

THE PUBLIC UTILITIES COMMISSION OF OHIO

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.

CASE NO. 16-2136-EL-AIS

SECOND FINDING AND ORDER

Entered in the Journal on June 21, 2017

I. SUMMARY

{¶ 1} The Commission approves the Supplemental request filed by the Ohio Valley Electric Corporation for authorization to issue debt and execute certain financing agreements in light of changed market conditions.

II. APPLICABLE LAW

{¶ 2} The Applicant, Ohio Valley Electric Corporation (OVEC), is an Ohio corporation and a public utility, as defined in R.C. 4905.02, subject to the jurisdiction of this Commission.

{¶ 3} R.C. 4905.40 permits public utility companies to issue stocks, bonds, notes, and other evidences of indebtedness, payable at periods of more than twelve months, when authorized by the Commission. Pursuant to R.C. 4905.40(A)(2), an authorized company may issue notes or other evidences of indebtedness when it is necessary for, among other things, reorganization or readjustment of its indebtedness and capitalization. R.C. 4905.401 permits public utility companies to issue stocks, bonds, notes, and other evidences of indebtedness, payable at periods of not more than twelve months, when authorized by the Commission. The application process for obtaining Commission authorization is outlined in R.C. 4905.41, and must include the amount, purpose, and terms of the financial arrangement, as well as the total assets and liabilities of the utility.

III. PROCEDURAL HISTORY

{¶ 4} On February 8, 2017, the Commission issued a Finding and Order that authorized OVEC to issue debt and enter into arrangements to borrow an aggregate principal amount of up to \$325 million, comprised of \$125 million in long-term and \$200 million in short-term securities, through December 31, 2017 (Feb. 8, 2017 Order).

{¶ 5} On April 5, 2017 and June 2, 2017, OVEC filed supplemental requests to issue, through December 31, 2017, an additional \$175 million, up to \$300 million total, in long-term securities at an interest rate that exceeds the London Interbank Offered Rate (LIBOR) for U.S. dollar deposits of similar duration at the time of pricing by a maximum of 500 basis points. The additional \$175 million of requested authority represents forthcoming maturities of existing long-term securities during 2018 and the first quarter of 2019.

{¶ 6} In support of its requests, OVEC states that FirstEnergy Solutions Corp. (FES), a subsidiary of FirstEnergy Corp., is one of OVEC's 13 sponsoring companies that purchase power produced by OVEC under an inter-company power agreement dated September 10, 2010 (ICPA). OVEC reports that in November 2016, Moody's Investors Services (Moody's) downgraded the corporate family credit rating of FES from Ba2 to Caa1. Further, OVEC states that in December 2016, Moody's downgraded OVEC's senior unsecured credit rating from Baa3 to Ba1, referring to FES' financial situation. Moreover, on February 21, 2017, FES stated that it may seek protection under U.S. bankruptcy laws in a Form 10-K filed with the United States Securities and Exchange Commission. In that same filing, the auditor, PricewaterhouseCoopers LLP, raised doubts about FES' ability to continue as a going concern in assessing FES's financial position and liquidity under current market conditions. OVEC asserts that any further deterioration of FES' financial condition could adversely impact OVEC's ability to raise indebtedness, including its costs of repaying, refinancing, refunding or redeeming its existing and maturing indebtedness.

{¶ 7} In light of FES' financial situation, OVEC believes it would be prudent to complete its refinancing arrangements earlier than previously planned during 2017, and requests to issue up to \$300 million in long-term securities, and to issue short-term notes at a maximum of 500 basis points over LIBOR. OVEC urges the Commission to grant this request on an expedited basis. Further, OVEC asserts that, except for the increase in the amount of long-term securities and the maximum interest rate for its notes, all other terms and conditions of the transactions, as well as requirements of the Commission, will remain unchanged from those approved in the Feb. 8, 2017 Order.

{¶ 8} On June 16, 2017, Staff filed a recommendation that OVEC's supplemental requests be granted but recommends that such approval limit the term of any long-term debt not to exceed five years, which would allow time to resolve the current financial uncertainties before the issuance of longer term securities. In support of its recommendations, Staff notes that the proposed financing would not create any new obligations, or change OVEC's capitalization structure on a pro forma basis, as the proceeds from the issuance of the securities will be used for refinancing existing debt.

