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, 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. 21-299-GA-AIS**
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. d/b/a CenterPoint Energy Ohio for Approval of Accounting Methodology.	**Case No. 21-984-GA-AAM**

SUPPLEMENTAL FINDING AND ORDER

Entered in the Journal on January 26, 2022

I. Summary

{¶ 1} The Commission approves the supplemental application of Vectren Energy Delivery of Ohio, Inc. d/b/a CenterPoint Energy Ohio to modify existing authority to issue new debt and for authority to reissue existing debt, transfer existing common stock, and enter into a new financial services agreement, subject to Staff's conditions and recommendations, and denies the request for accounting authority to defer the direct incremental expenses associated with the financing restructuring.

II. Discussion

{¶ 2} Vectren Energy Delivery of Ohio, Inc. d/b/a CenterPoint Energy Ohio (CEOH or the Company) is a natural gas company as defined in R.C. 4905.03 and a public utility as defined in R.C. 4905.02, and, as such, is subject to the jurisdiction of this Commission.

{¶ 3} R.C. 4905.40 permits a public utility to issue stocks, bonds, notes, and other evidences of indebtedness, payable at periods of more than 12 months, when authorized by the Commission. Pursuant to R.C. 4905.40(A)(1), the public utility may issue notes or other evidences of indebtedness when it is necessary for, among other things, the construction, completion, extension, renewal, or improvement of its facilities. And, under R.C. 4905.40(A)(2), the utility may do so for reorganization or readjustment of its indebtedness and capitalization. The application process for obtaining Commission authorization is outlined in R.C. 4905.41. The application must include the amount, purpose, and terms of the financial arrangement, as well as the total assets and liabilities of the public utility.

{¶ 4} On March 31, 2021, as amended June 18, 2021, CEOH filed an application pursuant to R.C. 4905.40 and 4905.41 in *In re Vectren Energy Delivery of Ohio, Inc. d/b/a CenterPoint Energy Ohio*, Case No. 21-299-GA-AIS (*2021 Financing Case*). Therein, CEOH requested authority, through June 30, 2022, to issue and sell long-term debt not to exceed an aggregate principal amount of $150 million[1], to issue and sell common stock, and to receive equity infusions for an aggregate sale price not to exceed $75 million. CEOH further sought authority to enter into one or more interest rate risk management transactions. CEOH explained that, collectively, these comprise its proposed Financing Program, which it intended to implement through its parent company, Vectren Utility Holdings, Inc. (VUHI), pursuant to a pooling arrangement set forth in a Financial Services Agreement (FSA) last amended in 2003. Pursuant to commitments made by the Company in its last financing-approval case, *In re Vectren Energy Delivery of Ohio, Inc.*, Case No. 20-1022-GA-AIS (*2020 Financing Case*), CEOH additionally sought approval of, and authority to enter into, a revised FSA to implement a more advantageous financing model.

{¶ 5} On July 14, 2021, the Commission approved CEOH's amended application, subject to Staff's review and recommendation filed June 28, 2021. *2021 Financing Case*, Finding and Order (July 14, 2021).

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1 The amended application clarified that any long-term debt issued would bear interest at a fixed rate not to exceed 400 basis points above U.S. Treasury bonds of comparable maturity at the time of pricing or an initial variable rate at time of issuance not to exceed seven percent.

{¶ 6} On September 24, 2021, in both of the above-captioned dockets, CEOH filed a supplemental application to modify its existing authority to issue new debt and for authority to reissue existing debt, transfer existing common stock, and enter into a new FSA, as well as an application for accounting authority (Supplemental Application). Therein, the Company states that it seeks the requested approvals to allow it to undertake a new method to capitalize CEOH following the merger of CenterPoint Energy, Inc. (CenterPoint) and Vectren Corporation, which the Company represents will result in net reductions in costs and, ultimately, lower overall costs to consumers. As explained in the Supplemental Application, the proposed financing restructuring entails: (1) VUHI transferring its ownership interest in CEOH to CenterPoint Energy Resources Corp. (CERC); (2) CEOH redeeming all existing VUHI debt and issuing new debt to CERC in the same amount and on the same terms and conditions as the VUHI debt; (3) CEOH entering into a new FSA; (4) following approval of the Supplemental Application, CEOH issuing new debt under the 12-month financing authority provided in this case to CERC instead of VUHI; (5) CEOH amortizing issuance costs in the same manner as authorized by the Commission in the Finding and Order in the *2021 Financing Case*; and (6) CEOH deferring direct incremental expenses associated with the financing restructuring.

