FILE

3

Ohio | **Public Utilities Commission**

John R. Kasich, Governor
Andre T. Porter, Chairman

Commissioners

Asim Z. Haque
Lynn Slaby
M. Beth Trombold
Thomas W. Johnson

November 19, 2015

RECEIVED-DOCKETING DIV
2015 NOV 19 AM 11:42
PUCO

Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus OH 43215

RE: *In the Matter of the Application of Ohio Valley Electric Corporation for Authority to Issue and Sell Secured or Unsecured Promissory Notes, Debentures or Other Debt Securities to Borrow from or Enter into Other Financing Arrangements with the Ohio Air Quality Development Authority, Indiana Finance Authority or Other Authority, to Enter into One or More Secured or Unsecured Term Loan or Revolving Credit Arrangements and to Enter into Interest Rate Management Agreements*

Dear Docketing Division:

Enclosed please find Staff's Review and Recommendation in regard to the application of Ohio Valley Electric Corporation for Authority to issue securities as stated above in Case No. 15-1657-EL-AIS.

Doris McCarter
Division Chief, Forecasting, Markets and Corporate Oversight
Rates and Analysis Department
Public Utilities Commission of Ohio

Enclosure
Cc: Parties of Record

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio Valley Electric Corporation for Authority to Issue and Sell Secured or Unsecured Promissory Notes, Debentures or Other Debt Securities to Borrow From or Enter into Other Financing Arrangements With the Ohio Air Quality Development Authority, Indiana Finance Authority or Other Authority, to Enter into One or More Secured or Unsecured Term Loan or Revolving Credit Arrangements and To Enter into Interest Rate Management Agreements	)	Case No. 15-1657-EL-AIS

Staff Review and Recommendation

APPLICATION DESCRIPTION:

On September 22, 2015, Ohio Valley Electric Corporation (OVEC) filed its Application and Exhibits (Application), pursuant to Ohio Revised Code 4905.40 and 4905.42, requesting Public Utilities Commission of Ohio (Commission) authorization from January 1, 2016 to December 31, 2016, to: (a) issue and sell secured or unsecured promissory notes (Notes) in one or more series, (b) borrow from the Ohio Air Quality Authority through the issuance of tax exempt bonds (the Authority Bonds) or any other authorized issuer of tax exempt bonds, (c) enter into one or more secured or unsecured term loan or revolving credit arrangements (the Credit Facilities), or (d) issue and sell any combination of Notes and Credit Facilities, or issue the Authority Bonds or other tax exempt agency bonds from time to time. The aggregate principal amount of the Notes, the Authority Bonds or the Credit Facilities (collectively, the Securities) will not exceed $450 million.

REVIEW AND ANALYSIS:

The Notes and the Authority Bonds will mature in not more than 60 years and will carry either a fixed interest rate or a variable interest rate or some combination thereof. The fixed rate will be no more than 5% over the yield to maturity of comparable U.S. Treasury Bonds. The variable rate will not exceed 9% during the initial period and will be no more than 4% over the LIBOR[1] over the life of the Notes. The Arrangement Fees will not exceed 3% for Notes and 4% for Authority Bonds. The Placement Fees will not exceed 4% of the principal amount of the Notes and Authority Bonds.

[1] London Interbank Offered Rate

The Credit Facilities will be issued for periods of not more than 10 years. The interest rates applicable to any of the Credit Facilities will not exceed: (a) the most recent LIBOR plus 4.5%; (b) the then offered rate for certificate of deposit by selected U.S. major money center bank plus 4.5%; or (c) the prime rate of a selected U.S. major money center bank plus 3.5%. The commitment or facility fees and other fees and commissions on such Credit Facility will not exceed 1.5% and 4% per annum, respectively.

The net proceeds to OVEC from the issuance of Securities are anticipated to be no less than 95% of the principal amount. The Notes and Credit Facilities will be issued to one or more commercial banks, financial institutions or other institutional investors.

The parameters set for the Securities appear to be generous; however, Staff believes that when issued, the actual terms of the Securities will be much lower than the stated parameters. Staff's assessment is based on its observation of OVEC's reports on its most recent issuances filed on February 2, April 30, and November 4, 2015 in Case No. 14-1407-EL-AIS, in which the actual terms were far less than the parameters that were granted in that case. The parameters are intended to provide flexibility for a range of possible outcomes and market conditions during the authorization period.

OVEC is also requesting Commission authorization to utilize interest rate management agreements (Interest Rate Agreements) to lower its overall effective interest costs. The fees and commissions on such Interest Rate Agreements will not exceed 2% of the amount of the underlying obligation. In general, there will be no proceeds associated with the Interest Rate Agreements since no new obligations are created in this connection.

OVEC proposes to use the proceeds from the Securities to reopen or extend the existing revolving credit facility of approximately $300 million (currently set to expire on November 2019), extend two letters of credit in an aggregate amount of $100 million (both of which are set to expire in August 2016), and extend the tax exempt bond bank agreement of approximately $50 million (set to expire on June 2016).

The proposed financing will not create any change in the capitalization structure of OVEC on a pro forma basis.

RECOMMENDATION:

Upon review of the Application, Staff believes it to be reasonable and recommends its approval.