Ohio | Public Utilities Commission

Mike DeWine, Governor
Jenifer French, Chair

Commissioners

Lawrence K. Friedeman
Dennis P. Deters
Daniel R. Conway

February 24, 2023

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 Ohio, Inc., for Authority to Issue, Sell or Enter into Debt Transactions,* Case No. 22-0787-GA-AIS

Dear Docketing Division:

Enclosed please find Staff's Review and Recommendation in regard to the application of Columbia Gas of Ohio, Inc. for authority to issue long-term debt, Case No. 22-0787-GA-AIS.

Tamara S Turkenton

Tamara Turkenton
Director
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 Application of Columbia Gas of Ohio, Inc. for Authority to Issue, Sell or Enter into Debt Transactions.	))))	Case No. 22-0787-GA-AIS

Staff Review and Recommendation

APPLICATION DESCRIPTION

On November 10, 2022, Columbia Gas of Ohio, Inc. ("Columbia") filed an application and supporting attachments ("Application") with the Public Utilities Commission of Ohio ("Commission"), pursuant to Sections 4905.40 and 4905.41 of the Ohio Revised Code. The Application seeks authorization to issue Long-Term Promissory Notes ("Notes") to Columbia's ultimate parent, NiSource Inc. ("NiSource") or any of NiSource's wholly-owned subsidiaries. Subject to Commission authorization, Columbia proposes to issue Notes, by December 31, 2023, in an amount not to exceed $300 million. The Application represents a renewal of authority granted by the Commission previously ("Previous Authority").[1] Columbia issued $200 million of Notes under the Previous Authority, which expired on December 31, 2022.[2]

The Notes will be unsecured and issued with maturities of up to thirty years. The Notes are expected to bear a coupon interest rate corresponding to that of utilities with credit ratings that are the same as NiSource (currently rated BBB+ with a Stable Outlook by S&P Global Ratings); market conditions prevailing at the time of issuance will also play a role. Bloomberg's C038 index screen (or a comparable screen) is to be used to determine the coupon interest rate on the Notes.

The proceeds from the proposed sale of the Notes are to be applied to construction expenditures and other corporate purposes. Columbia anticipates that its construction expenditures associated with the acquisition of property and for the construction, completion, extension and improvement of company facilities will approximate $535 million in 2022 and $492 million in 2023. The debt capacity requested in the Application, in addition to internally generated funds, is anticipated to allow Columbia to finance its capital program.

---

[1] See *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Authority to Issue, Sell or Enter into Debt Transactions,* Case No. 21-0872-GA-AIS, Finding and Order (January 12, 2022) (2021 AIS Case)
[2] 2021 AIS Case, Notification of Debt Issuance (December 15, 2022)

Apart from NIPSCO (a regulated utility in Indiana), NiSource secures financing for its system corporate-wide. The timing of its financings may not necessarily align with Columbia's liquidity needs. If Columbia has a need to issue debt within 30 days before or after a NiSource external long-term debt issuance of matching maturity, Columbia will make every effort to issue debt on the same day as NiSource's debt issuance announcement date. However, as described in the Application, if the liquidity needs of either Columbia or NiSource changes unexpectedly, Columbia may need to issue debt without a corresponding external debt issuance made by NiSource. The coupon interest rate associated with such an issuance will be determined by Bloomberg's C038 index screen or a comparable screen.

REVIEW AND ANALYSIS

Columbia works with NiSource's Treasury Department to determine its liquidity needs throughout the calendar year and issues debt when necessary. For calendar year 2023, Columbia anticipates issuing long-term debt to NiSource. Further, in its Application, Columbia indicates it will continue to comply with conditions approved in prior debt issuance cases. These conditions include providing summary reports of issuance on a timely basis and the determination of coupon interest rates through use of the Bloomberg C038 index screen (or comparable screen).

The summary reports disclose the principal amount of debt issuance, terms of the Note, the purpose of the borrowing, and the calculation of the interest rate of the Note. External financing is done at the parent level and funding is provided to NiSource's operating companies through intercompany financing mechanisms. As a result, Columbia receives the benefit of not being charged with issuance costs typically associated with debt issuances in the capital markets.

The use of the Bloomberg C038 index screen (or comparable screen) to determine the coupon rate enables Columbia to issue debt reflective of current market conditions even though Columbia itself is not rated by a nationally recognized statistical ratings organization. Instead, the credit ratings of NiSource (which is an investment grade issuer) determine the cost of Columbia's debt. Staff believes that the methodology that Columbia uses in its debt issuances provides a reasonable proxy for a competitive market rate.

Columbia's Notes will reflect market conditions at the time of issuance. If recent market conditions were to persist, a 30-year debt offering would carry an approximate 5.32 percent coupon. Columbia selected a 30-year term in a prior issuance.[3] According to Columbia, the choice of a 30-year term locks in a favorable rate of financing for an extended period, eliminates interest rate risk during the term, and appropriately matches long-term liabilities to long-term assets.

The following table summarizes Columbia's current capitalization as well as its pro-forma composition, giving effect to: a) utilization of $200 million of the Previous Authority and b) the

---

[3] *Id*

full utilization of the requested $300 million in Notes during the period that ended December 31, 2023.

	Actual 9/30/2022 ($ 000s)	**(%)**	**Pro Forma 12/31/2022 ($ 000s)**	**(%)**	**Pro Forma 12/31/2023 ($ 000s)**	**(%)**
Long Term Debt	$ 1,902,926	47.55%	$ 2,102,926	48.56%	$ 2,402,926	49.08%
Total Equity	$ 2,098,800	52.45%	$ 2,227,757	51.44%	$ 2,492,539	50.92%
Total Capitalization	$ 4,001,726	100.0%	$ 4,330,683	100.0%	$ 4,895,465	100.0%

As shown on a pro forma basis, the proposed financing will marginally increase the use of debt in Columbia's capitalization; the accumulation in total equity is the result of the retention of internally generated funds.

Since Columbia secures its long-term debt through NiSource, the credit ratings of NiSource influence the cost of debt. The table below provides information concerning NiSource's credit ratings.

	Rating	Outlook
Moody's	Baa2	Stable
Fitch	BBB	Stable
S&P Global	BBB+	Stable

RECOMMENDATION

Upon review of the Application, Staff believes Columbia's request appears reasonable and recommends approval.