

SOUTHERN INDIANA GAS AND ELECTRIC COMP

D/B/A

VECTREN ENERGY DELIVERY OF INDIANA, INC.

CAUSE NO. 45052

VERIFIED DIRECT TESTIMONY

OF

M. SUSAN HARDWICK

EXECUTIVE VICE PRESIDENT AND

CHIEF FINANCIAL OFFICER

SPONSORING PETITIONER'S EXHIBIT NO. 3

VERIFIED DIRECT TESTIMONY

OF

M. SUSAN HARDWICK

CHIEF FINANCIAL OFFICER

1 **Q. Please state your name and business address.**

2 A. My name is M. Susan Hardwick. My business address is One Vectren Square,
3 Evansville, Indiana 47708.

4 **Q. What is your position with Vectren Corporation ("Vectren") and with Southern**
5 **Indiana Gas and Electric Company ("Vectren South")?**

6 A. I am the Executive Vice President and Chief Financial Officer of Vectren and its
7 subsidiaries, including Vectren South.

8 **Q. What is your educational background?**

9 A. I am a 1984 graduate of Indiana University with a Bachelor of Science Degree in
10 Accounting. I am a Certified Public Accountant in the State of Indiana.

11 **Q. Please describe your business experience.**

12 A. From 1984 to 1992, I was employed by Arthur Andersen. From 1992 to 1999, I was
13 employed by PSI Energy, Inc. ("PSI"), and then Cinergy Corporation following the
14 merger of PSI with The Cincinnati Gas and Electric Company, in various capacities,
15 including Assistant Corporate Controller. From 2000 to July 2013, I served as Vice
16 President, Controller and Assistant Treasurer of Vectren and various subsidiaries. In
17 August 2013, I was promoted to Senior Vice President, Finance and Assistant
18 Treasurer. I was promoted to Executive Vice President and Chief Financial Officer in
19 June, 2016.

1 **Q. What are your responsibilities as Executive Vice President and Chief Financial**
2 **Officer of Vectren?**

3 A. I am responsible for and oversee all finance and accounting functions for Vectren,
4 including financial, plant and tax accounting, budgeting, reporting and other accounting
5 functions. I also oversee the treasury, investor relations and risk management functions.

6 **Q. Have you previously testified before the Indiana Utility Regulatory Commission**
7 **("Commission")?**

8 A. Yes. I have testified before this Commission on numerous occasions, including on
9 behalf of Vectren South's last base rate proceeding in Cause No. 43839 and its request
10 for approval of a transmission, distribution and storage system improvement charge in
11 Cause Nos. 44229/44230. I have also testified before the Public Utilities Commission of
12 Ohio on behalf of Vectren Ohio.

13 **Q. What is the purpose of your Direct Testimony in this proceeding?**

14 A. I will provide an overview of Vectren's capital expenditure financing plan over the next
15 several years and discuss the implications of that plan to the Company, emphasizing the
16 importance of supportive regulation in the execution of that plan.

17 **Q. Please describe the Company's investment profile and current credit ratings.**

18 A. Vectren is an investor owned public utility holding company. Its regulated operations are
19 under Vectren Utility Holdings, Inc., a wholly-owned subsidiary of Vectren. Vectren, as
20 the public entity, has outstanding over 83 million shares of common stock. The majority
21 of Vectren's investors are institutional, long hold investors. The investment thesis for
22 those holders is a strong balance sheet, stable earnings, a consistent and growing
23 dividend, and sound risk management, which includes an understanding and
24 appreciation of supportive regulation in the states in which we operate. The Company

1 has been very successful in delivering on those investment principles for its investors for
2 many years. Vectren and its subsidiaries, including Vectren South, have a credit rating of
3 A- at Standard & Poor's Global Ratings (S&P). Moody's Investors Services (Moody's)
4 rates Vectren South A2. These ratings are very strong and reflective of the strength of
5 our balance sheet; many regulated utilities and their holding companies are rated BBB+
6 or lower.

7 **Q. What are the capital requirements of Vectren, Vectren South's ultimate parent,**
8 **over the next several years?**

9 A. As discussed with the investment community as late as early March 2018, Vectren plans
10 to spend over \$6.5 billion over the next decade on additions to, and improvements in,
11 our utility plant across all of our jurisdictions and operating utilities. These expenditures
12 include about \$3.8 billion on gas infrastructure improvements in Indiana and Ohio, about
13 \$1.1 billion on electric grid modernization, and about \$1.3 billion on the generation
14 transition plan, the subject of this proceeding.

