STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

FILED
January 28, 2021
INDIANA UTILITY
REGULATORY COMMISSION

PETITION OF INDIANA GAS COMPANY, INC. d/b/a VECTREN ENERGY DELIVERY OF INDIANA, INC. FOR AUTHORITY TO IMPLEMENT ITS 2021-2023 FINANCING PROGRAM BY (1) ISSUING NOT TO EXCEED $225,000,000 IN AGGREGATE PRINCIPAL AMOUNT OF UNSECURED LONG-TERM DEBT ISSUED TO UNAFFILIATED LENDERS AND DEBT IN THE FORM OF UNSECURED PROMISSORY NOTES TO VECTREN UTILITY HOLDINGS, INC. ("VUHI"), ITS IMMEDIATE PARENT COMPANY, PURSUANT TO THE FINANCIAL SERVICES AGREEMENT; (2) EXECUTING AND DELIVERING EVIDENCES OF INDEBTEDNESS RELATING TO SUCH LONG-TERM DEBT; (3) ENTERING INTO INTEREST RATE RISK MANAGEMENT TRANSACTIONS; (4) ISSUING AND SELLING NOT TO EXCEED $100,000,000 OF COMMON AND/OR PREFERRED STOCK; (5) APPROVAL OF PETITIONER'S REVISED FINANCIAL SERVICES AGREEMENT AMONG ITS AFFILIATE UTILITIES AND VUHI AND OTHER MATTERS RELATING TO SUCH TRANSACTION; AND (6) USING THE NET PROCEEDS FROM THE FINANCING PROGRAM TO REIMBURSE ITS TREASURY AND, THEREAFTER, TO REPAY AND REFUND OUTSTANDING LONG-TERM DEBT, REPAY ITS SHORT-TERM DEBT, AND FINANCE ITS CONSTRUCTION PROGRAM.	)	**CAUSE NO. 45457**

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR'S

PUBLIC'S EXHIBIT NO. 1 – TESTIMONY OF OUCC WITNESS CINTHIA J. SABILLON

With the current requirement that all staff work from home, signatures for affirmations are not available at this time.

January 28, 2021

Respectfully submitted,

T. Jason Haas
Attorney No. 34983-29
Deputy Consumer Counselor

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing ***OUCC'S TESTIMONY OF CINTHIA J. SABILLON*** has been served upon the following counsel of record in the captioned proceeding by electronic service on January 28, 2021.

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INDIANA GAS COMPANY, INC.,
D/B/A VECTREN ENERGY DELIVERY OF INDIANA, INC.
CAUSE NO. 45457
TESTIMONY OF OUCC WITNESS CINTHIA J. SABILLON

I. INTRODUCTION

Q: Please state your name and business address.

A: My name is Cinthia J. Sabillon, and my business address is 115 West Washington Street, Suite 1500 South, Indianapolis, IN 46204.

Q: By whom are you employed and in what capacity?

A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as a Utility Analyst. I have worked as a member of the OUCC's Natural Gas Division since October 2019. For a summary of my educational and professional experience, as well as my preparation for this case, please see the Appendix CJS-1 attached to my testimony.

Q: What is the purpose of your testimony?

A: My testimony provides my analysis of Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana's ("Vectren North" or "Petitioner") request for authority to issue up to $225 million in aggregate principal amount of long-term debt, and sell up to $100 million in common and/or preferred stock to Vectren Utility Holdings, Inc. ("VUHI"). Petitioner requests approval and authority to enter into a revised Financial Services Agreement ("FSA"). Petitioner also requests various other items related to its financing program as defined below.

Q: What are your recommendations?

A: I recommend the Indiana Utility Regulatory Commission ("Commission") approve Vectren North's request for its proposed financing program ("financing program") and various other items related to its financing program as described below, and adjustments to its FSA. The OUCC also recommends the interest rates on fixed long-term debt not to exceed 500 basis points above United States Treasury bonds and the interest rates on variable rate debt not to exceed 8%. Lastly, the OUCC recommends the same reporting requirements from Cause No. 45171 be ordered in this Cause.

