

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

**PETITION OF INDIANA GAS COMPANY, INC. D/B/A)
VECTREN ENERGY DELIVERY OF INDIANA, INC. FOR)
AUTHORITY TO IMPLEMENT ITS 2017-2019)
FINANCING PROGRAM BY (1) ISSUING NOT TO)
EXCEED \$200,000,000 IN AGGREGATE PRINCIPAL)
AMOUNT OF SECURED OR UNSECURED LONG-TERM)
DEBT ISSUED TO UNAFFILIATED LENDERS 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 \$180,000,000)
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. 44863

SUBMISSION OF PETITIONER'S CASE-IN-CHIEF

INDIANA GAS COMPANY, INC. 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,

**INDIANA GAS COMPANY, INC. 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

INDIANA GAS COMPANY, INC.

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

IURC CAUSE NO. 44863

DIRECT TESTIMONY

OF

M. NAVEED MUGHAL

SPONSORING ATTACHMENTS MNM-1 THROUGH MNM-5

**INDIANA GAS COMPANY, INC.
CAUSE NO. 44863**

DIRECT TESTIMONY OF M. NAVEED MUGHAL

1 **BACKGROUND AND QUALIFICATIONS**

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

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

5

6 **Q. What is your position with Petitioner Indiana Gas Company, Inc. d/b/a Vectren
7 Energy Delivery of Indiana, Inc. (“Vectren North” or “Company”)?**

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

13

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

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

18

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

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

12
13 **Q. What are your responsibilities as Treasurer and Vice President of Investor**
14 **Relations for Vectren Corporation and Vice President and Treasurer of VUHI,**
15 **Vectren North, Vectren South and VEDO?**

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

21
22 **Q. Please summarize your experience with respect to the issuance and sale of securities.**

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

6

7 **Q. Are you familiar with the financial situation, capitalization, business and property**
8 **of Vectren North?**

9 A. Yes.

10

11 **Q. Please describe the business of Vectren North.**

12 A. Vectren North is a public utility regulated by this Commission that provides natural gas
13 utility service to approximately 588,000 natural gas customers in central and southern
14 Indiana.

15

16 **Q. Who owns the common stock of Vectren North?**

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

21

1 **Q. What is the business of Vectren South and VEDO?**

2 A. Vectren South is a public electric and natural gas utility regulated by this Commission
3 that provides electric utility service to approximately 144,000 customers and natural gas
4 utility distribution service to approximately 111,000 customers in southwestern Indiana.
5 VEDO is a public utility regulated by the Public Utility Commission of Ohio and
6 provides natural gas utility service to approximately 318,000 customers near Dayton in
7 west central Ohio.

8

9 **SUMMARY OF PRESENTATION**

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

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

20

21 **THE 2017-2019 FINANCING PROGRAM**

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

3 A. Attachment MNM-1 is a copy of the Petition filed by Vectren North in this Cause.
4 Attached to the Petition as exhibits are a schedule of long-term debt as of June 30, 2016,
5 Vectren North's balance sheets as of the same date and June 30, 2015, and Vectren
6 North's statements of income for the twelve months ended June 30, 2016 and June 30,
7 2015.

8

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

10 A. Yes.

11

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

13 A. Yes.

14

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

17 A. Yes.

18

19 **Q. Please describe Vectren North's proposed 2017-2019 financing program?**

20 A. Vectren North is requesting authority to issue up to \$200 million in aggregate principal
21 amount of incremental long-term debt and sell up to \$180 million of additional common

1 stock or preferred stock to VUHI from the date of the Order in this proceeding through
2 March 31, 2019. While Vectren North is requesting authority to sell additional common
3 and/or preferred stock to VUHI, I expect that this additional equity will come primarily in
4 the form of a direct infusion of capital. Equity infusions are intended to be booked to
5 Paid-in-Capital and will not involve the issuance of additional shares of common stock;
6 therefore, not requiring IURC approval. However, in the interest of full disclosure and
7 for the purpose of demonstrating Vectren North's adherence to a reasonable balance of
8 debt and equity in its capital structure, the infusion is described in my testimony. In
9 addition, Vectren North requests authority to enter into certain interest rate risk
10 management transactions.

