STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SOUTHERN INDIANA GAS AND ELECTRIC COMPANY d/b/a VECTREN ENERGY DELIVERY OF INDIANA, INC. FOR AUTHORITY TO IMPLEMENT ITS 2017-2019 FINANCING PROGRAM BY (1) ISSUING NOT TO EXCEED $160,000,000 IN AGGREGATE PRINCIPAL AMOUNT OF SECURED OR UNSECURED LONG-TERM DEBT ISSUED TO UNAFFILIATED LENDERS AND LOAN AGREEMENTS SECURING TAX-EXEMPT BONDS OR DEBT IN THE FORM OF UNSECURED PROMISSORY NOTES TO VECTREN UTILITY HOLDINGS, INC. ("VUHI"), ITS IMMEDIATE PARENT COMPANY, PURSUANT TO THE PREVIOUSLY APPROVED 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 $120,000,000 OF COMMON AND/OR PREFERRED STOCK; AND (5) 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. 44862**

<u>SUBMISSION OF PETITIONER’S CASE-IN-CHIEF</u>

SOUTHERN INDIANA GAS AND ELECTRIC COMPANY D/B/A VECTREN ENERGY DELIVERY OF INDIANA, INC. (“Petitioner“), by counsel, hereby respectfully submits the Verified Direct Testimony, including attachments, of M. Naveed Mughal, representing its case-in-chief in this proceeding.

Respectfully Submitted,

SOUTHERN INDIANA GAS AND ELECTRIC COMPANY D/B/A VECTREN ENERGY DELIVERY OF INDIANA, INC.

/s/ *Michelle D. Quinn*

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing Verified Direct Testimony has been served by electronic mail transmission, addressed to:

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This 6th day of October, 2016.

Michelle D. Quinn
Michelle D. Quinn

Petitioner's Exhibit 1

SOUTHERN INDIANA GAS AND ELECTRIC COMPANY

D/B/A VECTREN ENERGY DELIVERY OF INDIANA, INC.

IURC CAUSE NO. 44862

DIRECT TESTIMONY

OF

M. NAVEED MUGHAL

SPONSORING ATTACHMENTS MNM-1 THROUGH MNM-5

SOUTHERN INDIANA GAS AND ELECTRIC COMPANY

CAUSE NO. 44862

DIRECT TESTIMONY OF M. NAVEED MUGHAL

<u>BACKGROUND AND QUALIFICATIONS</u>

Q. Please state your name and business address.

A. My name is M. Naveed Mughal. My business address is One Vectren Square, Evansville, Indiana, 47708.

Q. What is your position with Petitioner Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren South" or "Company")?

A. I am Vice President and Treasurer of Vectren South. I also hold these same positions with Vectren Utility Holdings, Inc. ("VUHI"), Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren North") and Vectren Energy Delivery of Ohio, Inc. ("VEDO"). I am also Treasurer and Vice President of Investor Relations for Vectren Corporation.

Q. What is your educational background?

A. I graduated from Penn State University with a Bachelor of Science in economics and from Saint Joseph's University with a Master of Business Administration with a major in finance.

Q. Please describe your business experience.

A. I have nearly 25 years' experience in various financial, operational and analytical roles, in the utility and energy, biotechnology, pharmaceutical and the information and technology industries. Early on in my career, I worked in analytical roles at Unisys Corporation in Blue Bell, PA and BISYS Plan Services in Ambler, PA. Then, I worked for Merck and Company as a Manager of International Treasury in Whitehouse Station, NJ, and then took a position with Amgen in Thousand Oaks, CA as a Senior Manager, Treasury Planning. My most recent position prior to joining Vectren Corporation was Treasurer and Executive, Financial Strategies for NV Energy in Las Vegas, Nevada. On July 13, 2015, I joined Vectren Corporation as Vice President and Treasurer of Vectren Corporation, VUHI, and its three operating utilities, as well as a number of its nonutility subsidiaries.

Q. What are your responsibilities as Treasurer and Vice President of Investor Relations for Vectren Corporation and Vice President and Treasurer of VUHI, Vectren North, Vectren South and VEDO?

A. I am responsible for maintaining the security and liquidity of the companies' working capital resources. This includes having responsibility for cash management, bank relations, short-term borrowings, long-term capital financing, leasing, capital allocation, capital resource planning, risk management, credit rating agency relations, investor relations and a variety of other finance-related activities.

Q. Please summarize your experience with respect to the issuance and sale of securities.

A. I have been involved in numerous issuances and sales of securities, including the refinancing of a $750 million credit facility, execution of a $200 million common equity offering, issuance of a $5 billion convertible bond and a variety of debt issuances in public debt markets with a variety of maturities. Additionally, I have executed multiple interest rate risk management transactions totaling nearly $1.0 billion.

Q. Are you familiar with the financial situation, capitalization, business and property of Vectren South?

A. Yes.

Q. Please describe the business of Vectren South.

A. Vectren South is a public utility regulated by this Commission that provides electric and natural gas utility service to approximately 144,000 electric and 111,000 natural gas customers in southwestern Indiana.

Q. Who owns the common stock of Vectren South?

A. All of the common stock of Vectren South is owned by VUHI. VUHI is an Indiana corporation and a wholly-owned subsidiary of Vectren Corporation. Vectren Corporation is a holding company whose stock is publicly traded and listed on the New York Stock Exchange. VUHI also owns all of the common stock of Vectren North and VEDO.

Q. What is the business of Vectren North and VEDO?

A. Vectren North is a public natural gas utility regulated by this Commission that provides local natural gas distribution service to approximately 588,000 customers in central and southern Indiana. VEDO is a public utility regulated by the Public Utility Commission of Ohio and provides natural gas utility service to approximately 318,000 customers near Dayton in west central Ohio.

SUMMARY OF PRESENTATION

Q. Please describe the scope and purpose of your testimony and the attachments sponsored by you in this Cause.

A. My testimony and accompanying attachments describe Vectren South's proposed financing program, the types and amounts of Vectren South's securities proposed to be issued, the purposes and needs for the external funds to be raised by the financing program over the period requested and Vectren South's proposed treatment of the issuance costs. I will also discuss Vectren South's request for authority to enter into interest rate risk management transactions, and its proposed treatment of the costs of: issuing new long-term debt issues; premature redemptions; and interest rate risk management transactions.

THE 2017-2019 FINANCING PROGRAM

Q. Please identify the document which has been marked for identification as Attachment MNM-1.

A. Attachment MNM-1 is a copy of the Petition filed by Vectren South in this Cause. Attached to the Petition as Exhibits are a schedule of long-term debt as of June 30, 2016, Vectren South's balance sheets as of the same date and June 30, 2015, and Vectren South's statements of income for the twelve months ended June 30, 2016 and June 30, 2015.

Q. Are you familiar with the matters described in the Petition?

A. Yes.

Q. Are the facts stated in the Petition true and correct?

A. Yes.

Q. Have the outstanding common stock and long-term debt of Vectren South been previously authorized by Orders of the Commission?

A. Yes.

Q. Please describe Vectren South's proposed 2017-2019 financing program?

A. Vectren South is requesting authority to issue up to $160 million in aggregate principal amount of incremental long-term debt and sell up to $120 million of additional common stock or preferred stock to VUHI from the date of the Order in this proceeding through March 31, 2019. While the Company is requesting authority to sell additional common and/or preferred stock to VUHI, I expect that this additional equity will come primarily in the form of a direct infusion of capital. Equity infusions are intended to be booked to Paid-in-Capital and will not involve the issuance of additional shares of common stock; therefore, not requiring IURC approval. However, in the interest of full disclosure and for the purpose of demonstrating Vectren South's adherence to a reasonable balance of debt and equity in its capital structure, the infusion is described in my testimony. In addition, Vectren South requests authority to enter into certain interest rate risk management transactions.

Q. When did Vectren South last receive financing authority from the Commission?

A. Vectren South last received financing authority in the Commission's Order dated March 4, 2015, in Cause No. 44547 (the "2015 Order"). This Order authorized Vectren South to issue up to $140 million of long-term debt and $70 million of common and preferred stock through December 31, 2016. The 2015 Order also authorized Vectren South to continue to participate in a debt pooling arrangement with VUHI, Vectren North and VEDO originally authorized by the Commission's Order dated May 24, 2001 in Cause No. 41908.

Q. Does Vectren South have any unused financing authority under the 2015 Order?

A. Yes, at June 30, 2016 Vectren South currently has $52 million of long-term debt financing authority remaining and $70 million of equity financing authority remaining, both of which expire on December 31, 2016.

Q. Why are you requesting additional authority at this time?

A. Vectren South seeks financial flexibility to access the debt and equity capital markets when necessary. Given Vectren South's ongoing capital expenditure requirements, maturities of its long-term debt and potential future refinancing opportunities of existing long-term debt, Vectren South will need to regularly access the long-term debt and equity capital markets to permanently finance its operations. With the unprecedented volatility and instability in the financial markets in recent years, Vectren South continues to believe it is appropriate to maintain maximum flexibility as to timing and size of its available permanent financing authority. This will help ensure that Vectren South can access the financial markets when windows of opportunity present themselves and thus maintain adequate liquidity to meet its current operational needs and reduce its future financial risk.

Q. Does the need for this financial flexibility also apply to long-term borrowing through the VUHI pooling arrangement?

A. Yes. VUHI periodically files shelf registration statements with the Securities and Exchange Commission ("SEC") which provide a means for VUHI to quickly issue long-term debt in the public markets on behalf of Vectren South and its other regulated utility subsidiaries. To achieve the benefits of this SEC pre-approval procedure, it is necessary for the utilities to have authority to immediately participate in such issues when conditions are favorable. In addition, as previously discussed, due to the volatile debt markets, VUHI and Vectren South need the flexibility to be able to quickly access the public and private debt markets when windows of opportunity present themselves.

