

**INDIANA GAS COMPANY, INC.,
SOUTHERN INDIANA GAS AND ELECTRIC COMPANY AND
CENTERPOINT ENERGY, INC. MERGER**

CAUSE NO. 45109

**VERIFIED DIRECT TESTIMONY
OF
M. SUSAN HARDWICK
EXECUTIVE VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER**

SPONSORING PETITIONER'S EXHIBIT NO. 2

VERIFIED DIRECT TESTIMONY
OF
M. SUSAN HARDWICK
CHIEF FINANCIAL OFFICER

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

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

4 **Q. What is your position with Vectren Corporation (“Vectren”)?**

5 A. I am the Executive Vice President and Chief Financial Officer of Vectren and its
6 subsidiaries, including Indiana Gas Company, Inc. (“Vectren North”) and
7 Southern Indiana Gas and Electric Company (“Vectren South”) both d/b/a
8 Vectren Energy Delivery of Indiana, Inc..

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

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

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

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

1 President, Finance and Assistant Treasurer. I was promoted to Executive Vice
2 President and Chief Financial Officer in June, 2016.

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

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

9 **Q. Have you previously testified before the Indiana Utility Regulatory**
10 **Commission (“Commission”)?**

11 A. Yes. I have testified before this Commission on numerous occasions, including
12 on behalf of Vectren South’s last base rate proceeding in Cause No. 43112 and
13 its request for approval of a transmission, distribution and storage system
14 improvement charge in Cause No. 43839. I have also testified before the Public
15 Utilities Commission of Ohio on behalf of Vectren Ohio.

16 **Q. What is the purpose of your testimony in this proceeding?**

17 A. Vectren and CenterPoint Energy, Inc. (“CenterPoint Energy”) have jointly initiated
18 this proceeding in recognition of the importance of providing the Commission and
19 interested parties with information and assurances regarding the merger’s impact
20 on the operations, over time, of Vectren North and Vectren South. The
21 companies believe it is important to proactively provide this information to

1 stakeholders at the outset so they can begin to work cooperatively with
2 CenterPoint Energy and understand why this merger makes sense.

3 **Q. Why has Vectren agreed to merge with CenterPoint Energy?**

4 A. Vectren was formed in 2000 when Indiana Energy, Inc. and SIGCORP (the
5 holding companies of Vectren North and Vectren South respectively) entered into
6 a merger of equals. At the time, both companies were widely identified by the
7 financial community as likely takeover targets given their relatively small size in
8 terms of market capitalization. At that time, the merger created a larger company
9 with greater scale. This provided the ability to have a larger financial base to
10 attract and raise capital, the ability to spread costs over a larger customer base,
11 and the ability to eliminate certain duplicative costs like investing in two separate
12 billing systems. The objective was to achieve these benefits and provide
13 excellent service to customers while being an Indiana and Ohio focused
14 company.

15 On a combined basis (and with the addition of the Vectren Ohio system), Vectren
16 through its regulated subsidiaries represents a large gas local distribution
17 company that serves approximately one million gas customers. On the electric
18 side, Vectren has remained a very small service provider with only approximately
19 140,000 customers.

20 **Q. Has the utility industry continued to consolidate since 2000?**

1 A. Yes. Upon its formation, Vectren was one of approximately 130 public utility
2 holding companies. Today, approximately 50 public utility holding companies
3 remain in existence. Vectren represents a very unique public utility in terms of its
4 size and split of operations. Most combination gas and electric utilities are large
5 electric utilities that have smaller gas operations. Vectren is the exact opposite.
6 As to size, Vectren has a current market cap of just under \$6 Billion. Of the 50
7 remaining public utility holding companies, Vectren ranks about 30th, but the vast
8 majority of those that are larger are more than twice our size.

9 **Q. Does Vectren's size present certain challenges?**

10 A. Yes. While a small electric utility, Vectren must respond to the complex and
11 dynamic issues currently faced by all electric utilities, such as adapting to
12 distributed generation, responding to large customer renewable and/or anti-
13 carbon energy policies, modernizing the electric grid, addressing potential new
14 demands like service to electric vehicles, being secure in terms of cyber threats,
15 complying with increased reliability regulations, and meeting resource needs as
16 existing resources age. These various challenges require significant dedicated
17 resources, expertise and significant investments. Today, Vectren is meeting
18 these challenges. Over time, this could become increasingly difficult, and due to
19 our scale, potentially more costly.