11
12 **Q. When did Vectren North last receive financing authority from the Commission?**

13 A. Vectren North last received financing authority in the Commission's Order dated March
14 4, 2015, in Cause No. 44546 (the "2015 Order"). This Order authorized Vectren North to
15 issue up to \$125 million of long-term debt and \$80 million of common and preferred
16 stock through December 31, 2016. The 2015 Order also authorized Vectren North to
17 continue to participate in a debt pooling arrangement with VUHI, Vectren South and
18 VEDO originally authorized by the Commission's Order dated May 24, 2001, in Cause
19 No. 41909.

20
21 **Q. Does Vectren North have any unused financing authority under the 2015 Order?**

1 A. Yes, at June 30, 2016 Vectren North currently has \$45 million of long-term debt
2 financing authority remaining and \$55 million of equity financing authority remaining,
3 both of which expire on December 31, 2016.

4

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

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

17

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

20 A. Yes. VUHI periodically files shelf registration statements with the Securities and
21 Exchange Commission (“SEC”) which provide a means for VUHI to quickly issue long-
22 term debt in the public markets on behalf of Vectren North and its other regulated utility

1 subsidiaries. To achieve the benefits of this SEC pre-approval procedure, it is necessary
2 for the utilities to have authority to immediately participate in such issues when
3 conditions are favorable. In addition, as previously discussed, due to the volatile debt
4 markets, VUHI and Vectren North need the flexibility to be able to quickly access the
5 public and private debt markets when windows of opportunity present themselves.
6

7 **Q. Please explain how Vectren North's estimated financing needs of \$380 million**
8 **during the period of the financing program were determined?**

9 A. Attachment MNM-2 is a schedule prepared by me which shows the quantification of
10 Vectren North's estimated external financing needs of \$380 million for the 2017-2018
11 period and January 1 through March 31, 2019. As shown on Attachment MNM-2, over
12 the two-year three-month period of the financing program, Vectren North has estimated
13 its capital spending requirements to be about \$433 million, of which approximately 60-
14 80% is estimated to require external financing. Additionally, refinancing related to the
15 maturity of outstanding VUHI long-term debt reloaned to Vectren North may require up
16 to an additional \$37.5 million of financing requirements. Vectren North is seeking
17 authority in this proceeding to refinance its approximately \$37.5 million share of the
18 \$100 million VUHI debt issue that is maturing. Any remaining authority is requested to
19 reimburse Vectren North's treasury and to repay short-term debt, including amounts
20 incurred to support Vectren North's ongoing construction program.
21

22 **Q. What are the estimated needs of Vectren North for capital expenditure**
23 **requirements for each year of the proposed financing program?**

1 A. As shown in Attachment MNM-3, Vectren North currently expects to make capital
2 expenditures of approximately \$208 million, \$178 million and \$47 million in 2017, 2018
3 and January 1 through March 31, 2019, respectively.

4
5 **Q. Will any outstanding long-term debt issues of Vectren North mature during the**
6 **period of the financing program?**

7 A. Yes. As noted above, VUHI's 5.75% \$100 million long-term debt originally issued in
8 July 2003 matures in August 2018. Of this \$100 million debt issue, approximately \$37.5
9 million was loaned to Vectren North.

10

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

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

20

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

1 A. Vectren North plans on issuing some or all of the new long-term debt portion of the
2 financing program through its existing pooling arrangement with VUHI. This
3 arrangement is described in the restated Financial Services Agreement included in
4 Attachment MNM-5. The restated Financial Services Agreement was previously
5 approved by the Commission in its Order issued July 27, 2011 in Cause No. 43968 and is
6 effective as of December 31, 2011. It replaced the Financial Services Agreement that
7 was originally executed on January 5, 2001 and subsequently amended on January 22,
8 2003. The Financial Services Agreement continues to provide for the pooling of the debt
9 requirements of Vectren North, Vectren South and VEDO (“Participants”), along with
10 those of VUHI, thereby creating larger more attractive debt issues with lower interest
11 rates, lower transaction costs and better financial market access than the Participants
12 would ordinarily have if they financed separately. In accordance with the Financial
13 Services Agreement, VUHI sells its own long-term debt securities in the public or private
14 markets in the amount of the combined long-term debt requirements of the Participants
15 and reloans the proceeds to the Participants on the same terms as apply to the VUHI debt.
16 Each Participant executes a promissory note to VUHI in the amount of the loan to it. To
17 ensure the availability of financing by VUHI to meet its financing needs and those of the
18 Participants and to maximize the benefits of the pooling arrangement, the Participants
19 provide ongoing joint and several guarantees of all of VUHI’s debt to make VUHI’s debt
20 issues attractive to investors and to achieve lower debt costs.