Q. Please explain how Vectren South's estimated financing needs of $280 million during the period of the financing program were determined?

A. Attachment MNM-2 is a schedule prepared by me which shows the quantification of Vectren South's estimated external financing needs of $280 million for the 2017-2018 period and January 1 through March 31, 2019. As shown on Attachment MNM-2, over the two-year three-month period of the financing program, Vectren South has estimated its capital spending requirements to be about $375 million, of which approximately 40-60% is estimated to require external financing. Additionally, $62.5 million of VUHI's outstanding long-term debt loaned to SIGECO matures during the period of this financing program. Vectren South is seeking authority in this proceeding to refinance its $62.5 million share of this $100 million VUHI debt issue. Any remaining authority is requested to reimburse Vectren South's treasury and to repay short-term debt, including amounts incurred to support Vectren South's ongoing construction program.

Q. What are the estimated needs of Vectren South for capital expenditure requirements for each year of the proposed financing program?

A. As shown in Attachment MNM-3, Vectren South currently expects to make capital expenditures of approximately $177 million, $198 million and $51 million in 2017, 2018, and January 1 through March 31, 2019, respectively.

Q. Will any outstanding long-term debt issues of Vectren South mature during the period of the financing program?

A. Yes. As noted above, VUHI's 5.75% $100 million long-term debt originally issued in July 2003 matures in August 2018. Of this $100 million debt issue, approximately $62.5 million was loaned to Vectren South.

Q. Is it possible that outstanding issues will be prematurely redeemed during the period of the financing program?

A. Yes. Although not currently anticipated, but depending upon market conditions in existence during the period of time that financing authority requested herein remains in effect, it may be advantageous for VUHI or Vectren South to redeem in whole or in part additional outstanding debt prior to the maturity date thereof. The desirability of any such transaction will depend on several factors, including the interest rate environment, the market value of the securities and the premium, if any, VUHI or Vectren South would have to pay to redeem any such securities.

Q. What form of new long-term debt does Vectren South plan on issuing?

A. Vectren South plans on issuing some or all of the new long-term debt portion of the financing program through its existing pooling arrangement with VUHI. This arrangement is described in the restated Financial Services Agreement included in Attachment MNM-5. The restated Financial Services Agreement was previously approved by the Commission in its Order issued July 27, 2011 in Cause No. 43968 and is effective as of December 31, 2011. It replaced the Financial Services Agreement that was originally executed on January 5, 2001 and subsequently amended on January 22, 2003. The Financial Services Agreement continues to provide for the pooling of the debt requirements of Vectren South, Vectren North and VEDO ("Participants"), along with those of VUHI, thereby creating larger more attractive debt issues with lower interest rates, lower transaction costs and better financial market access than the Participants would ordinarily have if they financed separately. In accordance with the Financial Services Agreement, VUHI sells its own long-term debt securities in the public or private markets in the amount of the combined long-term debt requirements of the Participants and reloans the proceeds to the Participants on the same terms as apply to the VUHI debt. Each Participant executes a promissory note to VUHI in the amount of the loan to it. To ensure the availability of financing by VUHI to meet its financing needs and those of the Participants and to maximize the benefits of the pooling arrangement, the Participants provide ongoing joint and several guarantees of all of VUHI's debt to make VUHI's debt issues attractive to investors and to achieve lower debt costs.

Vectren South would also like the flexibility to issue new secured or unsecured long-term debt outside of the VUHI pooling arrangement in the event prevailing conditions in the financial markets make it desirable for Vectren South to finance outside the VUHI arrangement.

In addition, a portion of Vectren South's capital expenditures may qualify to be financed with tax-exempt securities. If such tax-exempt securities are issued, they would likely be issued on behalf of Vectren South outside of the VUHI pooling arrangement.

Q. Does Vectren South also request authority to issue new secured debt?

A. Yes. In keeping with the desire to have sufficient flexibility to adapt to changing market conditions, Vectren South would like to have the ability to issue new secured debt or refund or extend the maturity of existing secured debt if that becomes the most efficient or cost-effective long-term approach to satisfying a portion of its financing needs or if secured debt was needed to support an equivalent amount of any new tax-exempt debt issued either for qualified projects or to refund existing tax-exempt debt.

Q. Does Vectren South know of specific projects planned for the period of the financing approval being requested that could qualify for tax-exempt financing?

A. Certain amounts of Vectren South's planned capital improvements may qualify for tax-exempt financing pursuant to provisions of the Internal Revenue Code which permit tax-exempt financings of solid waste disposal facilities or for other qualified purposes. Vectren South will utilize tax-exempt financing to the extent it is available and determined to be most advantageous for our customers in producing lower cost long-term capital.

Q. Please describe the form of potential tax-exempt financing that might be used for qualified projects.

A. In a tax-exempt financing, the bonds would be issued by a governmental entity and sold pursuant to a private placement or to an underwriter which will market the bonds in a public offering. Interest on the bonds is exempt from Federal and Indiana income taxes. The proceeds of the tax-exempt bond issue will be deposited with a trustee and Vectren South will borrow the deposited funds pursuant to a loan agreement between Vectren South and the governmental entity acting as the issuer. The terms on which Vectren South will repay the loan under the loan agreement will be the same as the terms applicable to the tax-exempt bonds. Vectren South will pay the principal and interest to the trustee in accordance with the loan agreement and the trustee will use these funds to pay the bondholders. The loan agreement or loan documents will provide Vectren South, at certain times, with the option to change the interest rate modes, purchase the bonds in lieu of redemption and remarket the tax-exempt bonds without redeeming the bonds, or increasing the principal amount or extending the final maturity date of the bonds. Depending on market conditions, pricing considerations and the interest rate mode selected at the time of issuance of tax-exempt bonds, Vectren South may obtain a letter of credit, or some other form of credit or liquidity enhancement, for the tax-exempt bonds, should that be determined to be advantageous for Vectren South. Because the interest on the tax-exempt bonds is exempt from both Federal and Indiana income taxes, the interest rate will normally be less than would be required for comparable taxable bonds.

Q. Does Vectren South propose to issue First Mortgage Bonds to secure its obligations under loan agreements relating to tax-exempt bonds that may be issued on its behalf?

A. In the event that Vectren South determines that tax-exempt financing is available or advantageous, and in the event that governmental entities issue tax-exempt bonds on behalf of Vectren South to finance or refinance qualified capital costs, Vectren South will enter into loan agreements with such entities under which it will borrow the proceeds of the sale of the tax-exempt bonds. In order to provide maximum flexibility in connection with this tax-exempt debt, Vectren South is also seeking authorization to secure its obligations under the loan agreements with its First Mortgage Bonds, or similar secured debt, should that be necessary to obtain the most advantageous terms at the time of issuance of the tax-exempt bonds. Any First Mortgage Bonds or similar secured debt that are issued to secure Vectren South's obligations under a loan agreement securing tax-exempt bonds will not increase the amount of long-term debt above that incurred under the corresponding loan agreement but instead, will only provide security for the payment of that amount. Thus, the issuance of First Mortgage Bonds to secure Vectren South's obligations under such a loan agreement should not further reduce the amount of financing authority authorized by the Commission in this proceeding.

Q. Does Vectren South propose to extend the maturity on its existing tax-exempt debt?

A. If Vectren South refinances any of its existing tax-exempt debt, it may determine whether it is feasible or advantageous to seek to extend the maturity on such debt. In addition, Vectren South will also evaluate whether it is feasible or advantageous to extend the maturity of certain of its tax-exempt debt in connection with a remarketing thereof. If the maturity of the existing tax-exempt debt is extended, Vectren South will treat those transactions as though it is new debt for purposes of Commission financing authority and thus those type transactions will reduce the amount of remaining financing authority authorized by the Commission in this proceeding. However, as long as the maturity on existing debt is not extended, remarketing the debt to set a new interest rate mode will not reduce the remaining financing authority, since such remarketings are not new issues of debt, but are just a change in the interest rate mode as provided for in the loan documentation executed under authority granted in previous Commission Orders.

Q. Does Vectren South propose to enter into letter of credit agreements, insurance agreements or other arrangements with non-affiliated parties, with terms or maturities that may exceed one year, pursuant to which such parties may provide additional credit or liquidity support for tax-exempt debt issued to non-affiliated parties?

A. As described above, depending on market conditions, pricing considerations and the interest rate mode of such debt, Vectren South may obtain a letter of credit, bond insurance or other credit or liquidity support to enhance the credit rating or marketability of the debt and thereby reduce the expected interest rate demanded by investors. To minimize transaction costs and to ensure continuity of the credit or liquidity support arrangements, it may be advantageous to obtain multi-year commitments for such arrangements. Vectren South's obligations under a letter of credit agreement, insurance agreement or other credit or liquidity support arrangement, pursuant to which a letter of credit, bond insurance or other credit or liquidity support may be issued will not increase the amount of long-term debt above that incurred under the corresponding debt instrument issued to a non-affiliated party or loan agreement, but instead will only evidence Vectren South's obligation to pay the issuer of such letter of credit, bond insurance or other credit or liquidity support in the event such issuer makes a payment on behalf of Vectren South pursuant to the related debt instrument issued to a non-affiliated party or loan agreement. Thus, the use of any such multi-year commitments or facilities supporting the issuance of the underlying debt should not further reduce the amount of financing authority authorized by the Commission in this proceeding.