20 At the same time, in part driven by increasingly stringent federal pipeline safety
21 regulations, Vectren has developed a robust compliance organization dedicated
22 to identifying and addressing safety risks. This response also requires

1 investment in new pipes to replace aging infrastructure that was less reliable and
2 prone to leakage.

3 **Q. Does the merger with CenterPoint Energy provide an opportunity to better**
4 **respond to these challenges?**

5 A. Yes. The combined company will have far greater resources available, in terms
6 of both human and financial capital, to respond to the changing industry
7 landscape.

8 **Q. How will the merger impact both customers and the communities served by**
9 **Vectren?**

10 A. For customers, quality and cost of service remain priorities. The merger should
11 provide long term benefits in both areas. In terms of quality of service, both
12 Vectren and CenterPoint Energy have excellent track records, and so together,
13 there is assurance that service quality will remain a priority. In addition, both
14 companies will continue fulfilling their obligation to provide safe and reliable
15 electric and natural gas service.

16 Per the Merger Agreement, the headquarters of an eight (8) state gas distribution
17 operation will be located in Evansville. As a result, the lead officer for the total
18 CenterPoint Energy gas operation will be in Evansville and will report directly to
19 the CenterPoint Energy CEO. Field personnel under existing labor agreements
20 will not be impacted by the merger.

1 In the electric business, the head of the Indiana electric operation will be located
2 in Evansville and will report directly to the CEO. Like Vectren, CenterPoint
3 Energy must be responsive to dynamic issues such as cyber security, distributed
4 generation and utilization of new technology. Therefore, the larger resources
5 and expertise of the combined company should allow for enhanced planning and
6 responsiveness to the dynamic service requirements discussed above.

7 From a customer perspective, over time the ability to avoid certain costs and to
8 spread overhead costs over a broader customer base will benefit customers.
9 This is an inherent benefit that will result from the planned integration process
10 and from the synergies that will arise over time. For example, Vectren's
11 customer information system (CIS) is reaching the end of its useful life. An
12 estimated investment of over \$50Million would be needed to replace the system.
13 Post-merger, the combined company will be able to share a single CIS, thereby
14 reducing the required capital costs to obtain and maintain the system over time.
15 Certain duplicative operating costs also should decline.

16 As discussed later, from a community perspective the Vectren Foundation will
17 continue to support important community initiatives.

18 **Q. Vectren sought out a merger partner. Why did Vectren initiate this**
19 **process?**

20 **A.** The merger comes at a critical time when Vectren is preparing to transition its
21 generation fleet in response to many factors. At the same time, we are

1 modernizing our electric grid and pipeline delivery systems. As discussed, these
2 numerous requirements place pressure on our finances, our rates and our
3 workforce. Vectren must meet the challenges and maintain reliability. To the
4 extent industry consolidation pressure builds and investor and customer
5 expectations become more complex and the costs to provide service rises,
6 Vectren could be placed in an environment where it would face the need to sell to
7 a larger utility. In proactively managing these challenges, joining with a partner
8 that can help support the response to these needs in an efficient manner is a
9 great answer for all stakeholders.

10 Initiating the process has allowed Vectren to have control over the selection of a
11 merger partner, and have the opportunity to negotiate favorable terms for this
12 merger.

13 **Q. You have identified many underlying issues that pose great challenges.**
14 **Are there any other Vectren specific issues that the merger helps to**
15 **address?**

16 **A.** Yes. Two that come to mind are customer growth and exposure to reduced
17 electric customer use. Vectren has experienced modest growth in its electric and
18 gas territories over the last decade. Apart from the Indianapolis area, growth has
19 been limited throughout our service territory. This places increased pressure on
20 cost containment strategies. The combined company has a far larger footprint,
21 thus allowing for overall growth opportunities to offset current slow growth in

1 Vectren's territory. This provides a better foundation for financial stability and
2 performance.

3 For Vectren electric operations in particular, the loss of a large customer or two
4 has the potential to shift significant fixed corporate costs to all other customers.
5 Generally, the larger combined entity will have a greater financial base and
6 therefore should be able to absorb a downturn in financial performance in any
7 one area, and thereby provide an overall risk mitigation effect Vectren cannot
8 create on its own.