21 Vectren North would also like the flexibility to issue new secured or unsecured long-term
22 debt outside of the VUHI pooling arrangement in the event prevailing conditions in the

1 financial markets make it desirable for Vectren North to finance outside the VUHI
2 arrangement.

3
4 **Q. Does Vectren North also request authority to issue new secured debt?**

5 A. Yes. In keeping with the desire to have sufficient flexibility to adapt to changing market
6 conditions, Vectren North would like to have the ability to issue secured debt if that
7 becomes the most efficient or cost-effective long-term approach to satisfying a portion of
8 its financing needs.

9
10 **Q. How will the interest rates on the long-term debt be determined?**

11 A. Interest rates on the new fixed rate long-term debt will be determined at the time of
12 issuance or at the time the debt is priced, based on the then prevailing market and
13 economic conditions. Interest on any new variable rate debt issued will be determined at
14 the time of each interest rate reset by the remarketing agent appointed by Vectren North
15 based on the then prevailing market and economic conditions. Vectren North and VUHI
16 will consult with investment bankers and external counsel as well as review pertinent
17 economic data prior to issuing long-term debt to ensure that the interest rates and terms
18 and conditions of the new debt issues are reasonable.

19
20 **Q. What interest rate and maturity parameters does Vectren North expect to apply for
21 the long-term debt financing authority requested in this proceeding?**

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

7 As of June 30, 2016, Vectren North's weighted average cost of long-term debt was
8 approximately 5.51%. Given present market conditions, it is expected that the new fixed
9 rate debt issued would be at interest rates at or below Vectren North's current weighted
10 average cost of debt. However, market conditions existing at the time of issuance and the
11 new debt's maturity would determine the actual costs incurred.

12
13 **Q. How much long-term debt remains currently outstanding that VUHI issued**
14 **pursuant to the Financial Services Agreement?**

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

22

1 **Q. Please describe Attachment MNM-5.**

2 A. Attachment MNM-5 is a copy of the Financial Services Agreement that was amended
3 and restated effective December 31, 2011.
4

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

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

1 expires in October 2019, and will likely be refinanced during the period of time covered
2 by the Commission's Order in this proceeding.

3
4 **Q. What authority from the Commission does Vectren North have regarding use of the**
5 **VUHI credit facilities?**

6 A. In its Order dated October 26, 2005, in Cause No. 42888, the Commission authorized, to
7 the extent necessary, and on an ongoing basis, Vectren North's borrowing from VUHI in
8 accordance with (a) multi-year credit facility agreements of VUHI so long as each actual
9 borrowing under the facility will be repaid within 365 days; and (b) credit facility
10 agreements that contain Term-Out Options (an option allowing VUHI to terminate the
11 facility and convert any outstanding short-term revolving loans into term loans) so long
12 as the exercise of the option creates a term loan maturing no longer than 365 days after
13 the facility termination date. These conditions assure that the use of the credit facility
14 maintains the attributes of short-term debt. In such cases, the Commission found, the
15 borrowings would not be treated as using up any of Vectren North's long-term debt
16 authority in future financing proceedings. Vectren North expects to continue to renew
17 and utilize multi-year credit facilities on an on-going basis within the parameters set forth
18 in the Order in Cause No. 42888.

19
20 **Q. Does the Financial Services Agreement require Vectren North to obtain all of its**
21 **short-term and long-term debt financing from VUHI?**

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

2

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

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

7

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

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

13

14 **Q. To whom will Vectren North sell the common stock component of the financing**
15 **program?**

16 A. Vectren North will sell common stock to VUHI in an aggregate amount not to exceed
17 \$180 million. As I indicated previously, Vectren North will maintain the appropriate
18 balance of debt and equity through the receipt of additional equity capital from VUHI.
19 The Company is requesting authority to receive all of this additional equity through the
20 sale and issuance of additional common and/or preferred stock. Some or all of the equity
21 may be received through a direct contribution of additional paid-in capital from VUHI.
22 To the extent common stock is issued and sold, all of the additional common stock will

1 be sold to VUHL.