Q. How will the interest rates on the long-term debt be determined?

A. 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. Interest on any new tax-exempt variable rate debt issued will be determined at the time of each interest rate reset by the remarketing agent appointed by Vectren South based on the then prevailing market and economic conditions. Vectren South 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.

Q. What interest rate and maturity parameters does Vectren South expect to apply for the long-term debt financing authority requested in this proceeding?

A. Debt issued by VUHI on behalf of Vectren South will likely be in the form of unsecured notes. Any debt issued directly to investors by Vectren South or, in the case of tax-exempt debt issued by a governmental entity, may be secured or unsecured. Any long-term debt sold by VUHI or Vectren South will not be sold for less than 95% of the face amount plus accrued interest to the date of delivery. Long-term debt would likely be issued with maturities of 5 to 40 years, given current market conditions and Vectren South's present debt maturity schedule.

As of June 30, 2016, Vectren South's weighted average cost of long-term debt was approximately 4.77%, which includes a significant amount of tax-exempt debt. Given present market conditions, it is expected that the new taxable fixed rate debt issued would be at interest rates in line with or potentially below Vectren South's current weighted average cost of debt, which also includes the effects of the existing lower cost tax-exempt debt. However, market conditions existing at the time of issuance and the new debt's maturity would determine the actual costs incurred.

Q. What interest rate and maturity parameters does Vectren South expect for any new tax-exempt debt issued under the financing authority requested in this proceeding?

A. Given current market conditions, Vectren South would expect any new long-term tax-exempt debt to be issued with maturities between 10-40 years. Initial interest rates will be set based on the then prevailing market conditions. These rates may be variable or fixed but with the option to reset them in the future as provided in the new loan agreements. Similar to the taxable debt markets, due to continued volatility experienced in the tax-exempt debt markets, it is difficult to provide reliable estimates of expected future interest rates.

Q. Please describe generally how tax-exempt variable interest rate financings work.

A. The flexibility of financing with long-term tax-exempt securities issued by various governmental entities typically includes various forms of long-term, floating-rate debt and that has also been the case for Vectren South. This type of long-term variable rate debt combines some of the characteristics of long-term fixed rate revenue bond issuances by a governmental entity with certain interest rate benefits of the short-term tax-exempt debt market.

Although this type of financing is comparable to the long-term fixed rate tax-exempt financing, it also has certain features designed to provide liquidity to the investor similar to that available from short-term, tax-exempt investments. For example, these long-term bonds can have interest rates reset daily, weekly, monthly, quarterly, semi-annually, etc. The structure of this form of tax-exempt financing typically permits the holders of the bonds to sell back (or "put") their bonds to Vectren South upon notice. This ability to put the bonds on one day or several days' notice or at the end of an interest rate period, allows the bonds to be priced as short-term investments. Other options provide that the interest rate mode may be fixed by Vectren South for a period of time, for periods ranging from one year to the maturity date of the bonds. At the end of a period before the maturity date, the bonds would be "put" back to Vectren South, which would determine the subsequent interest rate mode and then provide for the remarketing of the bonds to other investors through the remarketing agent appointed by Vectren South.

The remarketing agent would resell any bond should a bondholder request the purchase of his bond or bonds subject to mandatory purchase, and the proceeds realized from resale will be used to repay the principal plus accrued interest to the selling bondholder. In addition, a bank letter of credit may be issued to the trustee with respect to the bonds to provide the liquidity necessary to honor a put or demand for purchase by a bondholder in case the remarketing is not successful.

By the terms of the loan documents, Vectren South would have the option to alter the put term or interest rate mode of the bonds, including the option to discontinue the variable interest rate mode feature and to fix an interest rate on the outstanding bonds for the remaining period to maturity at an interest rate established by the market or to purchase the bonds in lieu of the redemption thereof. Taken together, this method of financing would enable Vectren South to take advantage of short-term variable tax-exempt rates for financing, so long as those rates are favorable, and at the same time have the flexibility to lock in a long-term rate on such bonds in the event that action should be advantageous.

Q. How much long-term debt remains currently outstanding that VUHI issued pursuant to the Financial Services Agreement?

A. At June 30, 2016 VUHI has approximately $1 billion in long-term debt outstanding from previous issuances. Vectren South directly benefits from VUHI being a known issuer in the financial marketplace, which has publicly-available financial information, regularly traded benchmark securities and the support, as well as the ongoing joint and several guarantees, provided by a diversified group of utility companies. These factors make VUHI's securities attractive to investors, which translates into favorable terms for Vectren South.

Q. Please describe Attachment MNM-5.

A. Attachment MNM-5 is a copy of the Financial Services Agreement that was amended and restated effective December 31, 2011.

Q. What other services does VUHI provide to the Participants pursuant to the Financial Services Agreement beyond those related to the pooling of the Participant's long-term debt requirements described previously?

A. VUHI also enters into multi-year credit facility agreements that allow it to borrow on a short-term basis and reloan the proceeds to the Participants in accordance with their needs and on the same terms and at the same interest rate VUHI pays for short-term debt. Consolidating the short-term financing needs of the three Participants through a syndicated credit facility and commercial paper program at VUHI yields the same kinds of benefits as does the long-term debt pooling arrangement, *i.e.*, greater financial market access, more favorable pricing and lower transaction costs than would be the case if each Participant handled its short-term debt requirements on its own. The short-term debt arrangement also is appealing to investors because it clearly defines their financial exposure to VUHI, with the underlying support and guarantees of the utilities. VUHI also provides cash management services to the Participants. Internal administration of these programs and functions on a consolidated basis through VUHI is also more efficient and cost effective than would otherwise be the case. Finally, VUHI provides financing for critical VUHI assets that support the utility group, such as the call center and customer information system. VUHI's existing $350 million 5-year credit facility expires in October 2019, and will likely be refinanced during the period of time covered by the Commission's Order in this proceeding.

Q. What authority from the Commission does Vectren South have regarding use of the VUHI credit facilities?

A. In its Order dated May 11, 2005 in Cause No. 42807, the Commission authorized, to the extent necessary, and on an ongoing basis, Vectren South's borrowing from VUHI in accordance with (a) multi-year credit facility agreements of VUHI so long as each actual borrowing under the facility will be repaid within 365 days; and (b) credit facility agreements that contain Term-Out Options (an option allowing VUHI to terminate the facility and convert any outstanding short-term revolving loans into term loans) so long as the exercise of the option creates a term loan maturing no longer than 365 days after the facility termination date. These conditions assure that the use of the credit facility maintains the attributes of short-term debt. In such cases, the Commission found, the borrowings would not be treated as using up any of Vectren South's long-term debt authority in future financing proceedings. Vectren South expects to continue to renew and utilize multi-year credit facilities on an on-going basis within the parameters set forth in the Order in Cause No. 42807.

Q. Does the Financial Services Agreement require Vectren South to obtain all of its short-term and long-term debt financing from VUHI?

A. No. The Participants may borrow from other sources if they so choose.

Q. Are the charges by VUHI to the Participants under the Financial Services Agreement calculated to enable VUHI to make a profit?

A. No. All services of VUHI under the Financial Services Agreement are provided to the Participants at cost.

Q. Does VUHI provide financial services to any companies other than its public utility subsidiaries?

A. No. The pooling arrangement is designed solely for meeting the financial service needs of VUHI and its public utility subsidiaries. Nonutility affiliates of the Participants have no involvement in the VUHI pooling arrangement.

Q. To whom will Vectren South sell the common stock component of the financing program?

A. Vectren South will sell common stock to VUHI in an aggregate amount not to exceed $120 million. As I indicated previously, Vectren South will maintain the appropriate balance of debt and equity through the receipt of additional equity capital from VUHI. The Company is requesting authority to receive all of this additional equity through the sale and issuance of additional common and/or preferred stock. 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.

Q. What preferred stock financing vehicles are being considered?

A. Although the petition seeks authority to issue preferred stock, it is not very likely that Vectren South will choose to do so. However, such authority is being requested to provide flexibility to take advantage of future market opportunities with respect to this type of security. To the extent preferred stock were issued, it would likely be in the form of a Cumulative Preferred series or in the form of a convertible security.

Q. What long-term equity ratio does Vectren South expect to maintain in the course of the financing program?

A. Vectren South will seek to maintain an equity to permanent capitalization ratio in the range of 50% to 60%. Attachment MNM-4 compares Vectren South's capital structure as of June 30, 2016, with a pro forma capital structure giving effect to the maturities of existing long-term debt and sale of the new securities requested in these proceedings. As reflected on Attachment MNM-4, the pro forma equity component of Vectren South's capital structure would be approximately 56%, which is near the middle of the desired range.

Q. Why does Vectren South consider this equity ratio range to be desirable?

A. Vectren South believes that by keeping the equity component of its permanent capital structure within this range, it can maintain its interest coverage ratios, cash flow ratios and other quantitative measures at a level that will maintain good credit ratings. Strong financial creditworthiness results in lower issuance costs for debt and equity securities. In addition, strong credit ratings permit increased financial flexibility and provide ready access to capital markets, particularly during difficult financial markets, such as those experienced in the second half of 2008 and in 2009. Higher credit ratings provide issuers with lower long-term borrowing costs. Maintaining adequate equity levels and favorable credit ratings also provide financial flexibility and greater financial market access during adverse business environments and economic conditions.

Q. Is Vectren South willing to report to the Commission when it exercises the financing authority requested in this proceeding?