II. <u>REQUESTED RELIEF</u>

Q: What financing program is Petitioner requesting in this Cause?

A: Petitioner is requesting Commission approval to issue long-term debt not to exceed $225 million. Petitioner also requests Commission approval to sell additional common stock and/or preferred stock not to exceed $100 million to VUHI. The term of the financing program will begin from the date of this Order through March 31, 2023.

Q: Does Petitioner seek any other approval?

A: Yes. Petitioner also requests authority to enter into interest rate risk management transactions, including swaps, interest rate caps, floors, and collars. In addition, Petitioner requests approval for amortization of issuance and interest rate risk management costs. Petitioner requests approval to treat all costs associated with early redemption of any outstanding debt as an issuance expense. Unamortized issuance expense related to premature redemption of debt is requested to be amortized over the life of the financing issue. Furthermore, Petitioner also proposes revisions to the FSA which was approved by the Commission in Cause No. 43968.

Q: Does the OUCC agree with Petitioner's use of interest rate risk management transactions?

A: Yes. By engaging in interest risk management transactions, Petitioner mitigates interest risk volatility which is beneficial in times when interest rates increase.

Q: Does the OUCC agree with the amortization of issuance costs and interest rate management costs?

A: Yes. The OUCC agrees with the amortization of these costs, as this is the way these costs have been treated by the Commission in prior financing orders.

Q: Does Petitioner specify the purpose for which this financing program is sought?

A: Yes. The proceeds of Petitioner's financing program are meant to be applied to capital spending requirements. "Any remaining authority is requested to reimburse Vectren North's treasury and to repay short-term debt, including amounts incurred to support Vectren's North ongoing construction program." (Petitioner's Exhibit No. 1, page 11, lines 10-14.)

Q: Does the OUCC agree with Petitioner's proposed use of the financing program funds?

A: Yes. The OUCC agrees with the use of the financing program funds. The OUCC believes the use of the funds will allow Vectren North to continue to provide reliable service to its customers.

III. OUTSTANDING AUTHORITY FROM PETITIONER'S 2019-2021 FINANCING PROGRAM

Q: How much long-term debt financing authority does Vectren North have available under Cause No. 45171, Final Order issued April 24, 2019?

A: Mr. Jerasa states: "As of September 30, 2020, Vectren North currently has $145 million of long-term debt financing authority remaining..." (Petitioner's Exhibit 1, page 9, lines 1-2.) In response to OUCC Data Request ("DR") 1.1 (Attachment

CJS-1, page 1), Petitioner provided a copy of Attachment BAJ-1 updated schedule of Petitioner's long-term debt outstanding as of December 31, 2020. (Attachment CJS-1, page 2.) The updated schedule of long-term debt outstanding includes a new issuance of $60 million on November 24, 2020. As of December 31, 2020, I determined Petitioner's remaining debt financing authority from Cause No. 45171 is $85 million, which includes the $175 million of approved debt financing authority from Cause No. 45171, minus $30 million in VUHI Notes, of which $20 million were issued on December 31, 2019 and $10 million were issued on June 30, 2020, and minus the $60 million in VUHI Notes issued on November 24, 2020.

Q: How much remaining equity financing authority does Vectren North have available under Cause No. 45171, Final Order issued April 24, 2019?

A: Mr. Jerasa states: "…and $100 million of equity financing authority remaining, both of which expire on March 31, 2021." (Petitioner's Exhibit No. 1, page 9, lines 2-3.) According to Petitioner's response to OUCC DR 1.10(b), "Vectren North does not expect to use any of the remaining unused equity financing authority before the March 31, 2021 expiration date." (Attachment CJS-2, page 2.)

IV. PETITIONER'S PROPOSED FINANCING PROGRAM FOR 2021-2023

Q: Please describe Petitioner's proposed financing program for 2021-2023.

