



**Public Utilities
Commission**

Asim Z. Haque, Chairman

Commissioners

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June 16, 2017

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

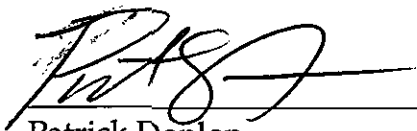
PUCO

2017 JUN 16 PM 3:32

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, Including Assuming Liability on Short-term Notes and Other Evidences Of Short-term Indebtedness.*

Dear Docketing Division:

Enclosed please find Staff's Review and Recommendation on the supplemental application of Ohio Valley Electric Corporation, for Authority to Issue and Sell secured or unsecured long-term debt, and to Enter into Interest Rate Management Agreements in Case No. 16-2136-EL-AIS.



Patrick Donlon

Director of 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 |) | Case No. 16-2136-EL-AIS |
| 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, Including Assuming |) | |
| Liability on Short-term Notes and Other Evidences |) | |
| Of Short-term Indebtedness |) | |

Supplemental Staff Review and Recommendation

APPLICATION DESCRIPTION:

On February 8, 2017, Ohio Valley Electric Corporation ("OVEC") was authorized through December 31, 2017 in the above docket (the "Finding and Order") to issue Notes, Authority Bonds, and Short-term Securities; enter into Credit Facilities in an aggregate principal amount of up to \$325 million, consisting of \$125 million in Long-term Securities and \$200 million in Short-term Securities; and enter into interest rate management agreements.¹ On April 5, 2017, OVEC filed an amended application and supplemental request, followed by a second supplemental request filed on June 2, 2017, (collectively, "Supplemental Application") requesting Commission authority to: (i) increase the principal amount of the Long-term Securities and/or Credit Facilities from an aggregate amount of \$125 million to \$300 million and (ii) increase the interest rate parameter for the variable rate Long-term Securities by 100 basis points (BP) from 400 BP to 500 BP over the London Interbank Offered Rate. Except for the increase in the authorization with respect to the principal amount of the Long-term Securities and the interest rate parameters for the securities, all other conditions set forth in the Finding and Order shall remain unchanged.

¹ For further clarification of authority being granted see *In the Matter of the Application of Ohio Valley Electric Corporation for Authority to Issue Debt and to Enter into Financing, Revolving Credit, and Interest Rate Management Agreements*, Pub. Util. Comm. No. 16-2136-EL-AIS, Staff Review and Recommendation (Jan. 19, 2017).

OVEC proposes to use the proceeds of the additional securities primarily for the same purposes authorized in the Finding and Order.

REVIEW AND ANALYSIS:

OVEC has thirteen sponsoring Companies which are the purchasers of the power produced by OVEC in accordance with the terms and conditions of the Inter-Company Power Agreement (ICPA). FirstEnergy Solutions (FES) is one of those sponsoring Companies, and is a material source of revenue for OVEC. OVEC states that in November 2016, Moody's Investors Services (Moody's) downgraded the corporate credit rating of FES from Ba2 to Caa1. In its filing of the Form 10-K with the U.S. Securities Exchange Commission, FES stated that it may seek protection under U.S. bankruptcy laws. As a party to the ICPA, the financial conditions of FES could adversely impact the cost and terms of OVEC's raising indebtedness, including refunding or refinancing its existing maturing debts. This potential adverse impact could rise should FES's financial situation worsen. OVEC states that in December 2016, Moody's also downgraded OVEC's credit rating from Baa3 to Ba1, referencing the financial situation of FES as a contributing factor for the credit review. Considering the deteriorating financial situation of FES and its eventual impact on its ability to service its commitment on ICPA, OVEC has determined it to be prudent to be able to issue or enter into financial agreements during the current authorization period for an additional \$175 million in Long-term Securities over and above the authorization of \$125 million granted in the Finding and Order such that the total authorization for the Long-term Securities and/or Credit Facilities aggregates to \$300 million. Due to the loss of its investment grade ratings at the major rating agencies, OVEC has also determined that there is a real need to increase its interest rate parameters in order to issue its securities. OVEC has provided a list of the securities in Schedule A of the Supplemental Application that OVEC believes need to be refinanced.

The table below presents OVEC's Capitalization Structure on an actual and Pro Forma basis:

| | Actual 03/31/2017 (\$Millions) | (%) | Pro forma (\$Millions) | (%) |
|----------------------|-----------------------------------------------|------------|-----------------------------------|------------|
| Long Term Debt | 1,221 | 98% | 1,221 | 98% |
| | | | | |
| Common Equity | 20 | 2% | 20 | 2% |
| Total Capitalization | 1,241 | 100.0% | 1,241 | 100.0% |

The Staff notes that the proposed financing would not create any change in the capitalization structure of OVEC on a pro forma basis as the proceeds from the issuance of the securities will be used for refinancing purposes and no new obligations are undertaken by OVEC.

Because the proposed financing will not create any change in the capitalization structure of OVEC on a pro forma basis, its capitalization ratio will remain the same as was presented in the Staff Review and Recommendation filed in this case on January 19, 2017.

RECOMMENDATION:

Upon review of the Supplemental Application and supporting documentation, the Staff believes OVEC's request to issue the securities appears reasonable and recommends authority to be granted. The Staff further recommends that the Commission consider modifying the maturity term parameter of 30 years requested by OVEC downward to no more than 5 years. Staff bases its recommendation on the belief that a five-year maturity may allow sufficient time for the current financial uncertainties to conclude and provide time for OVEC to return to a better credit profile and issue long-term securities from a stronger financial position.