2

3 **Q. What preferred stock financing vehicles are being considered?**

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

9

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

12 A. Vectren North will seek to maintain an equity to permanent capitalization ratio in the
13 range of 50% to 60%. Attachment MNM-4 compares Vectren North's capital structure
14 as of June 30, 2016, with a pro forma capital structure giving effect to the maturities of
15 existing long-term debt and sale of the new securities requested in these proceedings. As
16 reflected on Attachment MNM-4, the pro forma equity component of Vectren North's
17 capital structure would be approximately 55%, which is near the middle of the desired
18 range.

19

20 **Q. Why does Vectren North consider this equity ratio range to be desirable?**

21 A. Vectren North believes that by keeping the equity component of its permanent capital
22 structure within this range, it can maintain its interest coverage ratios, cash flow ratios

1 and other quantitative measures at a level that will maintain good credit ratings. Strong
2 financial creditworthiness results in lower issuance costs for debt and equity securities.
3 In addition, strong credit ratings permit increased financial flexibility and provide ready
4 access to capital markets, particularly during difficult financial markets, such as those
5 experienced in the second half of 2008 and in 2009. Higher credit ratings provide issuers
6 with lower long-term borrowing costs. Maintaining adequate equity levels and favorable
7 credit ratings also provide financial flexibility and greater financial market access during
8 adverse business environments and economic conditions.

9
10 **Q. Is Vectren North willing to report to the Commission when it exercises the financing**
11 **authority requested in this proceeding?**

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

15
16 **AMORTIZATION OF ISSUANCE COSTS**

17 **Q. Please explain how Vectren North proposes to treat costs associated with the**
18 **issuance of new long-term debt and the early redemption of outstanding long-term**
19 **debt?**

20 A. Vectren North proposes to treat all costs associated with issuance of new long-term debt
21 as debt costs to be amortized over the life of the new debt issues. Should any debt be
22 redeemed before maturity, Vectren North proposes that all costs associated with the early

1 redemption, including any required premium, and unamortized issuance expense of
2 prematurely retired issues, be treated as an issuance cost and amortized over the life of
3 the refinancing issue, or if not refinanced with long-term debt, amortized over the
4 original life of the debt being retired. Vectren North proposes to account for all of these
5 costs for book purposes as an increase in its interest expense, and for ratemaking
6 purposes by reflecting the net effect of these transactions in the embedded debt cost, as
7 has been Vectren North's past practice, which has been authorized by the Commission in
8 its previous financing Orders.
9

10 **INTEREST RATE RISK MANAGEMENT**

11 **Q. What types of interest rate risk management transactions does Vectren North**
12 **request authority to enter into?**

13 A. Given the volatility exhibited in the financial markets, Vectren North seeks authority to
14 enter into a variety of interest rate risk management transactions. The use of financial
15 derivatives and other hedging type transactions are very common. Examples of these
16 hedging instruments include forward starting interest rate swaps, treasury rate locks, caps,
17 collars, floors and other derivative products. Each of these instruments is a contractual
18 agreement between two parties with an underlying purpose to reduce interest rate
19 volatility. Use of one or more of these hedging alternatives allows a company to "lock-
20 in" an interest rate in advance of the completion of the issuance of a long-term debt
21 security. This can be useful during times of interest rate volatility. More importantly,
22 these financing instruments help mitigate interest rate risk by locking in interest rates

1 over time with a series of interest rate hedges and thus price the new debt issue in pieces
2 rather than at a single point in time. VUHI has utilized interest rate hedges in some of its
3 previous debt financings.

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

10
11 **Q. Please explain how Vectren North proposes to treat the costs associated with interest**
12 **rate risk management transactions.**

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

18
19 **SECURITIES NOT IN EXCESS OF FAIR VALUE**

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

1 A. No.

2

3 **CONCLUSION**

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

5 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

FILED
OCTOBER 04, 2016
INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

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EXCEED \$200,000,000 IN AGGREGATE PRINCIPAL)
AMOUNT OF SECURED OR UNSECURED LONG-TERM)
DEBT ISSUED TO UNAFFILIATED LENDERS 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 \$180,000,000)
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. 44863

VERIFIED PETITION OF INDIANA GAS COMPANY, INC.