A: Petitioner's proposed financing program includes $225 million in aggregate principal amount of incremental long-term debt and up to $100 million of additional common stock or preferred stock sold to VUHI from the date of this order through March 31, 2023. Vectren North expects the additional equity will come primarily in the form of a direct infusion of capital. (Petitioner's Exhibit No. 1, page 7, lines

17-22). In addition, the proposed financing program will consist of interest rate management transactions.

Q: What is the relationship between VUHI and Vectren North?

A: Vectren North, Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren South") and Vectren Energy Delivery of Ohio ("VEDO") are wholly owned subsidiaries of VUHI, which in turn is a wholly owned subsidiary of Vectren Corporation, which is a wholly owned subsidiary of CenterPoint Energy. Commission authority for this financing structure has been approved in orders dating from May 2001 through April 2019. Petitioner plans to issue the majority of new debt through VUHI pursuant to the proposed revised FSA presented in this Cause. VUHI issuances of long-term debt securities in public or private markets are pooled with those of Vectren North, Vectren South and VEDO, thereby creating larger debt issues at more attractive interest rates and lower transaction costs than would otherwise be available. Petitioner proposes to issue some or all of the new debt for which authority is sought herein pursuant to this debt pooling arrangement.

Q: What is Petitioner's current credit rating?

A: On April 9, 2020, S&P Global Ratings rated Vectren North BBB+ with a negative outlook. I reviewed the S&P Global Rating's article indicating Vectren North as a negative outlook. (Attachment CJS-3.) The S&P Global Ratings analysis cites the negative outlook reflecting on ultimate parent CenterPoint Energy Inc. (CPE), which reflects an expectation for materially weaker financial measures after the announced 50% cut in common unit distribution from CPE's Enable midstream investment and the potential for a post-COVID-19 recession. (Attachment CJS-3, page 3).

Q: How will the interest rates be determined for the VUHI Notes?

A: According to Mr. Jerasa:

> Interest rates on the new fixed rate long-term debt will be determined at the time of issuance or at the time the debt is priced, based on the then prevailing market and economic conditions. Vectren North and VUHI will consult with investment bankers and external counsel as well as review pertinent economic data prior to issuing long-term debt to ensure that the interest rates and terms and conditions of the new debt issues are reasonable. (Petitioner's Exhibit No. 1, page 13 line 20 to page 14 line 2).

Q: What is the anticipated capital structure after the Proposed Financing Authority?

A: Mr. Jerasa states: "Vectren North will seek to maintain an equity to permanent capitalization ratio in the range of 50% to 60%." (Petitioner's Exhibit No. 1, page 20, lines 10-11.)

Long-term debt will increase as a dollar amount from $474.876 million on September 30, 2020 to $699.876 million after the $225 million proposed debt financing issuance. Long-term debt as a percentage will increase from 38.1% to 44.5% after the $225 million increase in debt. Shareholder equity will increase as a dollar amount from $772.083 million on September 30, 2020 to $872.083 million after the $100 million proposed equity financing issuance. The percentage change in equity will decrease from 61.9% on September 30, 2020 to 55.5% after the $100 million proposed equity issuance. The long-term debt and equity transactions are shown in Petitioner's Exhibit No. 1, Attachment BAJ-4.

According to Mr. Jerasa: "Some or all of the equity may be received through a direct contribution of additional paid-in capital from VUHI. To the extent common stock is issued and sold, all of the additional common stock will be sold to VUHI." (Petitioner's Exhibit No. 1, page 19, lines 20-22.)

Q: Does Petitioner indicate how much variable rate debt will be issued with the authority sought in this Cause?

A: Yes. According to Petitioner's response to OUCC DR 1.7:

> Up to $225 Million in long-term debt is planned for issuance from 2021-2023. Ratio of variable to fixed rate debt that will be issued will depend on market conditions and what is most economical at the time of issuance, but, to the extent it can, Petitioner plans to issue most long-term debt at fixed rates. (Attachment CJS-2, page 1.)