15 **Q. How does Vectren intend to finance this capital expenditure program?**

16 A. Vectren finances its operations through internally-generated funds at its operating
17 companies, like Vectren South, and with the proceeds arising from the issuance of
18 securities (long-term debt and common stock) and the issuance of public equity. Vectren
19 South's short-term and long-term debt financing requirements have been primarily
20 accomplished through debt issuances by its immediate parent, Vectren Utility Holdings,
21 Inc. ("VUHI"). Vectren South's financial arrangements through VUHI were most recently
22 authorized by the Commission in Cause No. 44862 on February 22, 2017. The
23 arrangements with VUHI have been the primary source of debt-related financing utilized
24 by Vectren South since Vectren's formation in March 2000. VUHI's A-/A2 credit rating
25 as provided by S&P and Moody's, respectively, have allowed VUHI to access the debt

1 capital markets as needed. Based on the level of investor interest in past financing
2 transactions and current discussions with our banking partners, investor interest in future
3 capital market transactions initiated by either VUHI (debt transactions) or Vectren (equity
4 transactions), as supported by these credit ratings and the current business plan,
5 remains robust.

6 **Q. Could this capital expenditure plan, specifically the expenditures related to the**
7 **proposed CCGT plant, impact Vectren's ability to raise capital and have an**
8 **associated impact on the cost of capital?**

9 A. Vectren will have increased demands for capital as a result of this plan, including during
10 the plant's construction phase. The plant's construction coupled with other capital
11 financing needs and as impacted by recent tax reform legislation, will increase the size
12 and frequency of capital market transactions during the plant's construction phase. The
13 demand for capital during construction and related lag in base rate recovery could have
14 a negative impact on Vectren South's and VUHI's credit-related metrics regularly
15 reviewed by rating agencies. An unfavorable rating agency action, such as a credit
16 downgrade from the current A- rating, would result in increased interest cost for debt
17 financed expenditures. These increased interest costs lead to increased project costs.
18 On March 9, 2018, S&P reaffirmed Vectren's and VUHI's A- credit rating but revised its
19 outlook from stable to negative and evidenced growth in capital expenditures and tax
20 reform as key elements for its action. Continued Commission support of this project
21 from inception through base rate recovery will be helpful in providing the rating agencies
22 and investing community sufficient support to take a longer term view through the
23 construction phase of this plant.

24 **Q. Why is it important that the accounting treatment requested in this case be**
25 **approved?**

1 A. Investors and rating agencies alike look to the regulatory process for assurance of
2 recovery of utility investment. Indiana's regulatory framework is viewed very positively
3 by the investing and financial communities. As Vectren/VUHI is active in the financial
4 markets, raising either debt (VUHI) or equity capital (Vectren) to finance this plan, it is
5 critical that investors have comfort that the capital they are allocating will be used on
6 approved projects. This certainty translates directly into not only the access to capital,
7 but also the economic impact of that capital. In other words, the certainty of regulation
8 equates to a less risky investment for debt and equity investors and as a result, Vectren
9 is able to secure that capital at a reasonable cost. The specific accounting request in this
10 case of depreciation deferral and continuation of the accrual of carrying costs post in
11 service not only alleviates the impact on the financial results of the Company, but, again,
12 gives investors comfort in the reasonableness of regulation in Indiana, which leads to a
13 willingness to continue to make capital available to Vectren. Essentially, the requested
14 relief provides a bridge to the rate case when the completed CCGT plant will be used
15 and useful and reflected in rate base. As investors consider the period until that occurs,
16 the Commission orders related to the plant's construction and related financing will be
17 critical in demonstrating that costs will be reasonably recovered and the Company's
18 finances will be supported generally.

19 **Q. Does this conclude your prepared direct testimony?**

20 A. Yes, at this time.

VERIFICATION

The undersigned, M. Susan Hardwick, affirms under the penalties of perjury that the answers in the foregoing Direct Testimony in Cause No. 45052 are true to the best of his knowledge, information and belief.

A handwritten signature in cursive script, appearing to read 'M. Susan Hardwick', written in black ink.

M. Susan Hardwick