A. Yes. Vectren South will agree to file with the Commission and serve on the Office of Utility Consumer Counselor a written report on each occasion when it exercises its long-term financing authority under the Order.

<u>AMORTIZATION OF ISSUANCE COSTS</u>

Q. Please explain how Vectren South proposes to treat costs associated with the issuance of new long-term debt, remarketing of existing long-term debt and the early redemption of outstanding long-term debt?

A. Vectren South proposes to treat all costs associated with issuance of new long-term debt, and the remarketing of existing long-term debt, as debt costs to be amortized over the life of the new or remarketed debt issues. Should any debt be redeemed or remarketed before maturity, Vectren South proposes that all costs associated with the remarketing or early redemption, including any required premium, and unamortized issuance expense of prematurely retired issues, be treated as an issuance cost and amortized over the life of the refinancing issue, or if not refinanced with long-term debt, amortized over the original life of the debt being retired. Vectren South proposes to account for all of these costs for book purposes as an increase in its interest expense, and for ratemaking purposes by reflecting the net effect of these transactions in the embedded debt cost, as has been Vectren South's past practice, which has been authorized by the Commission in its previous financing Orders.

INTEREST RATE RISK MANAGEMENT

Q. What types of interest rate risk management transactions does Vectren South request authority to enter into?

A. Given the volatility exhibited in the financial markets, Vectren South seeks authority to enter into a variety of interest rate risk management transactions. The use of financial derivatives and other hedging type transactions are very common. Examples of these hedging instruments include forward starting interest rate swaps, treasury rate locks, caps, collars, floors and other derivative products. Each of these instruments is a contractual agreement between two parties with an underlying purpose to reduce interest rate volatility. Use of one or more of these hedging alternatives allows a company to "lock-in" an interest rate in advance of the completion of the issuance of a long-term debt security. This can be useful during times of interest rate volatility. More importantly, these financing instruments help mitigate interest rate risk by locking in interest rates over time with a series of interest rate hedges and thus price the new debt issue in pieces rather than at a single point in time. VUHI has utilized interest rate hedges in some of its previous debt financings.

In addition, use of interest rate swap transactions can reduce or manage interest rate risk, allow a company to convert variable rate debt to fixed rate or vice versa in order to take advantage of favorable market conditions or to obtain a desired mix of fixed and variable rate debt and provide opportunities to lower the cost of new or existing debt issues. The notional principal amount of any interest rate swap transaction will not exceed that of the underlying debt instrument and related interest rate exposure.

Q. Please explain how Vectren South proposes to treat the costs associated with interest rate risk management transactions.

A. Since the purpose of such transactions is to manage interest rate volatility, we propose to treat the costs of interest rate risk management transactions applicable to a debt issue as a debt cost to be amortized in the same way as the issuance costs related to that issue. This is consistent with the way such costs have been handled as specified by the Commission in previous financing Orders.

SECURITIES NOT IN EXCESS OF FAIR VALUE

Q. After issuance of the securities for which the Commission's authorization is requested, will Vectren South's outstanding common stock and long-term debt exceed the fair value of its utility properties?

A. No.

CONCLUSION

Q. Does this conclude your prepared direct testimony?

A. Yes, it does.

VERIFICATION

The undersigned affirms under the penalties for perjury that the answers to the questions in the foregoing Direct Testimony are true to the best of his knowledge, information and belief.

M. Naveed Mughal

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SOUTHERN INDIANA GAS AND ELECTRIC COMPANY d/b/a VECTREN ENERGY DELIVERY OF INDIANA, INC. FOR AUTHORITY TO IMPLEMENT ITS 2017-2019 FINANCING PROGRAM BY (1) ISSUING NOT TO EXCEED $160,000,000 IN AGGREGATE PRINCIPAL AMOUNT OF SECURED OR UNSECURED LONG-TERM DEBT ISSUED TO UNAFFILIATED LENDERS AND LOAN AGREEMENTS SECURING TAX-EXEMPT BONDS OR DEBT IN THE FORM OF UNSECURED PROMISSORY NOTES TO VECTREN UTILITY HOLDINGS, INC. ("VUHI"), ITS IMMEDIATE PARENT COMPANY, PURSUANT TO THE PREVIOUSLY APPROVED 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 $120,000,000 OF COMMON AND/OR PREFERRED STOCK; AND (5) 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.** 44862

<u>VERIFIED PETITION OF SOUTHERN INDIANA GAS AND ELECTRIC COMPANY</u>

SOUTHERN INDIANA GAS AND ELECTRIC COMPANY d/b/a VECTREN ENERGY DELIVERY OF INDIANA, INC. ("Petitioner") respectfully represents and shows the Commission that:

1. **<u>Petitioner's Organization, Business and Properties</u>.** Petitioner is an operating public utility incorporated under the laws of the State of Indiana. Petitioner has its principal office at One Vectren Square, Evansville, Indiana 47708. Petitioner is a "public utility," an "electricity supplier" and a "gas utility" within the meaning of those terms in Ind. Code §§ 8-1-2-1(a), 8-1-2.3-2 and 8-1-2-87 and is subject to the jurisdiction of this Commission in the manner and to the extent provided by the laws of the State of Indiana. Petitioner has charter power and authority to engage in, and is engaged in, the business of rendering electric and gas distribution service within the State of Indiana under indeterminate permits, franchises, and necessity certificates heretofore duly acquired. Petitioner owns, operates, manages, and controls, among other things, plant, property, equipment, and facilities which are used and useful for the production, storage, transmission, distribution, and furnishing of electric utility service to approximately 144,000 customers and gas utility service to approximately 111,000 customers in southwestern Indiana. Petitioner is a wholly-owned subsidiary of Vectren Utility Holdings, Inc. ("VUHI") which is a wholly-owned subsidiary of Vectren Corporation, a holding company whose stock is publicly-traded and listed on the New York Stock Exchange.

2. Capitalization of Petitioner. As of June 30, 2016, Petitioner's total capitalization amounted to approximately $1,489,000,000 and consisted of long-term debt in the amount of $658,000,000; common stock in the amount of $313,000,000; and retained earnings in the amount of $518,000,000. At that date, the long-term debt of Petitioner was represented by ten series of first mortgage bonds totaling approximately $293,000,000 and ten series of unsecured notes to VUHI totaling approximately $365,000,000. A schedule showing the long-term debt is attached as *Exhibit A* hereto. At June 30, 2016, Petitioner had no outstanding short-term debt. All of the outstanding long-term debt and common stock have been duly authorized by Orders of this Commission.

3. Proposed Financing Program. Petitioner requests the authorization and approval of this Commission to carry out, from time to time, during the period from the date of the Order herein through March 31, 2019, a financing program consisting of one or more or a combination of the following:

A. **Long-Term Debt.** Petitioner requests that it be granted the authority to issue and sell not to exceed $160,000,000 in aggregate principal amount of long-term debt. The new long-term debt issued pursuant to the financing program (i) will have maturities not to exceed forty (40) years; (ii) will bear interest at a fixed or variable rate; (iii) will be issued and sold for cash at not less than 95% of the face amount thereof plus accrued interest, if any, to the date of delivery thereof; and (iv) will have such other terms and characteristics as shall be fixed and determined by the Board of Directors of Petitioner. Petitioner may issue some or all of the long-term debt to VUHI pursuant to the debt pooling arrangement described below. Debt issued to non-affiliated parties will consist in whole or in some combination of unsecured promissory notes, term loans, debentures, medium-term notes, mortgage bonds, loan agreements securing tax-exempt bonds, or other instruments evidencing debt of Petitioner and may be issued and sold, by way of public offerings or private placements. The loan agreements or loan documents relating to tax-exempt bonds will provide Petitioner the option of changing interest rate modes, purchasing the bonds in lieu of redemption and remarketing the tax-exempt bonds without redeeming the bonds, increasing the principal amount of the bonds or extending the final maturity of the bonds.[1] Petitioner requests that so long as it is not issuing new bonds to redeem existing bonds or increasing the principal amount or extending the final maturity of

[1] Certain of Petitioner's currently outstanding tax-exempt bonds similarly provide for periodic remarketing to investors with reset interest rates. These bonds are remarketed pursuant to the loan agreements for these debt issues which were authorized by prior Commission Orders.

the bonds, its exercise of the options described above will not reduce the principal amount of long-term debt authorized by the Commission in this proceeding.

Any mortgage bonds will be issued as First Mortgage Bonds under Petitioner's Indenture of Mortgage and Deed of Trust dated as of April 1, 1932, between the Petitioner and Deutsche Bank Trust Company Americas, formerly known as Bankers Trust Company, as trustee, as amended. Any First Mortgage Bonds that are issued to secure Petitioner's debt instruments issued to non-affiliated parties or Petitioner's obligations under a loan agreement or other financing agreement will not increase the amount of long-term debt above that incurred under the corresponding debt instrument or loan agreement, as the case may be, but instead will only provide security for the payment of that amount.

Petitioner may also enter into letter of credit agreements, insurance agreements or other arrangements with non-affiliated parties, with terms or maturities that may exceed one year, pursuant to which such parties may provide additional credit or liquidity support for tax-exempt debt issued to non-affiliated parties. The intended purpose of such additional credit or liquidity support is to enhance the credit rating of such debt or increase its marketability to investors and thereby reduce the interest expense of the debt. Petitioner's obligations under a letter of credit agreement, insurance agreement or other arrangement as described above, will not increase the principal amount of long-term debt above that incurred under the corresponding debt instrument issued to the non-affiliated lender or loan agreement.