Mr. Jerasa also provides details for Interest Rate Risk Management Transactions. He states the use of the interest rate risk management transactions is very common. Some examples of these hedging instruments include forward starting interest rate swaps, treasury rate locks, caps, collars, floors, and other derivative products. These financing instruments help mitigate interest rate risk by locking in interest rates over time with a series of interest rate hedges. As a result, Petitioner can price new debt in pieces rather than taking large exposure to one interest rate all at one single point in time. VUHI has utilized interest rate hedges in some of its previous debt financings. The notional principal amount of any interest rate swap transaction will not exceed that of the underlying debt instrument and related interest rate exposure. (Petitioner's Exhibit No. 1, page 22, line 12 to page 23, line 9.)

Q: Should the Commission include conditions limiting the interest rate level for each debt issuance?

A: Yes. The Commission provided in Cause No. 45171, Final Order, page 9, requirement 2(a):

> …the interest rate spread on newly issued, fixed rate, long-term debt shall not exceed 500 basis points above United States Treasury bonds of comparable maturity, and the all-in interest rate on variable rate, long-term debt shall not exceed 8% at the time of issuance.

The OUCC recommends this language be included in the Commission Order in this Cause. The OUCC also recommends the same reporting requirements from Cause No. 45171 be ordered here relating to Petitioner filing a written report on each occasion when it exercises its authority to issue long-term debt, preferred stock, or common stock authorized by the Order. Additionally, within 12 months after the date of the Order, and every 12 months thereafter while the authority granted by the Order remains in effect, Petitioner shall file with the Commission under this Cause and serve on the OUCC an annual report summarizing the extent to which it made short-term borrowings from VUHI during the prior year and the range of interest rates applicable thereto, and shall attach copies of any promissory notes signed by Petitioner since the filing of the prior annual report.

Q: Has Petitioner indicated the benefits ratepayers will realize from the proposed financing?

A: Yes. Petitioner states:

> The proposed financing program is advantageous and necessary, and in the public interest. The consummation of the program will enable Petitioner to refinance short-term borrowings with long-term capital, ensure adequate liquidity, maintain an appropriate capital structure, and enable Petitioner to improve and expand its facilities and service so as to provide adequate, dependable, economic, and efficient service to the public. (Verified Petition, page 10.)

Q: Does the OUCC agree with the benefits to ratepayers stated by Petitioner?

A: Yes. The OUCC believes the proposed financing plan is in the public interest as it will allow Petitioner to continue providing efficient and dependable service to its customers. The OUCC recommends approval of the proposed financing program.

V. FINANCIAL SERVICES AGREEMENT

Q: What changes did Petitioner propose to the current amended and restated Financial Services Agreement?

A: Mr. Jerasa states "Vectren North will eliminate FINCO-1 and reassign debt owed by Vectren North to FINCO-1 back to VUHI." (Petitioner's Exhibit No. 1, page 16, lines 1-2.)

Q: Why is Petitioner proposing a revised FSA?

A: Mr. Jerasa explains that "removing FINCO-1 and FINCO-V will simplify the debt structure of VUHI, Vectren North, Vectren South and VEDO. Instead of being held by an intermediate subsidiary (FINCO-1), certain debt securities will instead be held by VUHI, the original issuer. This will simplify financial reporting and eliminate an unneeded structure." (Petitioner's Exhibit No. 1, page 16, line 6-9.)

Q: Does Vectren North propose a termination date in line with recommendations by General Administrative Order ("GAO") 2016-5 concerning affiliate contracts?

A: Petitioner does not propose a termination date. Mr. Jerasa states:

> As outlined in the Commission's Order in Cause No. 43968, because the FSA is intended to support long-term debt financings approved by the Commission that extend for many years in the future as well as multi-year revolving credit facilities, requiring a termination date within five years would be inconsistent with the long-term nature of the pooling agreement described in the FSA. This term issue of this affiliate agreement can be addressed through the Commission's review of the FSA in conjunction with periodic docketed financing

> or other regulatory proceedings. (Petitioner's Exhibit No. 1, page 16, line 17 to page 17, line 2).

Q: Does the OUCC agree with Petitioner's proposed changes to the FSA?

