

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF OHIO VALLEY GAS CORPORATION)
AND OHIO VALLEY GAS, INC. FOR AUTHORITY) CAUSE NO. 45538
TO ISSUE LONG-TERM DEBT)

JOINT PETITIONERS' DIRECT TESTIMONY

The joint petitioners in this cause, Ohio Valley Gas Corporation and its wholly owned subsidiary, Ohio Valley Gas, Inc. submit the attached verified direct testimony of their witness Ronald P. Salkie.

Respectfully submitted,

OHIO VALLEY GAS CORPORATION and
OHIO VALLEY GAS, INC.

By: Clayton C. Miller
Its attorney

Dated April 30, 2021

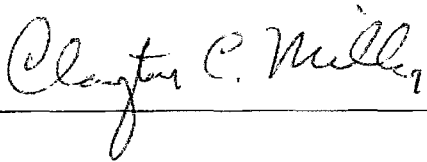
Clayton C. Miller, Attorney No. 17466-49
CLAYTON MILLER LAW, P.C.
P.O. Box 441159
Indianapolis, IN 46244
Telephone: (317) 220-8154
E-Mail: clay@claytonmillerlaw.com

IURC
JOINT PETITIONER'S 3
EXHIBIT NO. 3
DATE 7-01-21 REPORTER ul

CERTIFICATE OF SERVICE

I hereby certify that I have on this day served a copy of this pleading with the attached Verified Direct Testimony of Ronald P. Salkie upon the Indiana Office of Utility Consumer Counselor by electronic mail to infomgt@oucc.IN.gov

Dated this 30th day of April 2021



**VERIFIED DIRECT TESTIMONY OF
RONALD P. SALKIE
ON BEHALF OF OHIO VALLEY GAS CORPORATION
AND OHIO VALLEY GAS, INC.
IURC Cause No. 45538**

Q1. Please state your name and business address.

A1. Ronald P. Salkie, 111 Energy Park Drive, Winchester, Indiana 47394

Q2. By whom are you employed and in what capacity?

A2. I am employed by Ohio Valley Gas Corporation ("OVG") as its Vice President, Chief Financial Officer and Chief Information Officer. I have been Chief Financial Officer and Chief Information Officer since 2014, and Vice President since 2017.

Q3. Please describe your education and any professional certifications you hold.

A3. I graduated from Purdue University in 1989 with a Bachelor of Science degree in Industrial Management and a minor in Computer Science. I then attended Indiana University Bloomington in 1990 and graduated in 1992 with a Master of Business Administration (MBA), dual concentration in Corporate Finance and Management Information Systems.

Q4. Have you previously testified before this Commission?

A4. Yes. I regularly testify in support of the utility's quarterly gas cost adjustment proceedings as well as annual pipeline safety tracker adjustment filings and other filings.

Q5. What is the purpose of your testimony in this proceeding?

A5. The purpose of my testimony is to describe why the joint petitioners OVG and its subsidiary Ohio Valley Gas, Inc. are seeking regulatory approval to issue long-term debt. I also describe the type of long-term debt OVG would like to undertake.

Q6. What is the current extent of OVG's long-term indebtedness?

A6. OVG does not currently hold any long-term debt.

Q7. What do you consider to be "long-term?"

A7. My understanding is that for purposes of utility financing an obligation having a repayment timetable of twelve months or longer is considered to be long-term.

Q8. What has prompted OVG to now seek to incur long-term debt?

A8. OVG is seeking to incur long-term debt for two primary reasons. First interest rates are currently at particularly low levels, affording OVG the opportunity to borrow money at a lower cost. Second, OVG recently completed the acquisition of a smaller utility holding company, Hanover Group 4, which owns the jurisdictional operating public utilities Fountaintown Natural Gas Company and South Eastern Indiana Natural Gas. OVG also contemplates acquiring later this year the assets of the Town of Grandview, Indiana's municipal gas utility. Rather than deplete its cash reserves for these acquisitions, OVG was able to sell to its corporate parent, Beynon Farm Products, just under 50,000 previously issued shares which had been held in OVG's treasury. The proceeds from this stock sale are carried on OVG's books as an increase in its outstanding equity. OVG would like to borrow money to buy back these recently transferred shares in order to reduce its outstanding common equity over the course of the proposed 5-year loan term so that the parent company's equity stake is reduced to the same number of shares it held before the recent stock sale described above.

Q9. Will all of the proceeds from the proposed debt be used to buy back stock?

A9. No. While the stock buyback comprises the bulk of the uses contemplated for the proceeds of the proposed \$6 million loan, OVG also anticipates directing the remaining loan proceeds to various capital improvement projects at OVG's operating utilities.

Q10. Please describe the terms of the loan OVG is asking the Commission to approve.

A10. At current market rates, the issuance of long-term debt via a term loan offers OVG access to capital at very reasonable fixed interest rates. Although the final percentage rate will not be determined until after OVG and its lender have received the requested authorization from this Commission, OVG anticipates that it will be able to borrow money at a fixed interest rate of not more than 3.75%. This loan would have a term of five (5) years, with principal payments based on a ten (10) year amortization schedule and no prepayment penalty after the third year.

Q11. Did you work with anyone in connection with this filing?

A11. Yes. In addition to consulting OVG's outside counsel of record, prior to initiating this cause and in preparation for the filing I worked with a loan officer of a local bank.