B. <u>Common and Preferred Stock</u>. Petitioner requests that it be granted authority to issue and sell additional common stock or preferred stock (including tax-deductible preferred stock) or a combination thereof, for cash, for an aggregate sale price not to exceed $120,000,000. The additional common stock will be sold to VUHI. Petitioner will sell any preferred stock, for cash (i) by way of public offerings or private placements to non-affiliated parties or (ii) to VUHI, in the event VUHI sells its own preferred stock some or all of the proceeds of which will be allocated to Petitioner. In the event of such a preferred stock sale by VUHI, Petitioner will sell preferred stock to VUHI with terms that match those applicable to the VUHI preferred stock for an amount equal to the proceeds of the VUHI preferred stock sale allocated to Petitioner. Any preferred stock will be sold at a price of not less than the par value per share plus accrued dividends, if any, from the date of issuance to the date of delivery. Before issuing any preferred stock pursuant to this authority, Petitioner's Board of Directors will, by resolution, in accordance with Petitioner's Amended and Restated Articles of Incorporation, as amended (the "Articles"), fix and determine the relative rights, preferences, qualifications, limitations and restrictions of each series of preferred stock, including the maximum number of shares, the annual dividend per share, provisions for a variable or adjustable rate, redemption and sinking fund provisions, preferences as to dividends and other distributions, including rights upon dissolution, and other terms and characteristics as may be determined and approved by the Board of Directors. Petitioner has a sufficient number of authorized but unissued shares of common stock and preferred stock under its Articles and, therefore, no shareholder action will be required for these transactions.

C. **Interest Rate Risk Management Transactions.** Petitioner requests Commission approval and authority to enter into one or more interest rate risk management transactions, including financing instruments such as forward starting interest rate swaps, treasury locks, derivative products, interest rate caps, floors and collars. The purpose of these types of transactions is to better manage interest rate risks associated with any of the debt issued pursuant to this authorization or previous Orders of the Commission by, in effect (i) synthetically converting variable rate debt to fixed rate debt, (ii) synthetically converting fixed rate debt to variable rate debt, (iii) limiting the impact of changes in interest rates resulting from variable rate debt and (iv) providing the ability to enter into interest rate risk management transactions in future periods for planned issuances of debt securities. Petitioner proposes that the costs involved in any of these transactions be included in determining its overall cost of capital in future rate proceedings, consistent with past practice.

4. <u>Purposes of the Financing Program</u>. Petitioner proposes to apply the proceeds from the financing program, after payment of expenses incurred in connection therewith, for the reimbursement of its treasury for money actually expended or expected to be expended (i) for the acquisition of property, material, or working capital; (ii) the construction, completion, extension, or improvement of its facilities, plant, or distribution system; (iii) the improvement of its service; and (iv) the discharge or lawful refunding of its obligations. Petitioner has kept its accounts and vouchers of such expenditures in such a manner as to enable the Commission to ascertain the amount of money so expended and the purpose for which such expenditures were made. Thereafter, Petitioner shall use such net proceeds of the financing program to repay and refund outstanding long-term debt, to repay short-term borrowings and to finance its construction program or otherwise fund expected expenditures for its construction program.

Depending upon market conditions in existence during the period of time that the financing authority requested herein remains in effect, it may also be advantageous for Petitioner to redeem in whole or in part other outstanding debt prior to the maturity date thereof. The desirability of any such transaction will depend on several factors, including the then current interest rate environment, the market value of the securities and the premium Petitioner may have to pay to redeem any such securities.

Petitioner is engaged in the construction and acquisition of improvements, replacements and extensions to its gas/electric utility plant, property, equipment and facilities required in its gas/electric utility operations. Petitioner estimates that for the two-year three-month period beginning January 1, 2017 through March 31, 2019, capital expenditures totaling approximately $177,000,000, $198,000,000 and $51,000,000, respectively, will be required for these purposes. Petitioner initially will make short-term borrowings for such purposes, and later a portion of such debt will be repaid and permanently funded from the proceeds of Petitioner's long-term debt and equity issues.

5. **Vectren Utility Holdings, Inc.** Petitioner is an affiliate of two other operating utilities: Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren North"), which provides local gas distribution service to approximately 588,000 customers in central and southern Indiana and Vectren Energy Delivery of Ohio, Inc. ("VEDO"), which provides gas utility service to approximately 318,000 customers in west central Ohio. Petitioner, Vectren North and VEDO are wholly-owned subsidiaries of VUHI, which in turn is a wholly-owned subsidiary of Vectren Corporation. Pursuant to authority granted by the Commission in its Orders in Cause No. 41908 dated May 24, 2001, Cause No. 42807 dated May 11, 2005, Cause No. 43332 dated November 20, 2007, Cause No. 43695 dated October 21, 2009, Cause No. 44225 dated January 16, 2013, and Cause No. 44547 dated March 4, 2015, Petitioner issues new debt through VUHI pursuant to a Financial Services Agreement under which its debt requirements are pooled with those of

Vectren North 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.

Pursuant to the Financial Services Agreement, VUHI satisfies its needs and the combined long-term debt requirements of Petitioner, Vectren North and VEDO ("Participants") by selling its own long-term debt securities in the public or private markets and reloaning the proceeds thereof to the Participants on the same terms as apply to the corresponding debt issue of VUHI. To ensure the availability of financing by VUHI to meet its financing needs and those of the Participants and to maximize the benefit of the pooling arrangement, the Participants provide ongoing joint and several guarantees of VUHI's debt to make VUHI's debt issues attractive to investors and to achieve lower debt costs. These ongoing guarantees of VUHI's debt are provided pursuant to authority previously granted by the Commission in various financing proceedings, consistent with the provisions in the Financial Services Agreement.

The Financial Services Agreement between VUHI and the Participants also provides benefits to Petitioner with respect to short-term borrowings and management of its cash resources. VUHI arranges for access to short-term borrowings through a multi-year syndicated bank credit facility and, where appropriate, commercial paper issued in the public market. The proceeds of VUHI's short-term borrowings are made available to the Participants through short-term loans on the same basis as that on which VUHI has borrowed. The costs of these short-term borrowings are more favorable than Petitioner could obtain on its own. VUHI's existing $350,000,000 multi-year credit facility matures in October 2019 and management expects the facility to be renewed or otherwise to have the maturity and/or maximum borrowing levels amended and extended during the period of time covered by the Order in this proceeding.

VUHI also provides a cash management program under which operating cash surpluses and deficits of each Participant are loaned to or borrowed from VUHI on a daily basis at a rate equal to VUHI's blended daily cost of short-term borrowings. If VUHI is a net investor, any Participant with an excess cash balance earns a rate of interest on those funds equal to the income earned on those funds by VUHI.

6. **Amortization of Issuance and Interest Rate Risk Management Costs.** Petitioner requests authority from the Commission to amortize issuance costs and interest rate risk management costs associated with new or remarketed long-term debt issued pursuant to the authority granted herein over the life of the new or remarketed debt issue and in the case of interest rate risk management costs associated with currently outstanding debt, over the remaining life of such long-term debt. Petitioner also requests authority to treat all costs associated with the early redemption of outstanding debt and any unamortized issuance expense relating to the premature redemption of debt issues as an issuance expense to be amortized over the life of the refinancing issue or if not refinanced with long-term debt, over the original life of the debt being redeemed.

7. **Petitioner's Financial Data.** Attached hereto as *Exhibit B* is a Balance Sheet of Petitioner as of June 30, 2016 and June 30, 2015. Attached as *Exhibit C* is a Statement of Income of Petitioner for the twelve months ended June 30, 2016 and June 30, 2015.

8. Petitioner's Financing Program Is Advantageous, Necessary and in the Public Interest. 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.

Since the proposed financings may be consummated from time to time in separate transactions, the actual capitalization ratios of Petitioner at any point in time cannot now be precisely determined due to the uncertainty of the actual amount of securities that may be issued by Petitioner during such period. However, Petitioner will give due consideration to the nature of the business in which Petitioner is engaged, its credit, future prospects and earnings and the effect which such issue of securities may have on the management and efficient operation of Petitioner. The total outstanding capitalization of Petitioner, inclusive of the financing programs and the application of the proceeds, therefrom, will not be in excess of the fair value of Petitioner's property.

9. Applicable Statutory Provisions. Petitioner considers that Ind. Code §§ 8-1-2-76 through 81, § 8-1-2-84(f) and § 8-1-4-1 may be deemed applicable to the subject matter of this petition.

10. Prehearing Conference and Preliminary Hearing. Pursuant to 170 1AC 1-1.1-15, Petitioner requests that a prehearing conference and preliminary hearing be scheduled as soon as possible for the purpose of fixing a procedural schedule for this proceeding.