A: Yes. The OUCC agrees to the proposed changes to the FSA. Eliminating FINCO-I and FINCO-V will make Petitioner's debt structure and financial reporting less complex. The OUCC agrees with the proposal of not including a termination date, as the OUCC recognizes the revised FSA is intended to support debt financings that are long-term in nature.

VI. RECOMMENDATIONS

Q: Does the OUCC consider the requested relief to be in the interest of ratepayers?

A: Yes. The OUCC has reviewed in detail the proposed Financing Authority and considers the proposal beneficial to ratepayers. Vectren North indicated the long-term debt and equity injection is in support of capital structure targets of 50% to 60% equity and ongoing capital expenditures. The financing will enable Vectren North to continue to provide reliable service to consumers, while managing interest rates with its debt pooling arrangement with VUHI along with various interest rate management products. The benefit consists of VUHI's debt pooling arrangement. This allows Vectren North access to lower interest rates on long-term debt and favorable financing terms, which in turn translate into a lower cost of capital, which can be passed on as savings to ratepayers.

Q: Does the OUCC recommend approval of Petitioner's requested relief?

A: Yes. The OUCC recommends approval of the requested relief to allow Petitioner to implement its proposed 2021-2023 Financing Program, engage in interest risk management transactions, and amortize issuance costs and interest rate risk management transaction costs. The OUCC recommends the Commission cap the credit spread associated with new fixed debt not to exceed by more than 500 basis points the yield to maturity on U.S. Treasury bonds of comparable maturity at the time of pricing and an 8% all-in rate for new variable rate debt as stated in the Commission's order in Cause No. 45171. The OUCC also recommends the Commission continue the reporting requirements on the implementation of Petitioner's proposed 2021-2023 financing authority, as was ordered in Cause No. 45171. In addition, the OUCC recommends approval of the revised FSA, including the elimination of a termination date on the revised FSA.

Q: Does this conclude your testimony?

A: Yes.

APPENDIX TO TESTIMONY OF OUCC WITNESS CINTHIA J. SABILLON

Q: Describe your educational background and experience.

A: I graduated from the Kelley School of Business at Indiana University in Indianapolis, Indiana with a Bachelor of Science Degree in Finance, and a minor in Economics in August 2019. While attending the Business School, I worked for AT&T, in multiple locations in Indiana as a Retail Sales Consultant. I assisted customers with sales of AT&T cellular, internet, and TV services.

In October 2019, I began my employment with the OUCC as a Utility Analyst. My current responsibilities include reviewing, analyzing, and preparing testimony for Gas Cost Adjustment ("GCA") cases, Certificate of Public Convenience and Necessity ("CPCN") cases, Financing cases, Gas Demand Side Management cases ("GDSM") and Targeted Economic Development ("TED") Project cases for natural gas utilities.

Q: Have you previously testified before the Commission?

A: Yes, I have testified in GCA, CPCN, GDSM, TED Project, and Financing cases before the Commission.

Q: Please describe the review you conducted to prepare this testimony.

A: I reviewed the Verified Petition submitted by Vectren North, the Direct Testimony and Attachments prepared by Petitioner's Witness Brett A. Jerasa, Petitioner's responses to OUCC Discovery Requests, and supporting documentation submitted in this cause by Petitioner. I also participated in meetings with the OUCC case team in this Cause, and reviewed the final order issued by the Commission for Petitioner's prior financing case in Cause No. 45171.

Data Requests- Set 1

Q 1.1: Please provide an updated version of Attachment BAJ-1 with any new issued and retired debt since September 30, 2020.

Response:

Please see 45457_OUCC 1.1 2020_IGC_IURC BAJ-1 Updated that includes the $60,000,000 of long-term debt issued November 24, 2020.