INDIANA GAS COMPANY, INC. D/B/A VECTREN ENERGY DELIVERY OF INDIANA, INC. ("Petitioner") respectfully represents and shows the Commission that:

- Petitioner's Organization, Business and Properties.** 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" and a "gas utility" within the meaning of those terms in Ind. Code §§ 8-1-2-1(a) 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 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 gas utility service to approximately 588,000 customers in central and southern 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 \$814,000,000 and consisted of long-term debt in the amount of \$363,000,000 (including current maturities); common stock (including additional paid-in-capital) in the amount of \$284,000,000 and retained earnings in the amount of \$167,000,000. At that date, the long-term debt of Petitioner was represented by seven series of senior unsecured debt totaling \$96,000,000 and nine series of unsecured notes to VUHI totaling approximately \$267,000,000. 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 \$200,000,000 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, or other instruments evidencing debt of Petitioner and may be issued and sold, by way of public offerings or private placements.

B. Common and Preferred Stock. 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 \$180,000,000. 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. Purposes of the Financing Program. 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 utility plant, property, equipment and facilities required in its gas utility operations. Petitioner estimates that for the two-year three-month period beginning January 1, 2017 through March 31, 2019, capital expenditures totaling approximately \$208,000,000, \$178,000,000 and \$47,000,000 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: Southern Indiana Gas and Electric Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren South"), which provides electric utility service to approximately 144,000 customers and gas utility distribution service to approximately 111,000 customers in southwestern 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 South 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. 41909 dated May 24, 2001, Cause No. 42367 dated April 16, 2003, Cause No. 42888 dated October 26, 2005, Cause No. 43330 dated November 20, 2007, Cause No. 43714 dated October 21, 2009 Cause No. 44226 dated January 16, 2013, and Cause No. 44546 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 South 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 South 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 long-term debt issued pursuant to the authority granted herein over the life of the new 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 IAC 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 this proceeding and ending March 31, 2019, of up to \$200,000,000 in aggregate principal amount of secured or unsecured long-term debt with fixed or variable interest rates, in the form of promissory notes, loan agreements, mortgages, and other evidences of indebtedness, 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 \$180,000,000;
- (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 issued pursuant to the authority granted herein over the life of the new 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

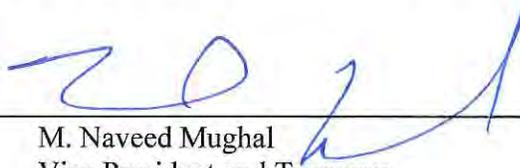
purchased issues as an issuance expense to be amortized over the life of the refinancing issue, or if not refinanced with long-term debt, amortized over the original life of the debt being redeemed;

- (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.

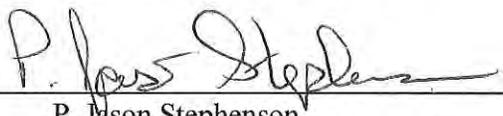
Dated this 4th day of October, 2016.

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

By: _____

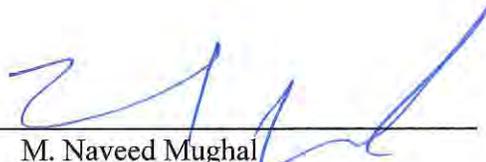

M. Naveed Mughal
Vice President and Treasurer

By: _____


P. Jason Stephenson
Vice President, General Counsel

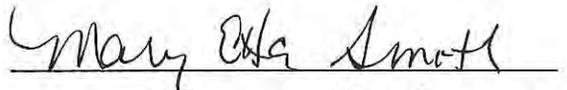
STATE OF INDIANA)
) SS:
COUNTY OF VANDERBURGH)

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 Indiana Gas Company, Inc., 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
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.

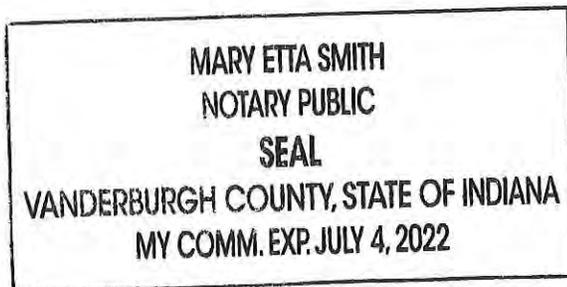

Printed: Mary Etta Smith

My Commission Expires:

July 4, 2022

My County of Residence:

Vanderburgh



CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing Verified Petition of Indiana Gas Company, Inc., 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