11. Petitioner's Attorneys. Petitioner's attorneys in this Cause who are duly authorized to accept service of pleadings on behalf of Petitioner are as follows:

Robert E. Heidorn (Atty. No. 14264-49)
P. Jason Stephenson (Atty. No. 21839-49)
Michelle D. Quinn (Atty. No. 24357-49)VECTREN CORPORATION
One Vectren Square
Evansville, Indiana 47708
Mr. Heidorn’s Telephone: (812) 491-4203
Mr. Stephenson’s Telephone: (812) 491-4231
Ms. Quinn’s Telephone: (812) 491-4093
Fax: (812) 491-4238
Email: rheidorn@vectren.com
Email: jstephenson@vectren.com
Email: mquinn@vectren.com

WHEREFORE, Petitioner respectfully requests that the Indiana Utility Regulatory Commission make such investigation and hold such hearings as it may deem necessary, and thereafter make and enter an Order in this Cause:

(a) authorizing Petitioner to issue from time to time over the period from the date of the Order in the proceeding and ending March 31, 2019, of up to $160,000,000 in aggregate principal amount of long-term debt with fixed or variable interest rates, in the form of promissory notes, first mortgage bonds and other evidences of indebtedness and to enter into loan agreements, mortgages, letter of credit agreements, insurance agreements and other agreements and arrangements relating thereto that would provide credit enhancement and liquidity support as described in this Petition and in Petitioner’s evidence to be submitted herein;

(b) authorizing the sale of additional common stock or preferred stock or a combination thereof for a price not to exceed $120,000,000;

(c) authorizing Petitioner to engage in interest risk management transactions, as described in this Petition;

(d) authorizing Petitioner to use the cash proceeds arising from the issuance and sale of such long-term debt, common stock and preferred stock for the purposes set forth in this Petition;

(e) authorizing Petitioner to amortize the issuance costs associated with new long-term debt and remarketed debt issued pursuant to the authority granted herein over the life of the new or existing issue and to treat the costs associated with any early redemption or purchase in lieu of redemption of any outstanding long-term debt, including any premium, and any unamortized issuance expense of any such prematurely redeemed or purchased issues as an issuance expense to be amortized over the life of the refinancing issue, or if not refinanced with long-term debt, amortized over the original life of the debt being redeemed;

(f) authorizing Petitioner to treat the costs of interest risk management transactions applicable to a debt issue as a debt cost to be amortized over the life of the new issue or the remaining life of the outstanding issue, as the case may be, in the same manner as the issuance costs related to that issue;

(g) issuing to Petitioner a Certificate of Authority for the issuance of securities pursuant to the financing program; and

(h) making such other and further Orders in the premises as the Commission may deem appropriate and proper.

Dated this 4th day of October, 2016.

SOUTHERN INDIANA GAS AND ELECTRIC COMPANY d/b/a VECTREN ENERGY DELIVERY OF INDIANA, INC.

By:____________________________
M. Naveed Mughal
Vice President and Treasurer

By:____________________________
P. Jason Stephenson
Vice President, General Counsel

STATE OF INDIANA)
) SS:
COUNTY OF VANDERBURGH)

M. Naveed Mughal and P. Jason Stephenson, being first duly sworn, upon oath, depose and say that they are, respectively, the Vice President and Treasurer and Vice President, General Counsel of Southern Indiana Gas and Electric Company, an Indiana corporation and Petitioner in this Cause; that as such officers of said corporation they have executed the foregoing Verified Petition and have authority to do so; that they have read said Verified Petition and know the contents thereof; and that the statements therein contained are true to the best of their knowledge, information and belief.

By:____________________
M. Naveed Mughal
Vice President and Treasurer

By: P. Jason Stephenson
P. Jason Stephenson
Vice President, General Counsel

Subscribed and sworn to before me, a Notary Public in and for said State and County aforesaid, this 4th day of October, 2016.

Mary Etta Smith
Printed: Mary Etta Smith

My Commission Expires:

July 4, 2022

My County of Residence:

Vanderburgh

MARY ETTA SMITH
NOTARY PUBLIC
SEAL
VANDERBURGH COUNTY, STATE OF INDIANA
MY COMM. EXP. JULY 4, 2022

CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing Verified Petition of Southern Indiana Gas and Electric Company, has been served by electronic mail transmission, addressed to:

Office of Utility Consumer Counselor
ATTN: Randall C. Helmen
Suite 1500 South
115 W. Washington Street
Indianapolis, Indiana 46204
rhelmen@oucc.in.gov
infomgt@oucc.in.gov

This 4th day of October, 2016.

Michelle D. Quinn

IURC Cause No. _____
Petitioner's Exhibit A

Southern Indiana Gas and Electric Company
Schedule of Long-Term Debt Outstanding
June 30, 2016

Debt Series	Maturity Date	Principal Amount Outstanding	
2013 Series C - 1.95%	01/01/22	4,640,000	(a)
2013 Series D - 1.95%	03/01/24	22,500,000	(a)
2014 Series B - 0.933% - (variable rate)	07/01/25	41,275,000	(a)
1999 Series - 6.72%	08/01/29	80,000,000	
2013 Series E - 1.95%	05/01/37	22,000,000	(a)
2013 Series A - 4.00%	03/01/38	22,200,000	(a)
2013 Series B - 4.05%	05/01/43	39,550,000	(a)
2014 Series A - 5.40%	09/01/44	22,300,000	(a)
2015 Series Mt Vernon Bond - 2.375%	09/01/55	23,000,000	(a)
2015 Series Warrick Bond - 2.375%	09/01/55	15,200,000	(a)
5.75% Series VUHI Notes	08/01/18	61,880,458	
6.28% Series VUHI Notes	04/07/20	74,595,668	
4.67% Series VUHI Notes	11/30/21	54,612,075	
3.72% Series VUHI Notes	12/05/23	24,846,682	
3.20% Series VUHI Notes	06/05/28	26,856,315	
6.10% Series VUHI Notes	12/01/35	25,284,481	
3.90% Series VUHI Notes	12/15/35	16,578,579	
4.25% Series VUHI Notes	06/05/43	47,744,560	
4.36% Series VUHI Notes	12/15/45	16,578,579	
4.51% Series VUHI Notes	12/15/55	16,578,579	
		$ 658,220,974	

Effective Weighted Average Interest Rate = 4.77%

(a) Tax-exempt debt

IURC Cause No. _____
Petitioner's Exhibit B

SOUTHERN INDIANA GAS & ELECTRIC COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)
($000's)

		At June 30, 2016		At June 30, 2015	
ASSETS					
Utility Plant					
Original cost	$	3,191,552	$	3,080,336	1
Less: accumulated depreciation & amortization		1,394,215		1,318,904	2
Net utility plant		**1,797,337**		**1,761,432**	3
					4
Current Assets					5
Cash & cash equivalents		1,264		2,308	6
Accounts receivable - less reserves		45,159		41,711	7
Receivables from other Vectren companies		30,749		15,942	8
Accrued unbilled revenues		30,828		27,573	9
Inventories		91,120		85,410	10
Recoverable fuel & natural gas costs		5,865		-	11
Prepayments & other current assets		15,372		1,911	12
Total current assets		**220,357**		**174,855**	13
					14
Investments in unconsolidated affiliates		150		150	15
Other investments		10,190		10,393	16
Nonutility plant - net		1,626		1,528	17
Goodwill		5,557		5,557	18
Regulatory assets		52,517		47,523	19
Other assets		11,618		5,422	20
TOTAL ASSETS	**$**	**2,099,352**	**$**	**2,010,311**	21
					22
					23
LIABILITIES & SHAREHOLDER'S EQUITY					24
					25
Common Shareholder's Equity					26
Common stock (no par value)	$	313,289	$	313,289	27
Retained earnings		517,330		500,978	28
Total common shareholder's equity		**830,619**		**814,267**	29
					30
Long-term debt payable to third parties		292,665		254,465	31
Long-term debt payable to Utility Holdings		365,556		315,820	32
Less: Unamortized Issuance Costs, Debt Premiums and Discounts		4,467		4,174	33
Total long-term debt, net		**653,754**		**566,111**	34
Current Liabilities					35
Accounts payable		52,914		42,452	36
Payables to other Vectren companies		7,990		16,933	38
Refundable fuel & natural gas costs		-		5,940	39
Accrued liabilities		37,341		38,649	40
Short-term borrowings payable to Utility Holdings		-		-	41
Current maturities of long-term debt		-		62,432	42
Long-term debt subject to tender		-		-	43
Total current liabilities		**98,245**		**166,406**	44
					45
Deferred Income Taxes & Other Liabilities					46
Deferred income taxes		368,488		327,008	47
Regulatory liabilities		61,827		59,573	48
Deferred credits & other liabilities		86,419		73,495	49
Total deferred income taxes & other liabilities		**516,734**		**460,076**	50
					51
TOTAL LIABILITIES & SHAREHOLDER'S EQUITY	**$**	**2,099,352**	**$**	**2,010,311**	52

IURC Cause No. _____
Petitioner's Exhibit C

SOUTHERN INDIANA GAS & ELECTRIC COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)
($000's)

	Twelve Months Ended June 30,		
	2016	**2015**	
OPERATING REVENUES			
Electric utility	$ 589,638	$ 611,436	1
Gas utility	79,198	93,481	2
Total operating revenues	**668,836**	**704,917**	3
COST OF OPERATING REVENUES			4
Cost of fuel & purchased power	179,845	193,667	5
Cost of gas sold	27,611	45,073	6
Total cost of operating revenues	207,456	238,740	7
			8
TOTAL OPERATING MARGIN	**461,380**	**466,177**	9
			10
OPERATING EXPENSES			11
Other operating	183,488	192,972	12
Depreciation & amortization	95,614	94,222	13
Taxes other than income taxes	19,026	18,814	14
Total operating expenses	298,128	306,008	15
			16
OPERATING INCOME	**163,252**	**160,169**	17
			18
Other income - net	4,093	4,407	19
			20
Interest expense	32,544	32,340	21
			22
INCOME BEFORE INCOME TAXES	**134,801**	**132,236**	23
			24
Income taxes	50,814	49,187	25
			26
NET INCOME	**$ 83,987**	**$ 83,049**	27

Southern Indiana Gas and Electric Company
Statement Summarizing Petitioner's Requested Financing Authority
($000's)