Indiana Gas Company, Inc.
Schedule of Long-Term Debt Outstanding
December 31, 2020

Debt Series	Maturity Date	Principal Amount Outstanding
6.53% Series E3	06/27/25	10,000,000
6.42% Series E7	07/07/27	5,000,000
6.68% Series E8	07/07/27	1,000,000
6.34% Series F2	12/10/27	20,000,000
6.36% Series F5	05/01/28	10,000,000
6.55% Series F6	06/30/28	20,000,000
7.08% Series G	10/05/29	30,000,000
3.20% VUHI Notes	06/05/28	8,952,105
6.10% VUHI Notes	12/01/35	50,568,961
4.25% VUHI Notes	06/05/43	15,914,853
3.72% VUHI Notes	12/05/23	74,540,046
3.90% VUHI Notes	12/15/35	8,290,114
4.36% VUHI Notes	12/15/45	55,543,145
4.51% VUHI Notes	12/15/55	15,751,217
3.26% VUHI Notes	08/28/32	24,862,171
3.93% VUHI Notes	11/29/47	69,607,078
3.72% VUHI Notes	12/05/23	24,846,682
3.42% VUHI Notes	09/10/49	20,000,000
1.21% VUHI Notes	07/01/25	10,000,000
3.92% VUHI Notes	05/01/50	60,000,000
		$ 534,876,372

Effective Weighted Average Interest Rate = 4.540%

Q 1.7: How much variable interest rate debt is planned to be issued if the requested $225 million financing authority is granted in this Cause?

Response:

Up to $225 Million in long-term debt is planned for issuance from 2021-2023. Ratio of variable to fixed rate debt that will be issued will depend on market conditions and what is most economical at the time of issuance, but, to the extent it can, Petitioner plans to issue most long-term debt at fixed rates.

Q 1.10: Referring to page 9, lines 7-9 of his testimony, Mr. Jerasa states: “Yes, I anticipate that Vectren North will issue $60 million of additional long-term debt in the fourth quarter of 2020. Vectren North may issue additional long-term debt and equity as required before the March 31, 2021 expiration date.”

a. How much additional long-term debt is expected to be issued at fixed interest rates and how much is expected to be issued at variable interest rates prior to the March 31, 2021 expiration date?
b. Please explain whether Vectren North expects to use any of the remaining unused equity financing authority granted in Cause No. 45171 before the March 31, 2021 expiration date.

Response:

a. Vectren North may issue additional long-term debt as needed before the March 31, 2021 expiration date; such long-term debt will be at variable or fixed rates depending on market conditions. However, with historically low interest rates, Vectren North may bias towards fixed rate debt.

b. Vectren North does not expect to use any of the remaining unused equity financing authority before the March 31, 2021 expiration date.

S&P Global
Ratings

Research

Indiana Gas Co. Inc.

Primary Credit Analyst:
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Secondary Contact:
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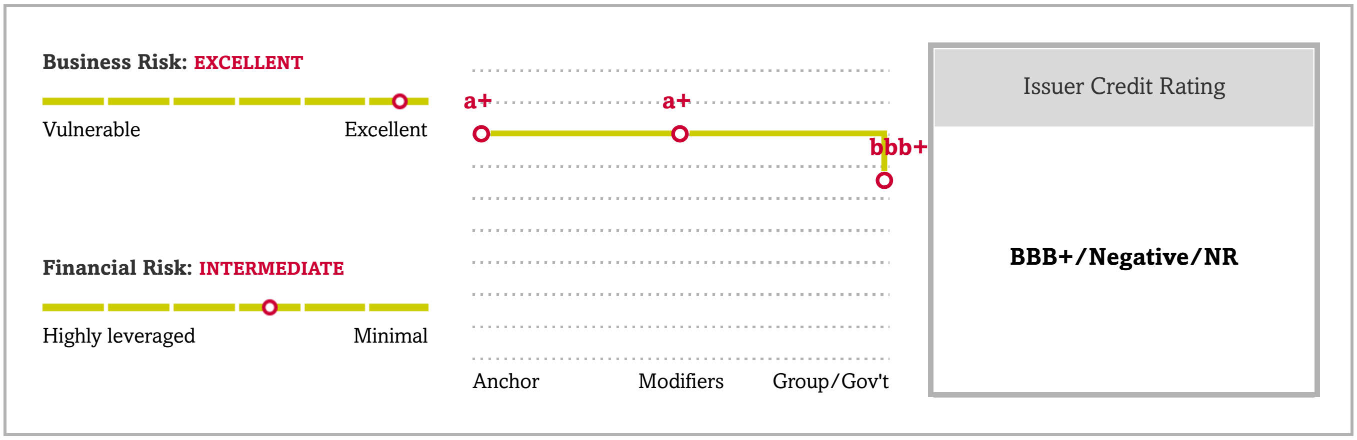
Indiana Gas Co. Inc.



