

**STATE OF INDIANA  
INDIANA UTILITY REGULATORY COMMISSION**

VERIFIED PETITION OF INDIANA GAS COMPANY, )  
INC. D/B/A VECTREN ENERGY DELIVERY OF )  
INDIANA, INC. ("VECTREN NORTH") FOR (1) )  
AUTHORITY TO MODIFY ITS RATES AND )  
CHARGES FOR GAS UTILITY SERVICE )  
THROUGH A PHASE-IN OF RATES, (2) )  
APPROVAL OF NEW SCHEDULES OF RATES )  
AND CHARGES, AND NEW AND REVISED )  
RIDERS, (3) APPROVAL OF A NEW TAX )  
SAVINGS CREDIT RIDER, (4) APPROVAL OF )  
VECTREN NORTH'S ENERGY EFFICIENCY )  
PORTFOLIO OF PROGRAMS AND AUTHORITY )  
TO EXTEND PETITIONER'S ENERGY EFFICIENCY )  
RIDER ("EER"), INCLUDING THE DECOUPLING )  
MECHANISM EFFECTUATED THROUGH THE )  
EER, (5) APPROVAL OF REVISED )  
DEPRECIATION RATES APPLICABLE TO GAS )  
PLANT IN SERVICE, (6) APPROVAL OF )  
NECESSARY AND APPROPRIATE ACCOUNTING )  
RELIEF, AND (7) APPROVAL OF AN )  
ALTERNATIVE REGULATORY PLAN PURSUANT )  
TO WHICH VECTREN NORTH WOULD CONTINUE )  
ITS CUSTOMER BILL ASSISTANCE PROGRAMS. )

**FILED**  
March 2, 2021  
INDIANA UTILITY  
REGULATORY COMMISSION

CAUSE NO. 45468

**PETITIONER'S SUBMISSION OF SUPPLEMENTAL MSFR**

INDIANA GAS COMPANY, INC. D/B/A VECTREN ENERGY DELIVERY OF  
INDIANA, INC., a CenterPoint Energy Company ("Petitioner" or "Vectren North"), by  
counsel, respectfully submits S&P Global's Research Update dated February 22, 2021  
for CenterPoint Energy, Inc. as a supplement to MSFR 170 IAC 1-5-13(a)(1)(A-B) in this  
Cause.

Respectfully submitted,

/s/ Hillary J. Close

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## CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing was served this 2nd day of March, 2021, electronically upon:

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/s/ Hillary J. Close  
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## Research Update:

# CenterPoint Energy Inc. Outlook Revised To Stable From Negative; Ratings Affirmed

February 22, 2021

## Rating Action Overview

- CenterPoint Energy Inc. (CPE) has announced of its support for the merger between Enable Midstream Partners L.P. and Energy Transfer L.P. (ET). Upon completion, expected in the second half of 2021, CPE will receive approximately 6.5% ownership of ET common units for its 53.7% ownership of Enable common units. In addition, CPE will exchange the \$363 million holding of Enable series A non-cumulative preferred shares for about \$385 million of ET series G fixed-rate reset cumulative redeemable perpetual preferred units.
- CPE is also selling its Arkansas and Oklahoma gas local distribution companies (LDCs) and plans to use proceeds to repay debt and fund capital spending.
- CPE is incurring significantly higher natural gas costs to meet the incremental demand of natural gas customers due to recent abnormal weather conditions within its service territories. Our base-case scenario for financial measures assumes CPE receives rate recovery of these costs over time with minimal disallowance.
- Given the pending transactions, we are revising our financial risk profile on CPE upward to significant from aggressive, reflecting stronger credit measures driven by a deleveraging strategy. However, financial measures will be weak within the significant category. We therefore are also revising the comparable rating analysis modifier to negative from positive.
- We are affirming our 'BBB+' long-term issuer credit rating on CPE and revising the outlook to stable from negative.
- The stable outlook reflects our expectation of consistent financial measures following the Enable sale to ET.
- We also are affirming our ratings and revising the outlooks to stable from negative on CPE subsidiaries CenterPoint Energy Houston Electric LLC (CEHE); CenterPoint Energy Resources Corp. (CERC); Vectren Corp.; Vectren Utility Holdings Inc. (VUHI); Southern Indiana Gas & Electric Co. (SIGECO); and Indiana Gas Co. Inc.