Q12. What financing options were suggested to OVG?

A12. The team representing the bank recommends a short-term line of credit for more immediate needs as well as the fixed \$6,000,000 term loan described above with a maturity of five years from date of closing. The team's indication was that the bank could commit to a very reasonable term loan fixed interest rate that would begin after OVG gains regulatory approval. The short-term line of credit is for 364 days and would allow OVG to borrow up to \$4 million at a market-based rate. Currently, OVG does not anticipate requiring much, if any, short-term financing, but is setting up the line of credit for added flexibility. Finally, the banking team understood that Commission approval is required prior to finalizing any agreement on a fixed interest rate term loan but the short-term line of credit would be made available to OVG in the meantime.

Q13. What was OVG's capital structure from its last Rate Case?

A13. OVG's capital structure from its last Rate Case was Common Equity of roughly \$49.0 Million at an assigned cost of 10%, Customer Deposits of roughly \$2.2 Million at an assigned cost of 6%, Accrued Interest on Customer Deposits of roughly \$0.6 Million at an assigned cost of 0%, and Deferred Income Tax Reserve of roughly \$11.2 Million at an assigned cost of 0%. OVG had no long-term debt in its last Rate Case, which had a test year of July 2015 – June 2016 and plant valuation of September 2016. This capital structure supported a 7.99% approved return on rate base reflected in approved rates.

Q14. What was OVG's capital structure based on its 2020 calendar year financial performance?

A14. OVG's capital structure from its 2020 calendar year financials was Common Equity of roughly \$66.3 Million at an estimated cost of 10%, Customer Deposits of roughly \$0.9 Million at an assigned cost of 6%, Accrued Interest on Customer Deposits of roughly \$0.0 Million at an assigned cost of 0% (OVG now returns Interest on Customer Deposits each month during the customers' billing cycle, thus eliminating Accrued Interest on Customer Deposits), and Deferred Income Tax Reserve of roughly \$7.3 Million at an assigned cost of 0%. OVG is pursuing the addition of \$6.0 Million in long-term debt to lower Common Equity via a Common Stock buyback program. Exhibits 1 and 2 show OVG's 2020 calendar year-end unaudited Balance Sheet and Income Statement to support this Cause.

Q15. When do you expect the fixed interest term loan to close if approved by the Commission, and are you willing to advise the Commission of the final terms of the loan once this loan has closed?

A15. If approved, I expect to close on the loan within 60 days after a Final Order in this Cause. And yes, OVG will advise the Commission of the final terms of the loan promptly following closing on the loan.

Q16. What would the interest rate have been if you had closed on the contemplated long-term loan at the time of preparing this testimony?

A16. While preparing this testimony I was quoted an interest rate of 3.3% for a 5-year loan in the amount of \$6 million. This rate is not locked, and the actual rate may differ, as market and risk considerations adjust between the date of this prefiled testimony and when OVG receives the authority to take on the long-term debt. Although OVG will endeavor, and is incited, to negotiate a lower interest rate, to build in some flexibility in case interest rates increase, for purposes of this proceeding OVG is seeking authority to borrow \$6 million at an interest rate of up to 3.75%, to be repaid in full within five years.

Q17. How did you determine the amount to borrow and the 5-year term?

A17. The amount to borrow and the 5-year term were based on the recommendation from the banking team as well as OVG's internal analysis of our financials across multiple years, and the goals for the stock buy-back program. Although OVG might have been able to borrow the same amount for a longer period of time, a longer term would presumably have a higher price tag as reflected in the interest rate. And the \$6 million amount of the proposed loan does not present too great a challenge both in terms of payoff terms and in terms of risk to OVG's collateral.

Q18. What will OVG be offering for collateral?

A18. The proposed loan contemplates the bank perfecting a first-priority lien on all of OVG's domestic personal property, including but not limited to accounts receivable, inventory, equipment and intangibles. The terms of the contemplated loan also include various negative covenants intended to preserve the viability of the collateral, including limitations on asset divestitures and additional indebtedness.

Q19. Will the proposed debt be incurred by both OVG and Ohio Valley Gas, Inc.?

A19. No. OVG would be solely responsible for making payments on the proposed loan. OVG's wholly owned subsidiary Ohio Valley Gas, Inc. is included in this petition because its assets would be included as part of OVG's collateral encumbered by the proposed loan. I further note that OVG reports consolidated financials which include both Ohio Valley Gas Corporation and Ohio Valley Gas, Inc.

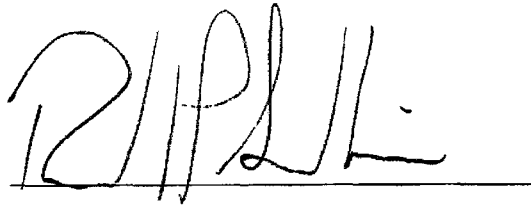
Q20. Does this conclude your prefiled direct testimony?

A20. Yes, it does.

VERIFICATION

I, Ronald P. Salkie, Vice President, CFO and CIO of Ohio Valley Gas Corporation and Ohio Valley Gas, Inc., the Petitioners in the above-entitled cause, affirm under the penalties for perjury that representations in the foregoing are true and accurate to the best of my knowledge, information and belief.

Dated this 30st day of April 2021

A handwritten signature in black ink, appearing to read "R/P Salkie", is written over a horizontal line.