IV. DISCUSSION

{¶ 9} Upon review of OVEC supplemental requests and Staff's recommendations, the Commission finds that the requested increases in the maximum amounts of long-term securities and interest rates do not appear to be unjust or unreasonable given the materiality of a potential FES bankruptcy. Further, the purposes to which the proceeds from the borrowings shall be applied appear to be reasonably required to meet OVEC's present and prospective obligations to provide utility service. Therefore, the Commission finds that OVEC's supplemental requests should be approved subject to the maximum five-year maturity limitation recommended by Staff.

{¶ 10} With respect to the issuance of the \$300 million in long-term debt, OVEC is directed to file a report on the use of any proceeds within 10 days of the consummation of any transactions. Further, the guidelines and parameters approved in the Feb. 8, 2017

Order, are intended to facilitate the issuance of securities on the best terms and at the lowest cost obtainable, and our authorization of the sale of securities does not relieve OVEC of its obligation to negotiate and obtain the best terms available. Further, the effect on OVEC's revenue requirements resulting from the issuance of securities can be determined only in rate proceedings in which all factors affecting rates are taken into account according to law.

V. ORDER

{¶ 11} It is, therefore,

{¶ 12} ORDERED, That OVEC's requests to issue, through December 31, 2017, long-term securities in the aggregate principal amount of up to \$300 million, and to issue short-term notes at a maximum of 500 basis points over LIBOR, be approved subject to the five-year term limit set forth above, as well as the terms and conditions approved in the Feb. 8, 2017 Order. It is, further,

{¶ 13} ORDERED, That OVEC file, within 10 days of the consummation of the transaction, written reports of the terms and conditions of each issuance of the securities pursuant to this Second Finding and Order. It is, further,

{¶ 14} ORDERED, That OVEC account for the issuance of its securities as prescribed by the Federal Energy Regulatory Commission Uniform System of Accounts in effect at the time of such issuance. It is, further,

{¶ 15} ORDERED, That the authorization granted by this Second Finding and Order not be construed as limiting the Commission's determination of the appropriateness of the OVEC's future long-term security offerings issued wholly or in part for the purpose of retiring its outstanding short-term evidences of indebtedness. It is, further,

{¶ 16} ORDERED, That nothing in this Second Finding and Order be construed to imply any guaranty or obligation as to the unsecured notes and other evidences of indebtedness or the associated interest on the part of the state of Ohio. It is, further,

{¶ 17} ORDERED, That nothing in this Second Finding and Order be deemed to be binding upon this Commission in any future proceedings or investigation involving the justness or reasonableness of any rate, charge, rule, or regulation of OVEC. It is, further,

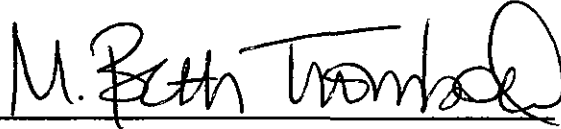
{¶ 18} ORDERED, That nothing in this Second Finding and Order be construed to imply any guaranty or obligation by the Commission to assure completion of any specific construction project of OVEC. It is, further,

{¶ 19} ORDERED, That notice of this Second Finding and Order be served upon all parties of record.

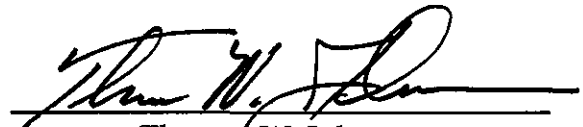
THE PUBLIC UTILITIES COMMISSION OF OHIO



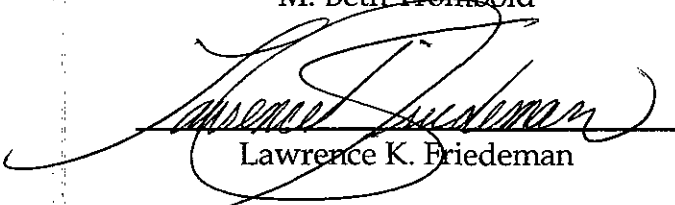
Asim Z. Haque, Chairman



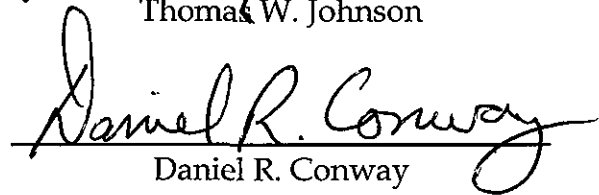
M. Beth Trombold



Thomas W. Johnson



Lawrence K. Friedeman

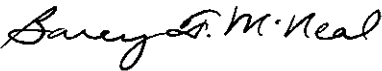


Daniel R. Conway

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Barcy F. McNeal
Secretary