Credit Highlights

Overview

Key strengths	Key risks
Utility operations that benefit from generally constructive regulatory framework.	Vintage material pipelines that increase exposure to operating risk following integrity-related industry incidents.
Mostly residential retail customers provide greater cash flow stability.	Financial measures in the lower half of the financial risk profile category limits cushion against unexpected cost increases and incremental debt issuances.
Company commitment to credit quality and maintaining a balanced capital structure.	Negative discretionary cash flow, necessitating external funding.

A constructive regulatory and legislative environment supports credit health. The Indiana legislature and regulatory authority provide Indiana Gas Co. Inc. (IGC) with different mechanisms to recover invested costs outside of base rate cases. Senate Bill 560 targets recovery of costs related to natural gas system reliability and costs to expand natural gas services to rural areas. IGC also benefits from several mechanisms targeted toward recovering fuel costs, bad debt expense, and energy efficiency program costs.

Weaker financial measures are within the financial risk profile benchmark range. IGC's financial measures are near the lower end of the intermediate benchmark range, limiting any cushion the company has against unexpected cost increases and incremental debt issuances to fund capital spending.

Discretionary cash flow will be negative through the forecast period. We expect operating cash flow after capital spending and dividends to be negative through 2021, requiring external sources of funding through either new debt issuances or equity infusions from intermediate holding company Vectren Utility Holdings Inc. (VUHI).

Outlook: Negative

The negative outlook on IGC reflects that on ultimate parent CenterPoint Energy Inc. (CPE), which reflects our expectation for materially weaker financial measures after the announced 50% cut in common unit distributions from CPE's Enable midstream investment. This is in the face of economic weakness and the potential for a post-COVID-19 recession. To partly mitigate the impact of the distribution cut, CPE will be reducing utility operating costs, cutting capital spending, and cutting common dividends. This is in addition to the pending sale of higher-risk assets. With the cash flow enhancements CPE plans to take, our baseline forecast for 2020-2022 includes adjusted funds from operations (FFO) to debt averaging about 12.5%.

Downside scenario

We could lower ratings on IGC within the next 18 months if CPE's financial measures weaken such that FFO to debt is consistently below 12%. This could occur if the company cannot create operating expense efficiencies, lower dividends, defer discretionary capital expenditures, strengthen the balance sheet, or take other credit-supportive measures to support credit quality. We could also lower the ratings if midstream distributions further decline without offsetting cash flow enhancements by management, further weakening financial measures. Moreover, ratings could be lowered if the company's ability to effectively manage regulatory risk weakens.

Upside scenario

We could revise IGC 's outlook to stable within the next 18 months if CPE's financial measures improve, with the company demonstrating a track record of FFO to debt consistently and comfortably above 12% without weakening business risk. This could occur if CPE deleverages the capital structure while successfully executing cash flow enhancements, strengthening financial measures. We could also revise the outlook to stable if distributions from Enable rose to a level such that the overall company's financial measures strengthen to over 13% and its business risk profile does not weaken further.

Our Base-Case Scenario

Assumptions

- Gross margin growth of about 3%-4% per year expected through 2022 driven by annual recoveries of investments made under IGC's capital investment plan.
- EBITDA margin of about 32% per year.
- Capital spending averaging $185 million per year through 2022.
- Ongoing group support when necessary.
- The refinancing of all debt maturities.

