a potential increase in financial pressure that may be placed on NEO and its utility affiliates to provide dividend support for incremental debt servicing requirements associated with the Transaction in addition to equity return requirements. Accordingly, Staff recommends the following conditions be adopted in order to protect NEO and its customers if the Commission determines the Application should be approved:

- Dividend Restrictions: NEO shall not make dividend distributions that exceed net income within any given calendar year. Furthermore, NEO shall not exceed a dividend payout ratio above 80 percent of annual net income unless NEO's retained earnings balance is positive, unless otherwise permitted by the Commission to do so.

- Benefits to Customers: The Application touts UIF's leadership capabilities and expertise in facilitating an innovative culture that is focused on best practices in serving NEO's customers. As such, cost saving efficiencies resulting from the Transaction should flow back to NEO customers on a proportionate basis when compared to other HUI utility affiliates. These savings should be identified and recognized to the benefit of customers during NEO's next base rate case.
- Transaction Impacts: As stated by the Applicants in the Application, "The Transaction will have no adverse impact on customers in Ohio..." Staff avers that being a financially healthy utility better positions the utility to provide safe and reliable service to its customers. Therefore, all transaction costs, incremental debt, and any acquisition premium shall be the responsibility and financial burden of UIF and/or HUI. In no way shall the balance sheet and financial metrics of NEO be caused to decline as a result of the Transaction.
- Prior Commitments: In past financing³ and merger⁴ cases relating to NEO, the Commission established various conditions as part of its approvals in those cases. The Applicants, as well as any successor entities, should agree to maintain adherence to and be bound by those conditions, unless otherwise modified by the Commission.

In conclusion, subject to the adoption of Staff's conditions listed above, Staff believes the Transaction does not appear to be harmful to the public interest and should not adversely impact Ohio customers.

³ See *In the Matter of the Joint Application of Brainard Gas Corp., Northeast Ohio Gas Corp., Orwell Natural Gas Company, and Spelman Pipeline Holdings, LLC for Approval of Long Term Financing Arrangements* and *In the Matter of the Joint Application of Brainard Gas Corp., Northeast Ohio Gas Corp., Orwell Natural Gas Company, and Spelman Pipeline Holdings, LLC for Approval of Corporate Reorganization and Potential Merger*, Case No. 16-0354-GA-AIS, et. al, Opinion and Order (August 31, 2016).

⁴ See *In the Matter of the Joint Application of Brainard Gas Corp., Northeast Ohio Gas Corp., Orwell Natural Gas Company, and Spelman Pipeline Holdings, LLC for Approval of Merger with FR Bison Holdings, Inc. and FR Bison Merger Sub, Inc.*, Case No. 16-2251-GA-UNC, Finding and Order (June 21, 2017).

Exhibit A
(HUI Current Organizational Chart)