Indiana Gas Company, Inc.
Schedule of Long-Term Debt Outstanding
June 30, 2016

<u>Debt Series</u>	<u>Maturity Date</u>	<u>Principal Amount Outstanding</u>	
6.53% Series E3	06/27/25	10,000,000	1
6.42% Series E7	07/07/27	5,000,000	2
6.68% Series E8	07/07/27	1,000,000	3
6.34% Series F2	12/10/27	20,000,000	4
6.36% Series F5	05/01/28	10,000,000	5
6.55% Series F6	06/30/28	20,000,000	6
7.08% Series G	10/05/29	30,000,000	7
5.75% VUHI Notes	08/01/18	37,128,275	8
3.20% VUHI Notes	06/05/28	8,952,105	9
6.10% VUHI Notes	12/01/35	50,568,961	10
4.25% VUHI Notes	06/05/43	15,914,853	11
3.72% VUHI Notes	12/05/23	74,540,046	12
3.90% VUHI Notes	12/15/35	8,289,289	13
4.36% VUHI Notes	12/15/45	15,749,650	14
4.36% VUHI Notes	12/15/45	39,788,589	15
4.51% VUHI Notes	12/15/55	15,749,650	16
		<u>\$ 362,681,418</u>	17
			18
			19
			20
Effective Weighted Average Interest Rate = 5.507%			

INDIANA GAS COMPANY, INC. & SUBSIDIARY COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(\$000's)

	At June 30, 2016	At June 30, 2015	
<u>ASSETS</u>			
Utility Plant			
Original cost	\$ 2,144,664	\$ 1,966,476	1
Less: accumulated depreciation & amortization	868,338	817,047	2
Net utility plant	1,276,326	1,149,429	3
Current Assets			4
Cash & cash equivalents	1,219	3,129	5
Invested cash with other Vectren companies	-	-	6
Accounts receivable - less reserves of \$2,394 & \$3,017, respectively	-	-	7
Accounts receivable, less reserves	14,425	13,881	8
Receivables due from other Vectren companies	6,673	46,701	9
Accrued unbilled revenues	7,315	17,773	10
Inventories	23,348	17,629	11
Recoverable natural gas costs	12,538	-	12
Prepayments & other current assets	19,721	19,492	13
Total current assets	85,239	118,605	14
Other investments	7,199	7,631	15
Regulatory assets	57,234	32,910	16
Other assets	31,377	27,682	17
TOTAL ASSETS	\$ 1,457,375	\$ 1,336,257	18
<u>LIABILITIES & SHAREHOLDERS' EQUITY</u>			
Common Shareholders' Equity			19
Common stock (no par value)	\$ 284,536	\$ 259,536	20
Retained earnings	166,613	146,509	21
Total common shareholders' equity	451,149	406,045	22
Long-term debt payable to third parties - net of current maturities & debt subject to tender	96,000	111,000	23
Long-term debt payable to Utility Holdings	266,681	187,104	24
Total long-term debt, net	362,681	298,104	25
Current Liabilities			26
Accounts payable	49,927	32,960	27
Payables to other Vectren companies	14,142	23,622	28
Accrued liabilities	49,494	71,576	29
Short-term borrowings payable to Utility Holdings	-	-	30
Current maturities of long-term debt	-	24,716	31
Long-term debt subject to tender	-	-	32
Total current liabilities	113,563	152,874	33
Deferred Income Taxes & Other Liabilities			34
Deferred income taxes	230,020	195,577	35
Regulatory liabilities	256,692	243,799	36
Deferred credits & other liabilities	43,270	39,858	37
Total deferred income taxes & other liabilities	529,982	479,234	38
TOTAL LIABILITIES & SHAREHOLDER'S EQUITY	\$ 1,457,375	\$ 1,336,257	39

INDIANA GAS COMPANY, INC. & SUBSIDIARY COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(\$000's)

	Twelve Months Ended June 30,		
	2016	2015	
OPERATING REVENUES	\$ 499,573	\$ 597,580	1
COST OF GAS	209,367	307,630	2
GAS OPERATING MARGIN	290,206	289,950	3
OPERATING EXPENSES			4
Other operating	116,260	123,559	5
Depreciation & amortization	69,274	64,908	6
Taxes other than income taxes	15,372	17,450	7
Total operating expenses	200,906	205,917	8
OPERATING INCOME	89,300	84,033	9
Other income - net	3,121	3,230	10
Interest expense	18,911	18,735	11
INCOME BEFORE INCOME TAXES	73,510	68,528	12
Income taxes	29,127	27,006	13
NET INCOME	\$ 44,383	\$ 41,522	14

Indiana Gas Company, Inc.
Statement Summarizing Petitioner's Requested Financing Authority
(\$000's)