Description	**Capital Spending**	**Requested Financing Authority**		
(Col A)	(Col B)	(Col C)		
Estimated Capital Expenditures				
Calendar 2017	177,000			1
Calendar 2018	198,000			2
January 1 - March 31, 2019	51,000			
Total Estimated Capital Expenditures	375,000			3
				4
External Funds Required For Capital Expenditures				5
40% to 60% of the total estimated at		$ 150,000 to 225,000	(A)	6
				7
Refinancing of VUHI Maturity				8
5.75% Notes maturing 8/1/18		62,500	(B)	9
($62.5 Million of $100 million loaned from VUHI)				10
				11
Approximate Range of Financing Requirements (A+B)		212,500 to 287,500		12
				13
Amount of Requested Authority		**$ 280,000**		14

Southern Indiana Gas and Electric Company
Statement Summarizing Petitioner's Expected Capital Expenditures
($000's)

Type of Expenditure	Jan - Dec 2017	Jan - Dec 2018	Jan - Mar 2019
(Col A)	(Col B)	(Col C)	(Col D)
Vectren South - Power Supply			
Environmental Capital Expenditures	$ 7,000	$ 12,000	$ 6,000
Electric Steam Production, Generation and Other	38,000	20,000	6,000
Total Power Supply Capital Expenditures	45,000	32,000	12,000
Vectren South Energy Delivery - Electric			
Electric Transmission Plant	18,000	25,000	7,000
Electric Distribution Plant	53,000	77,000	19,000
Electric General Plant and Other	9,000	6,000	1,000
Total Electric Delivery Capital Expenditures	80,000	108,000	27,000
Vectren South Energy Delivery - Gas			
Bare Steel/Cast Iron Replacement	14,000	15,000	4,000
Gas Modernization Program	22,000	23,000	5,000
Gas Transmission Plant	1,000	1,000	-
Gas Distribution Plant and Other	15,000	19,000	3,000
Total Gas Delivery Capital Expenditures	52,000	58,000	12,000
Total South Capital Expenditures	**$ 177,000**	**$ 198,000**	**$ 51,000**

Southern Indiana Gas and Electric Company
Statement Summarizing Petitioner's Permanent Capitalization
Pro forma Results After Issuance of $280 Million of New Securities
($000's)

	Actual at 6/30/16		Pro forma	6/30/16 As Adjusted		
Description	**Amount**	**Ratio**	**Adjustment**	**Amount**	**Ratio**	
(Col A)	(Col B)	(Col C)	(Col D)	(Col E)	(Col F)	
Long-Term Debt	$ 658,221	44.2%	$ 97,500	$ 755,721	44.3%	1
Common Equity	830,619	55.8%	120,000	950,619	55.7%	2
Total Permanent Capitalization	$ 1,488,840	100.0%	$ 217,500	$ 1,706,340	100.0%	3
						4
	Proforma:	$ 160 million long-term debt issuance				5
		Less $62.5 million VUHI Maturity				6
		$ 120 million new equity				7

FINANCIAL SERVICES AGREEMENT

THIS AGREEMENT, dated as of December 31, 2011, is made by and among INDIANA GAS COMPANY, INC. ("IGC"), SOUTHERN INDIANA GAS AND ELECTRIC COMPANY ("SIGECO"), VECTREN ENERGY DELIVERY OF OHIO, INC. ("VEDO") (collectively the "Utilities" and individually a "Utility"); FINCO-I, Inc. (a wholly-owned financing subsidiary of IGC) and FINCO-V, Inc. (a wholly-owned financing subsidiary of VEDO) (collectively the "Financing Subsidiaries" and individually a "Financing Subsidiary"); and VECTREN UTILITY HOLDINGS, INC. ("VUHI"). It replaces the similar agreement originally executed on January 5, 2001 and later amended on January 22, 2003 by VUHI and the Utilities.

BACKGROUND

Each of the Utilities is a wholly-owned public utility subsidiary of VUHI.

The Utilities have determined that they can perform their debt financing functions more efficiently by consolidating them with each other, as they have done since January 2001.

VUHI is willing to continue to provide financial services to the Utilities on a consolidated basis in order to achieve long-term benefits for the Utilities and their customers.

VUHI's Ohio utility operations are jointly owned by IGC (47%) and VEDO (53%) through a Tenancy in Common ("TIC") interest. On December 31, 2011, VUHI plans to transfer IGC's 47% TIC interest to VEDO. To facilitate the transfer without adverse income tax consequences, it is necessary to create the two Financing Subsidiaries to hold the existing IGC short and long-term debt owned to VUHI that supports IGC's operations and its 47% ownership in the Ohio operations. The creation of these new Financing Subsidiaries necessitates the replacement of the previous Financial Services Agreement with this new Agreement. Any provisions related to the Utilities in this Agreement are also deemed to be applicable to their wholly-owned Financing Subsidiaries, without the necessity to specifically reference them in each section of the Agreement.

Accordingly, the parties have determined to enter into this Agreement for the provision of financial services by VUHI to the Utilities and their Financing Subsidiaries and for the proper allocation of the costs of providing such services.

AGREEMENT

1. Services. VUHI will provide, either directly or through arrangements with third parties for the benefit of the Utilities, such financial services as to which the Utilities and VUHI may from time to time agree, including but not limited to those more fully described in *Exhibit A* to this Agreement. Other than to meet its own needs for financial

services, including short-term or long-term borrowings, VUHI will not provide such services to any entities other than the Utilities.

2. Costs. The Utilities agree to pay to VUHI their allocable share of the costs incurred by VUHI in providing the services described in Paragraph 1, including but not limited to bank service charges and related debt facility fees. Common transaction costs incurred by VUHI in connection with its short-term borrowings, letters of credit and similar borrowing arrangements will be allocated among the Utilities during each calendar year based on VUHI's standard allocation methodology used to allocate other comparable common costs to the Utilities. Transaction costs incurred by VUHI in connection with each long-term borrowing by VUHI will be allocated among the Utilities in proportion to the principal amount of the borrowing that is loaned by VUHI to each Utility. Principal and interest on VUHI's short-term and long-term borrowings shall be allocated to the Utilities separately pursuant to the promissory notes executed pursuant to Paragraph 6.

3. Reporting. Reporting for the VUHI borrowings and repayments will be maintained monthly and will be representative of the services provided by VUHI and amounts payable to VUHI, after giving effect to all of the provisions of this Agreement. The Utilities' settlement of principal and interest will also be reflected on these reports.

4. Inspection. Upon reasonable notice, VUHI will make available to each Utility for its inspection VUHI's books, records, accounts and any other documents which describe or support the costs allocated to the Utility under this Agreement.

5. Obligations Not Joint. Except as provided in Paragraph 7, the obligations of the Utilities to VUHI shall be several and not joint, and a Utility will not be responsible to any other Utility or to VUHI for any payment in excess of payments due by the Utility to VUHI under this Agreement or a promissory note executed pursuant to Paragraph 6.

6. Notes. The Utilities' borrowings under this Agreement will be evidenced by promissory notes substantially in the form of *Exhibit B* and *Exhibit C* to this Agreement. Loans by the Utilities of excess cash balances to VUHI pursuant to the cash management program described in *Exhibit A* may be evidenced by promissory notes substantially in the form of *Exhibit D* to this Agreement.

7. Guarantees. In order to maximize the benefits of the consolidated financial services arrangement described herein, the Utilities may on a several or joint and several basis agree to guarantee payment of the debt of VUHI incurred in connection with the arrangement. In no event shall the assets of the Utilities be pledged or mortgaged as security in connection with any such guarantee.

8. Non-Exclusivity. Nothing in this new Agreement prohibits or restricts a Utility from borrowing from third parties, or obtaining services described in this Agreement from third parties, whenever and on whatever terms the Utility deem appropriate.

9. Effectiveness. This new Agreement shall be effective as of the date hereof; provided that, if prior approval by the regulatory commission of any jurisdiction is required before this Agreement may become effective as to a Utility, or before VUHI may provide a particular service hereunder to a Utility, this Agreement shall not be effective as to that Utility or as to that service, as the case may be, unless and until the required approval has been obtained.

10. Termination. Each Utility may terminate its participation in this Agreement by giving ten (10) days prior written notice of such termination to VUHI. VUHI may terminate this Agreement by giving ninety (90) days prior written notice of such termination to each of the Utilities. Termination of this Agreement will not affect: (a) a Utility's obligations to VUHI under any promissory notes issued pursuant to Paragraph 6; (b) any party's obligations with respect to any amounts owing under Paragraphs 2 and 3; (c) VUHI's obligations to the Utilities under any promissory note issued under Paragraph 6; or (d) any guarantee to third parties by a Utility made pursuant to Paragraph 7 to the extent the guarantee relates to debt outstanding as of the termination date.

11. Modification. This Agreement may be amended or modified only by a written instrument signed by all parties.

12. Counterparts. This Agreement may be executed by the parties in one or more counterparts, each of which shall be considered an original.

13. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Indiana.

IN WITNESS WHEREOF, the Utilities, Financing Subsidiaries, and VUHI have each caused this Agreement to be signed on its behalf by its duly authorized officers.

INDIANA GAS COMPANY, INC.

By: Jerome A. Benkert, Jr.
Jerome A. Benkert, Jr.
Executive Vice President and Chief Financial Officer

SOUTHERN INDIANA GAS AND ELECTRIC COMPANY

By: [signature]
M. Susan Hardwick
Vice President, Controller, and Asst. Treasurer

VECTREN ENERGY DELIVERY OF OHIO, INC.

By: [signature]
Ronald E. Christian
Executive Vice President and Secretary

VECTREN UTILITY HOLDINGS, INC.