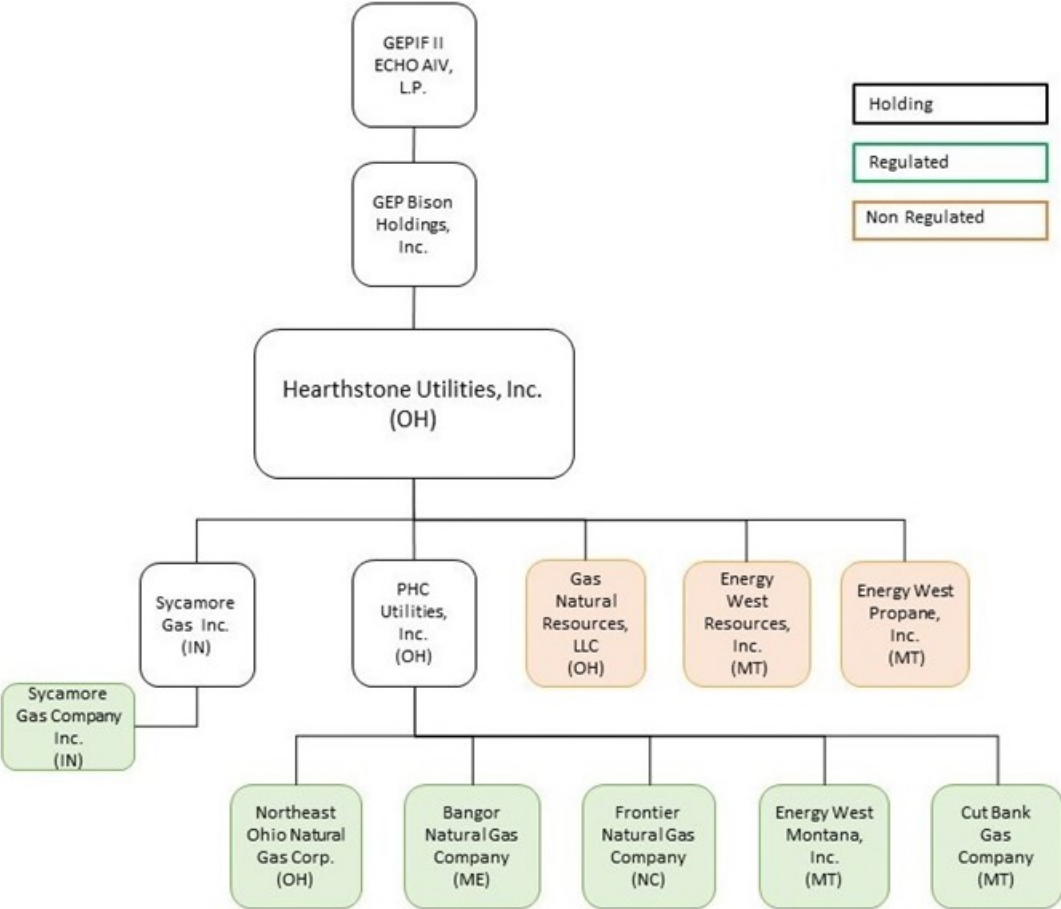
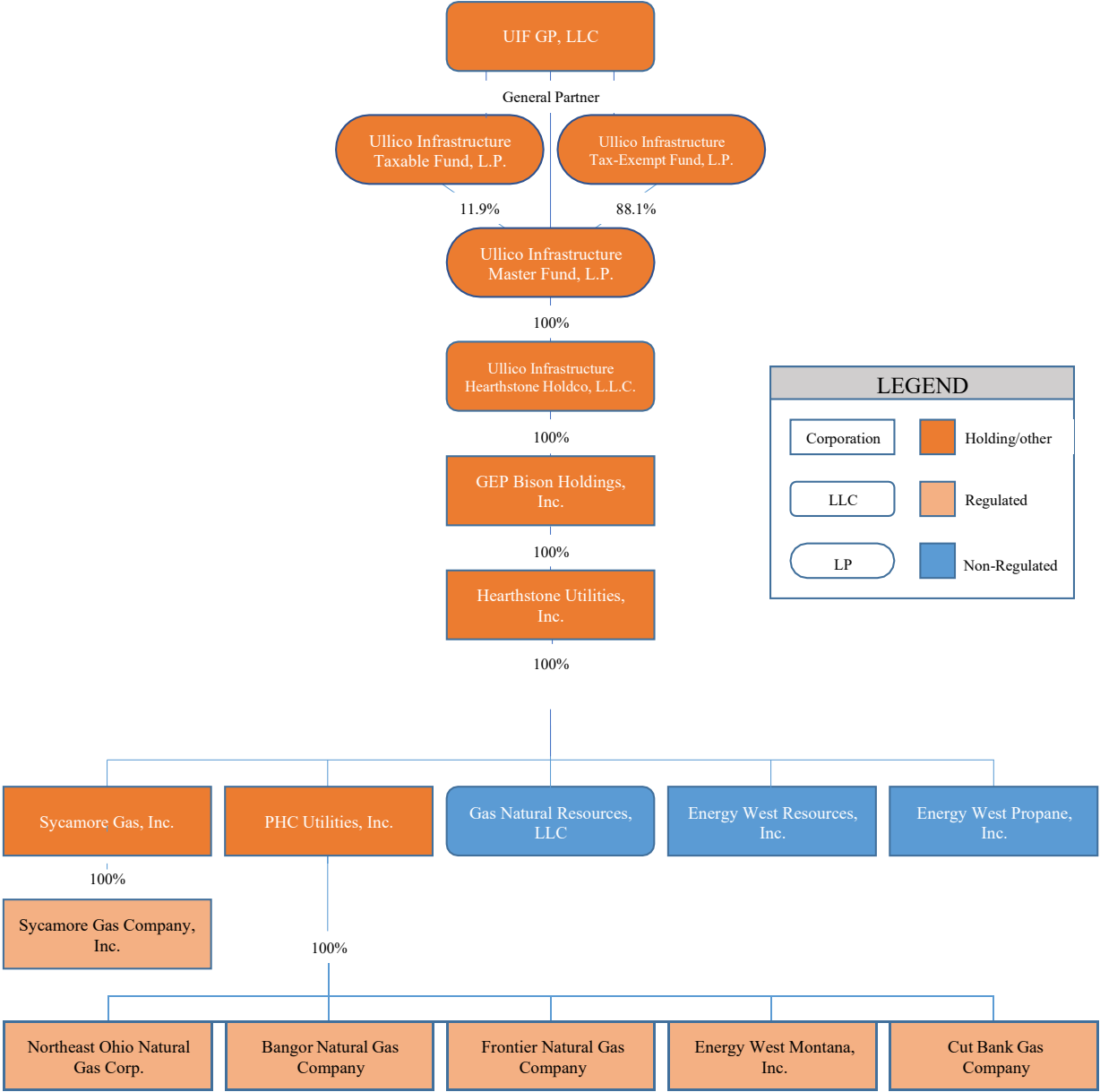


Exhibit C
(UIF Portfolio Investment- Hearthstone - Proposed Entity Diagram)



This foregoing document was electronically filed with the Public Utilities

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in

Case No(s). 21-0093-GA-UNC

Summary: Staff Review and Recommendation in regard to the application of Northeast Ohio Natural Gas Corp. for approval of the sale and transfer of ownership interest at an intermediate holding company level electronically filed by Zee Molter on behalf of PUCO Staff