9 **Q. Does Vectren consider CenterPoint Energy to be an excellent partner?**

10 A. Yes. CenterPoint Energy's reputation speaks for itself. The accolades
11 CenterPoint Energy has earned as a corporate citizen, employer of choice, and
12 customer service dedicated organization, along with its financial stability, address
13 the key factors that Vectren needed in a partner. These are combined with the
14 Merger Agreement commitments CenterPoint Energy agreed to that provide
15 even more assurance that Vectren's customers, employees and communities will
16 continue to be a priority for the combined entity. Vectren can emphatically state
17 that it and CenterPoint Energy share common ground in terms of corporate
18 philosophy as evidenced by the priorities of the companies.

19 **Q. From Vectren's perspective, are the Merger Agreement commitments you**
20 **have referenced substantial in nature?**

1 A. Yes. The merger commitments to employees and communities were an
2 important part of reaching an agreement with CenterPoint Energy. We believe
3 these commitments are not only significant, but in many ways represent terms
4 that are rarely, if ever, obtained as part of a Merger Agreement.

5 CenterPoint Energy is taking a long-term approach to this merger. The
6 integration effort is ongoing in Evansville, with a co-led process that will diligently
7 review corporate functions and provide constructive solutions that ultimately will
8 reduce costs to benefit customers, without depleting the ability to provide service.
9 As evidence of this deliberate process, the combined entity will not use
10 consolidation to recoup short-term benefits. Vectren employees not covered by a
11 Collective Bargaining Agreement are guaranteed two years of salary and
12 benefits, as well as full severance, after the close of the merger. Any employee
13 who continues to work during a portion of the two (2) year post-close period will,
14 if terminated as a result of the merger integration process, receive the remainder
15 of the guaranteed two-year salary and benefits. This represents a commitment to
16 provide employees with a substantial time period to plan for and obtain new
17 employment, if necessary.

18 The Vectren Foundation has provided substantial support to the welfare of
19 communities in its territory. CenterPoint Energy has pledged to not only
20 continue the Foundation efforts directed from Evansville, but to increase its
21 annual funding level by an incremental \$3 million/year for at least the next five (5)
22 years.

1 Again, these commitments provide reinforcement to the most important aspect of
2 this merger which is that CenterPoint Energy is an excellent company that does
3 the right things for stakeholders throughout its service territories.

4 **Q. In the Joint Petition, Vectren and CenterPoint Energy have requested that**
5 **this proceeding be administered in a timely and efficient manner. Please**
6 **explain this request.**

7 A. While Vectren and CenterPoint Energy have voluntarily initiated this proceeding
8 and support the importance of being considered as cooperative and transparent
9 in working with key stakeholders, and thereby have the combined company
10 launched in a positive manner, there remains the reality that the merger pre-
11 closing period is a time of uncertainty for many customers, communities,
12 employees and investors. Getting the merger closed addresses these
13 circumstances and provides these interested parties with answers as to the
14 future. Therefore, once the opportunity to review information has been
15 adequately provided, the Petitioners ask for a prompt conclusion to this Cause in
16 order to close the merger.

17 **Q. Why does this proceeding need to come to a conclusion for the merger to**
18 **close?**

19 A. In keeping with the shared perspective of Vectren and CenterPoint Energy that it
20 is important to the success of the combined company that the regulators in both
21 Indiana and Ohio, as well as other key stakeholders, receive enough information

1 to have a good understanding of the merger terms and the vision for future utility
2 operations, including continued reliability, accountability and responsiveness to
3 customer and regulatory issues and concerns, the closure of the informational
4 proceedings was made a condition to closing the merger. This simply reflects
5 the respect for the Commissions' regulation of the utility operations.

6 **Q. In summary, in your opinion will the combined company continue to**
7 **provide reliable service to customers?**

8 A. Yes. The merger results in the combination of two holding companies that each
9 have a core focus on providing regulated utility services in their respective states.
10 These companies have decades of experience in operating public utilities that
11 not only reliably serve customers, but also work cooperatively with regulators and
12 other stakeholders. As a result, there should be no concern that post-closing
13 Indiana customers will be negatively impacted.

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

15 A. Yes, at this time.

VERIFICATION

I, M. Susan Hardwick, Executive Vice President and Chief Financial Officer for Vectren Corporation, under penalty of perjury, affirm that the foregoing representations are true and correct to the best of my knowledge, information and belief.

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

By: 

M. Susan Hardwick
Executive Vice President and Chief Financial
Officer

Dated: June 15, 2018