Description	Capital Spending	Requested Financing Authority	
(Col A)	(Col B)	(Col C)	
<u>Estimated Capital Expenditures</u>			
Calendar 2017	208,000		1
Calendar 2018	178,000		2
January 1 - March 31, 2019	47,000		
Total Estimated Capital Expenditures	433,000		3
			4
<u>External Funds Required For Capital Expenditures</u>			5
60% to 80% of the total estimated at		\$ 260,000 to 346,000	6
			7
<u>Refinancing of VUHI Maturity</u>			8
5.75% Notes maturing 8/1/18		37,500	9
(\$37.5 Million of \$100 million loaned from VUHI)			10
			11
Approximate Range of Financing Requirements (A+B)		297,500 to 383,500	12
			13
Amount of Requested Authority		\$ 380,000	14
			15

Indiana Gas Company, Inc.
Statement Summarizing Petitioner's Expected Capital Expenditures
(\$000's)

<u>Type of Expenditure</u>	<u>Jan - Dec</u> <u>2017</u>	<u>Jan - Dec</u> <u>2018</u>	<u>Jan - Mar</u> <u>2019</u>	
(Col A)	(Col B)	(Col C)	(Col D)	
Gas Utility Plant				
Bare Steel/Cast Iron Replacement	\$ 34,000	\$ 35,000	\$ 9,000	1
Gas Modernization Program	32,000	63,000	13,000	2
Gas Transmission Plant	84,000	63,000	13,000	3
Gas Distribution Plant and Other	<u>58,000</u>	<u>17,000</u>	<u>12,000</u>	4
				5
Total	<u><u>\$ 208,000</u></u>	<u><u>\$ 178,000</u></u>	<u><u>\$ 47,000</u></u>	6

Indiana Gas Company, Inc.
Statement Summarizing Petitioner's Permanent Capitalization
Pro forma Results After Issuance of \$380 Million of New Securities
(\$000's)

Description <small>(Col A)</small>	Actual at 6/30/16		Pro forma Adjustment <small>(Col D)</small>	6/30/2016 As Adjusted		
	Amount <small>(Col B)</small>	Ratio <small>(Col C)</small>		Amount <small>(Col E)</small>	Ratio <small>(Col F)</small>	
Long-Term Debt	\$ 362,681	44.6%	\$ 162,500	\$ 525,181	45.4%	1
Common Equity	451,149	55.4%	180,000	631,149	54.6%	2
Total Permanent Capitalization	<u>\$ 813,830</u>	<u>100.0%</u>	<u>\$ 342,500</u>	<u>\$ 1,156,331</u>	<u>100.0%</u>	3
						4
	Proforma:	\$200 million long-term debt issuance				5
		Less \$37.5 million VUHI Maturity				6
		\$180 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.

B A C K G R O U N D

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.

A G R E E M E N T

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.

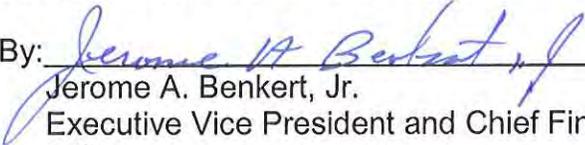
11. Modification. This Agreement may be amended or modified only by a written instrument signed by all parties.

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.
Executive Vice President and Chief Financial Officer

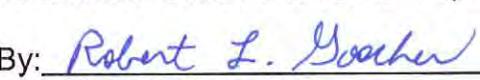
SOUTHERN INDIANA GAS AND ELECTRIC COMPANY

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

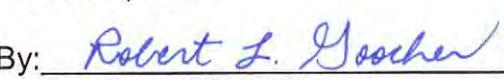
VECTREN ENERGY DELIVERY OF OHIO, INC.

By: 
Ronald E. Christian
Executive Vice President and Secretary

VECTREN UTILITY HOLDINGS, INC.

By: 
Robert L. Goocher
Vice President and Treasurer

FINCO-I, INC.

By: 
Robert L. Goocher
Vice President and Treasurer

FINCO-V, INC.

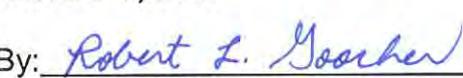
By: 
Robert L. Goocher
Vice President and Treasurer

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 BPROMISSORY 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 appraisal 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 CPROMISSORY 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 appraisal 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 DPROMISSORY 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 appraisal 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: _____