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## Rating Action Rationale

### **The stable outlook on CPE and its subsidiaries reflects more predictable consolidated financial measures following the sale of Enable to ET.**

We expect CPE's financial measures, including funds from operations (FFO) to debt, to be more predictable after the Enable merger with ET and expected debt reduction following the sale of two gas LDCs. We expect adjusted FFO to debt to be about 13% through 2024. The expectation of stronger financial measures over the next several years supports the revision of the financial risk profile to significant from aggressive. Compared to peers, CPE is at the lower end of the benchmark range for the significant financial risk profile. We utilize our medial volatility financial benchmarks, reflecting lower risk regulated utility operations and effective management of regulatory risk. These benchmarks are more relaxed than those used for typical corporate issuers.

### **The rating affirmation on CPE reflects a modest strengthening of its business risk profile on the announced merger of Enable with ET and sale of two gas LDCs.**

We view the sale of Enable as a positive step in management's strategy to focus on the low-risk regulated operations and ultimately reduce midstream operations. It reduces CPE's participation in the midstream sector and provides more flexibility regarding its midstream investments. We expect CPE to invest the LDC sale proceeds in capital spending or to repay debt.

The affirmations of the ratings on CEHE, CERC, Vectren, VUHI, SIGECO, and Indiana Gas reflect our view that they are core to CPE and that we continue to base our issuer credit ratings on these entities on the 'bbb+' group credit profile for CPE. The outlooks on these subsidiaries are aligned with the stable outlook on parent CPE.

### **We apply a negative comparable rating analysis modifier, revising the stand-alone credit**

**profile for CPE to 'bbb+'.** The modifier reflects financial measures, specifically adjusted FFO to debt, near the lower end of the range through the forecast period.

### **CPE has much higher natural gas costs due to the severe winter weather across its service**

**territories, particularly in Texas.** Demand for natural gas is higher, and CPE had to procure it at significantly higher prices. We expect the company to recover the incremental costs over time with minimal disallowances.

## Outlook

The stable outlook on CPE and its subsidiaries reflects our expectation of consistent financial measures, albeit with minimal financial cushion, and that CPE will maintain its business risk profile in line with the strengthened assessment after the reduction in midstream operations. Our baseline forecast for 2021 and 2022 includes FFO to debt of about 13%, minimally above the downgrade trigger.

## Downside scenario

We could lower ratings on CPE over the next two years if:

- The company's financial measures weaken such that FFO to debt is consistently below 12%. This could occur if the company's ability to effectively manage regulatory risk weakens or expected deleveraging does not occur. Moreover, financial measures could weaken if

**Research Update: CenterPoint Energy Inc. Outlook Revised To Stable From Negative; Ratings Affirmed**

midstream distributions from ET materially decline or if CPE's management does not use the sale proceeds to bolster the capital structure; or

- Business risk unexpectedly increases, reflecting weaker ability to effectively manage regulatory risk.

**Upside scenario**

We could raise ratings on CPE over the next two years if:

- Business risk remains consistent; and
- Financial measures improve, such that FFO to debt rises to and remains consistently above 15%. Financial measures could improve if CPE takes additional steps to deleverage its capital structure or cash flow strengthens.

**Company Description**

CPE is a Houston-based holding company primarily engaged in electric utility and natural gas distribution operations through its regulated utility subsidiaries. These subsidiaries include CEHE, an electricity distribution company with customers in Houston and the surrounding area; SIGECO, a vertically integrated electricity and natural gas distribution company; natural gas distribution utilities serving about 1 million customers in Indiana and Ohio; and CERC, a gas distribution company currently serving customers in Louisiana, Minnesota, Mississippi, Texas, Arkansas, and Oklahoma. CPE has announced it intends to sell operations in Arkansas and Oklahoma.

Nonutility operations include of the Enable partnership which has agreed to merge with ET.