By: Robert L. Goocher
Robert L. Goocher
Vice President and Treasurer

FINCO-I, INC.

By: Robert L. Goocher
Robert L. Goocher
Vice President and Treasurer

FINCO-V, INC.

By: Robert L. Goocher
Robert L. Goocher
Vice President and Treasurer

EXHIBIT A

DESCRIPTION OF FINANCIAL SERVICES

Set forth below is a list of the type services which VUHI agrees to provide to the Utilities upon their request pursuant to the Agreement.

1. Short-Term Loans. VUHI will provide short-term loans, letters of credit and other similar short-term borrowing arrangements to the Utilities. Short-term loans will be provided pursuant to the terms set forth in promissory notes to be issued by the Utilities to VUHI, each substantially in the form attached as *Exhibit B*.

2. Long-Term Borrowings. VUHI will provide loans, other than short-term loans, to the Utilities pursuant to the terms set forth in promissory notes to be issued by the Utilities to VUHI, each substantially in the form attached as *Exhibit C*.

3. Cash Management. VUHI will provide cash management services to the Utilities to maximize use of the Utilities' cash resources. Upon execution of the Agreement, each Utility's excess or deficient cash balance will generally be swept to and consolidated at VUHI each day with the cash resources of the other Utilities, unless it is determined to be more cost effective to maintain compensating balances in the individual utility accounts. Excess cash balances of a Utility swept to VUHI will be used first to reduce any short-term borrowings of the Utility to VUHI. Any amount remaining will be invested with VUHI. If excess funds of a Utility are invested with VUHI, the Utility will earn a rate of interest each day equal to VUHI's weighted average short-term borrowing cost for that day or, if VUHI is a net investor, the investment income earned on those funds by VUHI. If VUHI has neither short-term investments nor short-term borrowings outstanding, the previous day's rate of interest when short-term borrowings or investments were outstanding will be charged or earned by the Utility. Upon the request of a Utility, VUHI shall execute one or more promissory notes in favor of the Utility, each substantially in the form attached as *Exhibit D* to the Agreement, as evidence of such investment.

4. VUHI Assets Supporting Utilities. VUHI may also from time to time finance the acquisition of assets acquired by VUHI in order to provide shared services requested by the Utilities, such as information technology.

EXHIBIT B

PROMISSORY NOTE
FOR SHORT-TERM LOANS

$__________________________ ____________________, 20__

FOR VALUE RECEIVED, ______________________________, an ______________ corporation ("Borrower") hereby promises to pay to [VECTREN UTILITY HOLDINGS, INC., an Indiana corporation]; FINCO-I, Inc., an Indiana corporation]; or [FINCO-V, Inc., an Ohio corporation] ("Lender"), upon demand, in same day funds at its principal offices in Evansville, Indiana, or at such other place Lender may from time to time designate, the principal sum of __________________ Dollars ($_______________) (the "Maximum Principal Sum"), or such lesser amount as shall equal the aggregate unpaid principal amount of the loans made by Lender to Borrower (other than loans evidenced by a promissory note under which the principal amount is due and payable in or more scheduled installments more than one year after the date of its issue), together with interest thereon from the date hereof until paid in full, all without relief from valuation or appraisement laws. Interest shall be charged on the unpaid outstanding balance of this Note at a rate per annum equal to Lender's weighted average daily cost of short-term funds, such rate to change as Lender's weighted average daily cost of short-term funds changes. In the absence of manifest error, such documentation and the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

Presentment, notice of dishonor and demand, protest and diligence and collection and bringing suit are hereby severally waived by Borrower and each endorser hereby consents that the time for payment of this Note or any installment hereunder may be extended from time to time without notice by Lender. No waiver of any default or failure or delay to exercise any right or remedy by Lender shall operate as a waiver of any other default or of the same default in the future or as a waiver of any right or remedy with respect to the same or any other occurrence. No single or partial exercise by Lender of any right or remedy shall preclude other or further exercises thereof or of any other right or remedy.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the terms "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Note shall be construed according to, and governed by, the laws of the State of Indiana.

This Note is one of the promissory notes referred to in the Financial Services Agreement, dated December 31, 2011, by and between Lender, Borrower and certain other public utility subsidiaries of Lender to which reference is made for a statement of additional rights and obligations of the parties hereto.

IN WITNESS WHEREOF, the Borrower has caused this Note to be executed as of the day and the year first hereinabove written.

[Name of Borrower]

By: ______________________

Title: ______________________

EXHIBIT C

PROMISSORY NOTE FOR LONG-TERM LOANS

$________________________ ____________________, 20__

FOR VALUE RECEIVED, ______________________________, an ______________ corporation ("Borrower") hereby promises to pay to [VECTREN UTILITY HOLDINGS, INC., an Indiana corporation]; [FINCO-I, Inc., an Indiana corporation]; or [FINCO-V, Inc., an Ohio corporation] ("Lender"), in same day funds at its principal offices in Evansville, Indiana, or at such other place Lender may from time to time designate, the principal sum of _________________ Dollars ($_______________), together with interest thereon from the date hereof until paid in full, all without relief from valuation or appraisement laws. Interest shall be charged on the unpaid outstanding balance of this Note at a rate per annum equal to the rate paid and to be paid by Lender with respect to the borrowings it made in order to provide funds to Borrower hereunder. Interest on borrowings shall be due and payable in immediately available funds on the same business day on which Lender must pay interest on the borrowings it made in order to provide funds to the Borrower hereunder. The principal hereof shall be due and payable hereunder at such times and in such amounts and in such installments hereunder as Lender must pay with respect to the borrowings it made in order to provide funds to Borrower hereunder. Lender has provided Borrower with a copy of the documentation evidencing the borrowings made by Lender in order to provide funds to Borrower hereunder. In the absence of manifest error, such documentation and the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

The terms and conditions of the borrowings made by Lender in order to provide funds to Borrower hereunder, such documentation of which is attached hereto as *Appendix A*, are hereby incorporated by reference and made a part hereof; *provided, however*, that the principal sum under this Note shall be in such amount as set forth in this Note. In the event of any conflict or inconsistency between the terms of this Note and the terms of the borrowings made by Lender in order to provide funds to Borrower hereunder, the terms of this Note shall govern.

Presentment, notice of dishonor and demand, protest and diligence and collection and bringing suit are hereby severally waived by Borrower and each endorser hereby consents that the time for payment of this Note or any installment hereunder may be extended from time to time without notice by Lender. No waiver of any default or failure or delay to exercise any right or remedy by Lender shall operate as a waiver of any other default or of the same default in the future or as a waiver of any right or remedy with respect to the same or any other occurrence. No single or partial exercise by Lender of any right or remedy shall preclude other or further exercises thereof or of any other right or remedy.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the terms "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Note shall be construed according to, and governed by, the laws of the State of Indiana.

This Note is one of the promissory notes referred to in the Financial Services Agreement, dated December 31, 2011, between Lender, Borrower and certain other public utility subsidiaries of Lenders to which reference is made for a statement of additional rights and obligations of the parties hereto.

IN WITNESS WHEREOF, the Borrower has caused this Note to be executed as of the day and the year first hereinabove written.

[Name of Borrower]

By: ______________________

Title: ______________________

EXHIBIT D

PROMISSORY NOTE
FOR SHORT-TERM LOANS
FROM THE UTILITIES TO VUHI

$____________________________ ____________________, 20__

FOR VALUE RECEIVED, VECTREN UTILITY HOLDINGS, INC., an Indiana corporation ("Borrower") hereby promises to pay to _________________________________, an _______________ corporation ("Lender"), upon demand, in same day funds at Borrower's principal offices in Evansville, Indiana, or at such other place Borrower may from time to time designate, the principal sum of ___________________ Dollars ($________________) (the "Maximum Principal Sum"), or such lesser amount as shall equal the aggregate unpaid principal amount of the loans made by Lender to Borrower, together with interest thereon from the date hereof until paid in full, all without relief from valuation or appraisement laws. Interest shall be charged each day on the unpaid outstanding balance of this Note at a rate per annum equal to Borrower's weighted average daily cost of short-term funds, such rate to change as Borrower's weighted average daily cost of short-term funds changes; *provided, however*, if and to the extent Borrower has invested the unpaid principal, interest shall be charged each day on such amount at a rate equal to the investment income earned on such amount by Borrower. Further, if VUHI has neither short-term investments nor short-term borrowings outstanding, the previous day's rate of interest when short-term borrowings or investments were outstanding will be charged or earned by the Utility. In the absence of manifest error, such documentation and the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

Presentment, notice of dishonor and demand, protest and diligence and collection and bringing suit are hereby severally waived by Borrower and each endorser hereby consents that the time for payment of this Note or any installment hereunder may be extended from time to time without notice by Lender. No waiver of any default or failure or delay to exercise any right or remedy by Lender shall operate as a waiver of any other default or of the same default in the future or as a waiver of any right or remedy with respect to the same or any other occurrence. No single or partial exercise by Lender of any right or remedy shall preclude other or further exercises thereof or of any other right or remedy.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the terms "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Note shall be construed according to, and governed by, the laws of the State of Indiana.

This Note is one of the promissory notes referred to in the Financial Services Agreement, dated December 31, 2011, by and between Lender, Borrower and certain other public utility subsidiaries of Lender to which reference is made for a statement of additional rights and obligations of the parties hereto.

IN WITNESS WHEREOF, the Borrower has caused this Note to be executed as of the day and the year first hereinabove written.

VECTREN UTILITY HOLDINGS, INC.

By: ______________________

Title: ______________________