In our base-case scenario, we expect IGC's key adjusted financial measures to remain in the intermediate financial profile range. We expect FFO to debt between 23%-25% through 2022. This is at the lower half of the intermediate category range under our medial volatility benchmarks, which are more relaxed than the ones we use for most corporate issuers. This reflects the company's steady cash flow and lower-risk, rate-regulated utility operations.

Company Description

IGC, a subsidiary of VUHI, is a natural gas distribution utility serving about 600,000 customers in central and southern Indiana. IGC is a subsidiary of of VUHI, which is a CPE subsidiary.

Business Risk: Excellent

Our assessment of IGC's business risk is based on the company's low-risk regulated natural gas distribution utility operations. The company benefits from generally supportive regulation in Indiana through various rate mechanisms, including riders, gas adjustment clauses, weather normalization adjustments, and decoupling. Although the company's scale and diversity are moderate, with about 600,000 gas customers in central and southern Indiana, its customer base consists mostly of more stable residential and commercial customers, which along with the company's efficient operations results in steady operating cash flows.

Financial Risk: Intermediate

Our assessment of IGC's stand-alone financial risk profile incorporates a base-case scenario that includes adjusted FFO to debt in the 23%-25% range, near the bottom of the benchmark range. Our supplemental ratio of operating cash flow to debt indicates 23%-25%, which supports the financial risk profile. We expect IGC over the next few years to have negative discretionary cash flow after capital spending and dividends, indicating external funding needs that we anticipate to be partly met with incremental debt issuances. We calculate leverage, as measured by debt to EBITDA, to average around 3x, at the midpoint of the range for the intermediate financial risk profile. Given the company's rate surcharge recovery for accelerating gas modernization investments and other rate mechanisms that allow for timely cost recovery, along with its ability to control expenses, we expect IGC to continue to earn close to its allowed return on equity while recovering its capital spending.

Liquidity: Adequate

We assess IGC's stand-alone liquidity as adequate because we believe sources are likely to cover uses by more than 1.1x over the next 12 months and meet cash outflows even with a 10% decline in EBITDA. The assessment also reflects the company's generally prudent risk management, sound relationships with banks, and a generally satisfactory standing in credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash and liquid investments of about $5 million; • About $60 million revolving credit facility availability; and • Estimated cash FFO of about $150 million.	• Debt maturities of about $10 million; • Capital spending of about $140 million; and • Dividends of roughly $30 million.

Environmental, Social, And Governance

Regarding environmental factors, with an expansive natural gas distribution network providing service to the utility's one million customers, IGC is susceptible to a variety of risk factors. Natural gas leaks can stem from vintage gas infrastructure or changes in soil integrity, and the decommissioning of former manufactured gas plant sites can carry a significant financial liability.

Group Influence

We consider IGC to be a core subsidiary of CPE, which reflects our expectation that IGC is highly unlikely to be sold and has a strong long-term commitment from CPE's senior management. We align our issuer credit ratings on IGC with CPE's group credit profile of 'bbb+', leading to issuer credit ratings of 'BBB+'.

Issue Ratings - Subordination Risk Analysis

Capital structure

IGC's capital structure consists of about $100 million of long-term, senior unsecured debt.

Analytical conclusions

We rate IGC's senior unsecured debt the same as the issuer credit rating because it is debt of a qualifying investment-grade utility.

Ratings Score Snapshot

Issuer Credit Rating

BBB+/Negative/NR

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Strong

Financial risk: Intermediate

- **Cash flow/leverage:** Intermediate

Anchor: a+

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a+

- **Group credit profile:** bbb+
- **Entity status within group:** Core (-3 notches from SACP)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014

- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	**a+/a**	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of April 9, 2020)*

Indiana Gas Co. Inc.	
Issuer Credit Rating	BBB+/Negative/NR
Senior Unsecured	BBB+
Issuer Credit Ratings History	
02-Apr-2020	BBB+/Negative/NR
01-Feb-2019	BBB+/Stable/NR
24-Apr-2018	A-/Watch Neg/NR
09-Mar-2018	A-/Negative/NR

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.