{¶ 7} On January 6, 2022, Staff filed its review and recommendations regarding the Supplemental Application.

{¶ 8} Staff relates that, at present, VUHI is a wholly-owned, indirect subsidiary of CenterPoint and serves as an intermediate holding company for three regulated entities: Indiana Gas Company (CEI South), Southern Indiana Gas and Electric Company (CEI North), and CEOH. VUHI acts to provide shared services to the regulated entities, including the pooling of debt arrangements, and, to date, CenterPoint has not materially changed the way CEOH finances its operations through VUHI. With the proposed financing restructuring, however, CenterPoint would transfer ownership of CEOH from VUHI to CERC. Thus, CEOH would cease to be a wholly-owned subsidiary of VUHI and, instead, would become a wholly-owned subsidiary of CERC, which is an indirect, wholly-owned subsidiary of CenterPoint. CEOH has calculated a hypothetical 25 basis point cost savings associated with past bond issuances made by VUHI, assuming that they were underwritten as obligations of CERC. CEOH anticipates that this cost savings benefit will continue into the future.

{¶ 9} Staff indicates that, to complete the financing restructuring, CEOH will issue new debt to CERC and use the proceeds from that issuance to redeem the same amount of long-term debt (Existing Debt) currently owed to VUHI. The new debt would be issued to CERC by CEOH on the same terms and conditions as the Existing Debt owed to VUHI. Additionally, the financing restructuring would not change CEOH's balance sheet. Staff states that CEOH is managed to a targeted capital structure of 50/50 debt/equity, plus or minus five percent, and the proposed financing restructuring would not alter this targeted level of capitalization. Further, after approval of the Supplemental Application, ongoing review of Existing Debt issued by VUHI and transferred to CERC will be conducted to determine if refinancing the debt provides a benefit. Staff relates that CEOH is likely to request issuing debt directly in future financing applications, as has been done in the past to assure that long-term debt financing can be obtained on the best terms possible.

{¶ 10} Continuing, Staff explains that, just as there is no change contemplated to CEOH's balance sheet, there is no change anticipated in its ability to access capital markets by means of the proposed financing restructuring. CERC, CEOH's proposed parent company, has an investment grade rating equivalent to VUHI. Moreover, and unlike VUHI, CERC is also rated by Fitch, which imparts an additional validation of the underlying credit quality. CEOH expects CERC's key credit metrics to stay in line with its present ratings. Staff states that CERC is expected to provide financing via intercompany promissory notes issued to CEOH, as is the current practice with VUHI.

{¶ 11} Staff notes that, with the Supplemental Application, CEOH requests that the Commission provide approval and authority for CEOH to enter into a new FSA with CERC. The existing FSA allows CEOH, CEI South, and CEI North to combine their financing requirements to acquire favorable interest rates and lower debt issuance costs. Staff explains that the primary differences between the existing FSA and the new FSA are: (1) CEOH will issue debt to CERC instead of VUHI; (2) CEOH will no longer be required to provide an on-going joint and several guarantee of the debt issuances of VUHI and CERC; and (3) CEI South will no longer be a party to the FSA. Staff believes there are benefits to CEOH entering a new FSA with CERC. For example, CEOH is currently able to guarantee VUHI's third-party debt, but CEOH will not guarantee any VUHI or CERC debt under the new FSA. Additionally, since CEI South is not included in the new FSA, CEOH will no longer have exposure to coal generated power. Finally, grouping CEI North and CEOH with the vast majority of CenterPoint's gas operations is likely to result in a more efficient and cost-effective financing structure. Staff further explains that it is reasonable to have CEOH's existing borrowing authority continue and vest it with CERC under a new FSA because, with the financing restructuring, CEOH's current Existing Debt borrowed from VUHI is to be reassigned to CERC through a debt exchange whereby the outstanding debt will be redeemed and reissued to change the lender from VUHI to CERC.

{¶ 12} Staff reports that the Commission approved CEOH's application to issue and sell long-term debt, not to exceed an aggregate principal amount of $150 million. *2021 Financing Case*, Finding and Order (July 14, 2021). Pursuant to that existing authority, CEOH has already issued $24 million, which would be redeemed under the financing restructuring. CEOH anticipates utilizing the remaining authority in the first or second quarter of 2022 after the financing restructuring has been completed.