**Our Base-Case Scenario**

- Expected EBITDA margin averaging 40% per year.
- Annual capital spending in the \$3.2 billion-\$3.4 billion range.
- Dividends of about \$500 million per year.
- Negative discretionary cash flow, indicating external funding needs.
- All debt maturities refinanced.

Based on these assumptions we expect the following measures through 2022:

- Adjusted FFO to debt of about 13% each year;
- Adjusted debt to EBITDA of 5.5x-5.7x each year; and
- Adjusted FFO cash interest coverage of averaging about 4.2x each year.

**Liquidity**

We assess CPE's liquidity as adequate because we believe sources will likely cover uses by more than 1.1x over the next 12 months and will be sufficient to meet cash outflows even if EBITDA declines 10%. The assessment also reflects the company's generally prudent risk management,

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sound relationships with banks, and a generally satisfactory standing in credit markets.

Principal liquidity sources:

- Cash and liquid investments of about \$1 billion;
- Credit facility availability of about \$4.9 billion; and
- Estimated cash FFO of \$1.3 billion.

Principal liquidity uses:

- Debt maturities including outstanding commercial paper of about \$2.3 billion;
- Capital spending of roughly \$3.2 billion; and
- Dividends of roughly \$500 million.

## Issue Ratings - Subordination Risk Analysis

We base our 'A-2' short-term rating on CPE on our long-term issuer credit rating. We rate CPE's preferred stock two notches below the issuer credit rating to reflect the discretionary nature of the dividend and the deeply subordinated claim if a bankruptcy occurs.

## Capital structure

The \$12.4 billion of consolidated debt at CPE includes about \$5.2 billion of priority unsecured debt at its operating subsidiaries and about \$5.3 billion of priority general and first-mortgage bond debt obligations.

## Analytical conclusions

We rate the unsecured debt at CPE one notch below the issuer credit rating because priority debt exceeds 50% of consolidated debt, after which point CPE's debt could be considered structurally subordinated.

## Ratings Score Snapshot

<b>Issuer credit rating</b>	BBB+/Stable/A-2
<b>Business risk</b>	Excellent
Country risk	Very low
Industry risk	Very low
Competitive position	Strong
<b>Financial risk</b>	Significant
Cash flow/Leverage	Significant
<b>Anchor</b>	a-
<b>Modifiers</b>	
Diversification/Portfolio effect	Neutral (no impact)

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Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Negative (-1 notch)
<b>Stand-alone credit profile</b>	bbb+
Group credit profile	bbb+

**Related Criteria**

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

**Ratings List**



**Research Update: CenterPoint Energy Inc. Outlook Revised To Stable From Negative; Ratings Affirmed****Ratings Affirmed; Outlook Action**

	To	From
<b>CenterPoint Energy Inc.</b>		
<b>Vectren Utility Holdings Inc.</b>		
<b>CenterPoint Energy Resources Corp.</b>		
Issuer Credit Rating	BBB+/Stable/A-2	BBB+/Negative/A-2
<b>CenterPoint Energy Houston Electric LLC</b>		
<b>Indiana Gas Co. Inc.</b>		
<b>Southern Indiana Gas &amp; Electric Co.</b>		
<b>Vectren Corp.</b>		
Issuer Credit Rating	BBB+/Stable/--	BBB+/Negative/--

**Issue-Level Ratings Affirmed**

<b>CenterPoint Energy Inc.</b>	
Senior Unsecured	BBB
Preferred Stock	BBB-
Commercial Paper	A-2
<b>CenterPoint Energy Resources Corp.</b>	
Senior Unsecured	BBB+
Commercial Paper	A-2
<b>Indiana Gas Co. Inc.</b>	
Senior Unsecured	BBB+
<b>Vectren Utility Holdings Inc.</b>	
Senior Unsecured	BBB+
Commercial Paper	A-2

**Issue-Level Ratings Affirmed; Recovery Ratings Unchanged**

<b>CenterPoint Energy Houston Electric LLC</b>	
Senior Secured	A
Recovery Rating	1+
<b>Southern Indiana Gas &amp; Electric Co.</b>	
Senior Secured	A
Recovery Rating	1+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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