{¶ 13} Staff relates that, in the Supplemental Application, CEOH requests that the Commission authorize the amortization of the issuance costs of the financing restructuring in a manner previously authorized. The costs associated with any early redemption of outstanding Existing Debt are to be amortized over the original term of the debt being redeemed. And, with regard to unamortized debt issuance costs, which are currently reflected in CEOH's calculation of its embedded cost of debt, CEOH would continue to reflect those balances in its book values following the completion of the financing restructuring. Staff states that there will be no change to the accounting value of the Existing Debt in this case; thus, CEOH will recover its debt costs through existing rates.

{¶ 14} The Supplemental Application also seeks Commission approval to defer direct incremental expenses associated with the financing restructuring. Staff describes these expenses as being legal and consultant fees of approximately $0.8 million, accounting/auditor fees of approximately $0.3 million, and miscellaneous technology fees of $0.01 million to implement the financing restructuring. With the deferral, recovery of the direct incremental costs would be sought in a future distribution rate case. Staff states that, historically, it has considered six criteria when determining authority to defer expenses. And, having evaluated the request against those six criteria, Staff recommends that the Commission deny CEOH's request for deferral authority.

{¶ 15} In short, upon review of the Supplemental Application and supporting documentation, Staff believes that CEOH's request appears to be reasonable and recommends approval with the following conditions:

(a) In the event that the credit rating of CERC is downgraded or goes on credit watch with negative implications, CEOH will file such notice in the *2021 Financing Case* within ten 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 CEOH's filing, the Commission will then determine whether any additional Commission action is warranted.

(b) The authorization to consummate the financing transaction(s) to issue the long-term debt within the parameters set forth in the Supplemental Application in no way relieves CEOH of its responsibility to negotiate and obtain the best competitive market terms available.

(c) 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 transactions.

(d) CEOH shall file a summary report, in the *2021 Financing Case*, 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.

(e) Staff concludes that the costs associated with the financing restructuring meet the definition of Transition Costs as defined in the Commission's approval in *In re 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 (Jan. 30, 2019). As such, CEOH's request to amortize early redemption costs shall be recorded and made available for review in CEOH's next distribution rate case for potential recovery.

(f) Based upon the results of Staff's six-part test for deferral authority, Staff recommends that the Commission deny CEOH's request for deferral authority.

(g) CEOH shall file a transaction summary report, in the *2021 Financing Case*, within 60 days of completing the financing restructuring. The summary report shall provide confirmation that the Existing Debt has been redeemed and replaced with new debt issued to CERC. The summary report shall also identify any costs associated with early redemption of the Existing Debt.

{¶ 16} On January 18, 2022, CEOH filed correspondence notifying the Commission that the Company accepts Staff's recommendations. While characterizing Staff's first four recommendations as customary in the Company's annual financing cases, CEOH specifically responds to recommendations five, six, and seven. As to recommendation five, CEOH agrees to track early redemption costs as a merger Transition Cost and to make that information available for Staff's review in the Company's next base rate case. As to recommendation six, CEOH accepts Staff's recommended denial of the Company's request to defer direct incremental expenses associated with the refinancing. And, with regard to recommendation seven, CEOH states that the Company accepts Staff's recommendation that the Company file a report in the *2021 Financing Case* within 60 days of completing the financing restructuring.

{¶ 17} The Commission has reviewed the Supplemental Application, the Staff Report, and the Company's responsive correspondence. Upon that review, the Commission finds that the proposed financing restructuring, subject to Staff's stated conditions and recommendations, does not appear to be unjust or unreasonable. Therefore, the Commission finds that the Supplemental Application should be approved, subject to Staff's conditions and recommendations. Of specific note, and as recommended by Staff, we find that the Company's request to defer direct incremental expenses associated with the financing restructuring should be denied.

III. ORDER

{¶ 18} It is, therefore,

{¶ 19} ORDERED, That CEOH's Supplemental Application be approved to the extent set forth herein, pursuant to the described terms and conditions, and subject to Staff's conditions and recommendations. It is, further,

{¶ 20} ORDERED, That nothing in this Supplemental Finding and Order be construed to imply any guaranty or obligation by the Commission to assure completion of any specific construction project of CEOH. It is, further,

{¶ 21} ORDERED, That nothing in this Supplemental Finding and Order be construed to imply any guaranty or obligation as to the securities on the part of the state of Ohio. It is, further,

{¶ 22} ORDERED, That nothing in this Supplemental Finding and Order be deemed to 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,

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

COMMISSIONERS:
Approving:
Jenifer French, Chair
M. Beth Trombold
Lawrence K. Friedeman
Daniel R. Conway
Dennis Deters

PAS/hac